Inheritance Tax

A GUIDE TO GIFTING

What You Need to Know

The 2024 Autumn Budget Announcement

In the 2024 Autumn Budget, it was announced that pensions will come within the scope of Inheritance Tax (IHT) from April 2027. This has led to an increased interest in how IHT exemptions and gifting can be incorporated into financial plans, particularly regarding pension income and lump sums.

Types Of Gifts
AND THEIR IHT TREATMENT

When gifting money, there are different outcomes for IHT purposes. The gift could be:

- Exempt
- Potentially Exempt
- Chargeable at a Lifetime Rate of 20%

Key Exemptions To Consider

Annual Exemption

You can give away up to £3,000 in each tax year free from IHT. If the allowance isn't used, it can be carried forward for a maximum of one year. This means a married couple or civil partners can give away a combined £6,000, or £12,000 if the previous year's allowances were unused.

Spouse/Civil Partner Exemption

Transfers between most married couples or civil partners living in the UK are exempt from IHT, regardless of the amount. However, this gift increases the estate of the surviving spouse/civil partner, deferring IHT until their death. That's why many couples prefer to make gifts to children or grandchildren instead.

Gifts Out of Normal Expenditure ("Gifting Surplus Income")

This exemption allows for gifts to fall outside IHT immediately without waiting for seven years. It's a useful tool for IHT planning. A gift can qualify as exempt if:

- It forms part of the individual's normal expenditure
- It's made out of income
- It does not reduce their standard of living

Pension Income AND LUMP SUM GIFTS

Gifting Your Tax Free Cash

Although pension commencement lump sums (PCLS) are paid tax-free and as a lump sum, they are still treated as income payments and could potentially qualify for the gifts out of normal expenditure exemption. Seeking the advice of Tax specialist in this area is always recommended.

Regular Gifts: Meeting the Exemption Criteria

For regular gifts to qualify for the gifts out of normal expenditure exemption, the following conditions must be met:

- The gift must form part of the individual's normal expenditure.
- It must be made from income, not capital.
- It must not affect the donor's standard of living.

To ensure the exemption applies, keep a full record of all payments. If you have an accountant and/or Financial Advisor it is also worth minuting this as part of your Annual Review or regular meetings. This will help upon death when completing IHT paperwork. It's important to note that HMRC may consider a gift to be regular if it has been made for three or more years with the intention of continuing.

Practical Examples OF GIFT PLANNING

Example 1: Gifts Out of Normal Expenditure

Bethany, aged 57, is married with four children. She has the following assets:

- £1.8m pension with Fixed Protection 2012
- £1.5m house
- £500,000 investments
- Salary of £150,000 per year, which fluctuates depending on her bonus

Bethany is planning to retire soon and wants to start IHT planning. She decides to gift £90,000 a year to her children over the next five years to help with their university expenses. As long as she keeps records of these gifts and continues gifting regularly, they will not count toward her estate when she passes.

Example 2: Using A Trust for IHT Planning

Carole has a pension pot of £1.2 million and wants to start IHT planning. She has already taken her £300,000 PCLS and is concerned about pensions being included in the IHT net after 6 April 2027.

She decides to put £300,000 into an onshore single premium bond and assign it to a trust, providing flexibility to access the funds when necessary. This allows Carole to undertake IHT planning, ensuring that the money remains outside of her estate for IHT purposes.

(All names have been changed for confidentiality)

Key Consideations

FOR IHT PLANNING

When considering IHT planning and how to handle excess wealth, clients have four primary approaches:

1. Spending wealth - Some clients may decide to spend their wealth during their lifetime, which can reduce their taxable estate.
2. Insuring the IHT liability - Life insurance policies can be used to cover potential IHT liabilities, though they become more expensive as the individual ages.
3. Gifting wealth during lifetime - Lifetime gifting is a significant strategy for reducing IHT, and when planned correctly, it can make a substantial difference.
4. Investing in assets deemed outside of your estate for IHT - In this respect, there are many opportunities that can mitigate IHT in as little as 2 years. Key considerations regarding your attitude to risk, likelihood of needing access to the capital in the future, and preference for certain asset classes are all important in this area. It is strongly recommended that you seek advice from a financial adviser in this specialist area of tax planning.

Important: Gifting wealth, in life or in death isn't a "DIY" task. It's crucial for clients to work with an experienced financial adviser to navigate these strategies, ensuring that the gifts are correctly structured and meet all IHT exemptions.

Getting the right advice
FOR YOU AND YOUR FAMILY

Conclusion

The upcoming changes to IHT treatment of pensions from 6 April 2027 highlight the importance of effective planning. By understanding how pensions, gifts, and exemptions work, you can help your clients make informed decisions and reduce their IHT liability. Let Seymour Financial guide you through the complexities of IHT planning, ensuring your clients' wealth is preserved for future generations.

About

SEYMOUR FINANCIAL

SEYMOUR
FINANCIAL
PERSONAL LIFE PLANNERS

Seymour Financial is an independent wealth and advisory firm dedicated to helping business owners, entrepreneurs, and individuals navigate their financial futures with confidence. Established in 2019, we specialise in pensions & retirement planning, investments, wills & trusts, protection, and business financial planning.

At Seymour, We are committed to providing clear, tailored solutions to help you navigate the complexities of Inheritance Tax (IHT) planning. If you have any questions or would like to discuss how pension gifting and IHT exemptions can work for you, don't hesitate to get in touch with our team.

Contact Us

0208 167 9869

office@seymourfinancial.co.uk

seymourfinancial.co.uk

Book A Call

The information provided in this document is intended for general informational purposes only and should not be construed as financial or legal advice. The content is based on current legislation and tax laws, which may change over time. Always seek professional advice tailored to your individual circumstances before making any decisions. Seymour Financial is regulated by the Financial Conduct Authority (FCA).

Seymour Financial is a trading style of Insight Financial Associates Ltd. Registered Office: Insight House, 7a Alkmaar Way, Norwich International Business Park, Norwich, NR6 6BF. Authorised and regulated by the Financial Conduct Authority, Regulated in England and Wales Company No. 05054886. UK FCA No 458421