

Gifts Factsheet



What is a gift?

A gift is a transfer of value from yourself to another individual either as the form of money or anything else with financial value. This could be property, artwork, jewellery or any other chattels. Making a gift to your family and friends while you're alive can be a good way to reduce the value of your estate for Inheritance Tax purposes and benefit your loved ones.



Nil rate band

You can pass on assets up to the value of your nil rate band, without creating an inheritance tax bill. You might have a smaller nil rate band on your death if you make gifts and the value of these gifts will reduce your nil rate band, meaning less of your estate will be passed on tax-free.



Gifts to your spouse

Married couples and civil partners can gift money to one another during their lifetime without any inheritance tax (IHT) implications and are allowed to pass their estate to their spouse tax-free when they die. They can also pass on their unused Nil Rate Band allowance.



Potentially exempt transfer

A Potentially Exempt Transfer (PET) enables you to make gifts of unlimited value which will become exempt from IHT, if you survive for a period of seven years. Otherwise, the PET becomes a chargeable consideration and is added to the value of your estate. If the combined value is more than the nil rate band, IHT may be due. Any lifetime transfer that is "potentially exempt" must meet certain conditions;

- A gift cannot be made from or to a corporation or company and can only be made by an individual to another individual or to a specified trust.
- If you have an interest in a certain gift, it doesn't qualify as a PET e.g. if you continue to live rent free in the house you gave your child, the house would still be considered part of your estate and therefore subject to IHT. This is known as a gift with a reservation of benefit.



Annual gift exemption

You have a £3,000 'gift allowance' a year which means you can give away assets or cash up to a total of £3,000 in a tax year without it being added to the value of your estate. Any part of the annual exemption which is not used in the tax year can be carried forward and used in the following tax year.



Gifts that are worth less than £250

You can give as many gifts of up to £250 to as many individuals as you want, although not to anyone who has already received a gift from your £3,000 annual exemption. None of these gifts are subject to IHT.



Wedding gifts

If the gift is to be effective for IHT purposes, it has to be made before the wedding and the wedding has to go ahead. It also has to be given to either; a child and is worth £5,000 or less, a grandchild or great-grandchild and is worth £2,500 or less or given to another relative or friend and is worth £1,000 or less.



Surplus income gifts

If you have enough income to maintain your usual standard of living, you can make gifts from your surplus income such as paying into your child's savings account, or paying a life insurance premium. These gifts must be regular and it is important you keep a record otherwise IHT might be due on these when you die. Grandparents can also use it to pay for things like their grandchildren's school fees.



Other gifts

Gifts made to organisations such as charities, amateur sports clubs, museums and universities are usually exempt from inheritance tax and gifts made to political parties can be exempt from inheritance tax under certain conditions.