



HOW YOU COULD PROVIDE AN INHERITANCE WHILE YOU'RE STILL ALIVE

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Many of us pass away with too much wealth with the government imposing a hefty 40% tax on any inheritance exceeding an initial allowance of £325,000.

Most of us would prefer our loved ones to benefit from our hard-earned wealth rather than the taxman.

One of the simplest ways to do that is give it away while alive – but as always things are never quite as simple as they first appear.

What can you give?

You can give away your wealth—whether it's cash, investments, possessions, or even your home—to anyone you choose, at any time, but there are some important details to consider regarding UK inheritance laws.

There are other reasons for 'giving while living' aside from potential tax benefits. Seeing how your gifts help your beneficiaries is one of them plus if you die in your 90s, and your children are in their 70s and it could be too late in life to make the most of your kindness.

The taxman will question your generosity if they think you are only doing it to avoid taxes. So, if you give away something substantial, like a house, you will need to live for another 7 years to avoid tax being owed on it.

This is of course to avoid 'deathbed giving'.

If you die within seven years of making a gift, its value is added back into the estate for the purposes of calculating the inheritance tax liability. There is a sliding scale for those who pass away during the seven years known as taper relief.

- Less than 3 years: 0% reduction
- 3 to 4 years: 20% reduction
- 4 to 5 years: 40% reduction
- 5 to 6 years: 60% reduction
- 6 to 7 years: 80% reduction

Please be aware that the seven-year rule generally applies to gifts exceeding an individual's annual gifting allowance, which is £3,000 per year.

For inheritance tax (IHT) purposes, certain gifts above this allowance are termed potentially exempt transfers. If these gifts fall within the individual's £325,000 allowance at the time of their death, no action is required.

However, if the total exceeds this allowance, the gift will only be exempt from inheritance tax if the person gifting survived more than seven years after making it, if not, the taper relief may help reduce any

tax liability.

Your annual gift allowance of £3,000 can be carried forward one year, allowing a maximum of £6,000 to be gifted if the previous year's allowance was unused. You can also make small gifts of £250 to as many individuals as you want (but not to someone who has received a gift of your whole annual 'gift' allowance).

You can give a gift to those getting married or starting a civil partnership and this would not be subject to Inheritance tax as follows:

- £5,000 to a child getting married
- £2,500 to a grandchild or great-grandchild
- £1,000 to another relative or friend

You can also make gifts out of unrequired surplus income. Provided you meet all the HMRC guidelines there is no limit on the amount you can gift nor any timeframe before it is outside of your estate. The rules for this exemption are complex and there are a number of HMRC guidelines which need to be followed, such as ensuring gifts must form part of normal expenditure (a regular pattern of gifting), be made out of income and leave the donor with sufficient income to maintain their usual standard of living. You also need to be committed to keeping up with making these gifts

Gifts can also include money you lose when you sell something for less than it's worth, including selling your house to your child for less than its market value, the difference in value counts as a gift.

Be careful

Gifts must truly be given away, so you can't for example give away title to your home and carry on living in it. You can't even give away that classic car and get regular rides.

However, if you meet all the HMRC rules and follow the most suitable advice, giving money away while you are alive could help keep it out of the taxman's clutches.

More and more of us are living longer but needing support in our final years. Long term care is expensive, and if you can no longer afford the quality of care you want, you may find yourself at the mercy of your local authority.

A living inheritance should be carefully planned to help ensure that you still have the financial resources you want for your own needs in later life.

For expert help, simply call us at Continuum.

Gifts and exemptions from Inheritance Tax | MoneyHelper

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