## IHT-free giving

Many people, particularly as they age, worry about how they can provide for their family without the taxman taking a large slice. While many people are aware of the existence of the nil rate band allowing them to leave £325,000 tax -free (plus any unused portion from the earlier death of a spouse or civil partner), supplemented from 6 April 2018 by the residence nil rate band, not everyone knows that it is possible to make substantial and regular tax-free gifts as long as those gifts count as `normal expenditure out of income'. Where the conditions are met, the gifts are automatically tax-free, regardless of the availability of the nil rate band and whether or not the donor survives a further seven years.

**Three conditions**

For the gift to be exempt, the following three conditions must be met:

- it constitutes part of the donor's normal expenditure;
- it was made out of income; and
- after making the gift, the donor is left with sufficient income to maintain his or her normal standard of living.

**Normal expenditure**

In assessing whether the gift forms part of the donor's normal expenditure, the test is whether it is normal *for the donor* – there is no general standard of what is normal. While the gift does not have to be regularly or annually, there must be some pattern of giving - a one-off gift for a specific purpose does not fall within this exemption (although it may be exempt as a small gift or a gift in consideration of marriage). Although it is easier to demonstrate that the exemption applies if the gifts are regular and of a similar size – for example, a gift of the same amount made each month by direct debit – the exemption can still apply if the gifts vary in size, particularly if the income source (such as dividends) is also variable. The key is to establish a pattern, whether a regular monthly gift from left-over pension income or a gift each time a dividend is received.

**Out of income**

As the name suggests, for the exemption to apply, the gift must be made out of income rather than capital. So, giving away some of your pension each month would count, whereas making a regular gift from savings would not. Where the donor has a rental property, the gift could be made from the rent. Likewise, where the donor has savings or investments, the gifts could be made from dividends or interest payments.

**Maintaining standard of living**

The final condition is that after making the gift, the donor should be able to maintain his or her normal standard of living. So, the gift can be made once the donor has met his or her bills and continued to do his or her usual activities, etc.

**A useful exemption**

This is a very useful exemption and there is a lot of scope to make the most of it. Examples could include grandparents paying school fees for their grandchildren or giving them a monthly allowance while at university, or even paying for an annual holiday for family members.