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Inheritance Tax

1. Overview

Inheritance Tax is a tax on the estate (the property, money and possessions) of someone who's died.

There's normally no Inheritance Tax to pay if either:

- the value of your estate (https://www.gov.uk/valuing-estate-of-someone-who-died) is below the £325,000 threshold
- you leave everything to your spouse or civil partner, a charity or a community amateur sports club

If you give away your home to your children (including adopted, foster or stepchildren) or grandchildren, your threshold will increase to £425,000.

If you're married or in a civil partnership and your estate is worth less than your threshold, any unused threshold can be added to your partner's threshold when you die. This means their threshold can be as much as £850,000.

Inheritance Tax rates

The standard Inheritance Tax rate is 40%. It's only charged on the part of your estate that's above the threshold.

Example Your estate is worth £500,000 and your tax-free threshold is £325,000. The Inheritance Tax charged will be 40% of £175,000 (£500,000 minus £325,000).

The estate can pay Inheritance Tax at a reduced rate of 36% (https://www.gov.uk/inheritance-tax-reduced-rate-calculator) on some assets if you leave 10% or more of the 'net value' (https://www.gov.uk/valuing-estate-of-someone-who-died) to charity in your will.

Reliefs and exemptions

Some gifts you give while you're alive may be taxed after your death. Depending on when you gave the gift (https://www.gov.uk/inheritance-tax/gifts), 'taper relief' might mean the Inheritance Tax charged is less than 40%.

Other reliefs, such as Business Relief (https://www.gov.uk/business-relief-inheritance-tax), allow some assets to be passed on free of Inheritance Tax or with a reduced bill.

Contact the Inheritance Tax and probate helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/probate-and-inheritance-tax-enquiries) about Agricultural Relief if your estate includes a farm or woodland.

Who pays the tax to HMRC

Funds from your estate are used to pay Inheritance Tax to HM Revenue and Customs (HMRC). This is done by the person dealing with the estate (https://www.gov.uk/valuing-estate-of-someone-who-died) (called the 'executor', if there's a will (https://www.gov.uk/make-will)).

Your beneficiaries (the people who inherit your estate) don't normally pay tax on things they inherit (https://www.gov.uk/tax-property-money-shares-you-inherit). They may have related taxes to pay, for example if they get rental income from a house left to them in a will.

People you give gifts to (https://www.gov.uk/inheritance-tax/gifts) might have to pay Inheritance Tax, but only if you give away more than £325,000 and die within 7 years.

2. Passing on a home

You can pass a home to your husband, wife or civil partner when you die. There's no Inheritance Tax to pay if you do this.

If you leave the home to another person in your will (https://www.gov.uk/make-will), it counts towards the value of the estate (https://www.gov.uk/valuing-estate-of-someone-who-died).

If you leave your home to your children (including adopted, foster or stepchildren) or grandchildren, your tax-free threshold will increase to £425,000.

Giving away a home before you die

There's normally no Inheritance Tax to pay if you move out and live for another 7 years.

If you want to continue living in your property after giving it away, you'll need to:

- pay rent to the new owner at the going rate (for similar local rental properties)
- pay your share of the bills
- live there for at least 7 years

You don't have to pay rent to the new owners if both the following apply:

- you only give away part of your property
- the new owners also live at the property

If you die within 7 years

If you die within 7 years of giving away all or part of your property, your home will be treated as a gift and the 7 year rule applies (https://www.gov.uk/inheritance-tax/gifts).

Call the Inheritance Tax and probate helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/probate-and-inheritance-tax-enquiries) if you have questions about giving away a home. They can't give you advice on how to pay less tax.

3. Gifts

There's usually no Inheritance Tax to pay on small gifts you make out of your normal income, such as Christmas or birthday presents. These are known as 'exempted gifts'.

There's also no Inheritance Tax to pay on gifts between spouses or civil partners. You can give them as much as you like during your lifetime, as long as they live in the UK permanently.

Other gifts count towards the value of your estate (https://www.gov.uk/valuing-estate-of-someone-who-died).

People you give gifts to will be charged Inheritance Tax if you give away more than £325,000 in the 7 years before your death.

What counts as a gift

A gift can be:

- anything that has a value, such as money, property, possessions
- a loss in value when something's transferred, for example if you sell your house to your child for less than it's worth, the difference in value counts as a gift

Call the Inheritance Tax and probate helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/probate-and-inheritance-tax-enquiries) if you're not sure.

Exempted gifts

You can give away £3,000 worth of gifts each tax year (6 April to 5 April) without them being added to the value of your estate. This is known as your 'annual exemption'.

You can carry any unused annual exemption forward to the next year - but only for one year.

Each tax year, you can also give away:

- wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great-grandchild, £5,000 for a child)
- normal gifts out of your income, for example Christmas or birthday presents - you must be able to maintain your standard of living after making the gift
- payments to help with another person's living costs, such as an elderly relative or a child under 18
- gifts to charities and political parties

You can use more than one of these exemptions on the same person - for example, you could give your grandchild gifts for her birthday and wedding in the same tax year.

Small gifts up to £250

You can give as many gifts of up to £250 per person as you want during the tax year as long as you haven't used another exemption on the same person.

The 7 year rule

If there's Inheritance Tax to pay, it's charged at 40% on gifts given in the 3 years before you die.

Gifts made 3 to 7 years before your death are taxed on a sliding scale known as 'taper relief'.

Years between gift and death	Tax paid
less than 3	40%

Years between gift and death	Tax paid
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Gifts are not counted towards the value of your estate after 7 years.

4. When someone living outside the UK dies

If your permanent home ('domicile') is abroad, Inheritance Tax is only paid on your UK assets, for example property or bank accounts you have in the UK.

It's not paid on 'excluded assets' like:

- foreign currency accounts with a bank or the Post Office
- overseas pensions
- holdings in authorised unit trusts and open-ended investment companies

There are different rules if you have assets in a trust or government gilts, or you're a member of visiting armed forces.

Contact the Inheritance Tax and probate helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/probate-and-inheritance-tax-enquiries) if you're not sure whether your assets are excluded.

When you won't count as living abroad

HMRC will treat you as being domiciled in the UK if you either:

- lived in the UK for 17 of the last 20 years
- had your permanent home in the UK at any time in the last 3 years of your life

Double-taxation treaties

Your executor might be able to reclaim tax through a double-taxation treaty (https://www.gov.uk/inheritance-tax-double-taxation-relief) if Inheritance Tax is charged on the same assets by the UK and the country where you lived.