

### **Give away £3,000 IHT-free each year**

There are various exemptions for inheritance tax purposes which enable a person to make tax-free gifts. One of the more useful is the annual exemption.

#### **Nature of the exemption**

The annual exemption is set at £3,000. The exemption allows an individual to make gifts of up to £3,000 each tax year without them being included in the transferor's estates.

Gifts covered by the exemption do not count as potentially exempt transfers (PETs) – there is no requirement for the transferor to live a further seven years. Gifts covered by the annual exemption are exempt, even if the transferor dies the next day.

The annual exemption applies to:

- lifetime transfers by individuals;
- the lifetime termination of an interest in possession in settled property; and
- transfers by close companies.

#### **Gifts totalling less than £3,000**

If an individual makes gifts in a year which do not exceed the amount of the annual exemption, the gift is tax-free. To the extent that the exemption has not been fully utilised, the excess can be carried forward – but only for one tax year.

#### **Example**

In 2017/18, Florence sold some shares and made a cash gift of £1,000 to each of her two granddaughters.

The gifts are covered in full by her annual exemption, using up £2,000 of the exemption. The balance of £1,000 is carried forward to 2018/19.

In 2018/19 Florence makes a further gift of £2,000 each to her granddaughters. Although the gifts total £4,000 in 2018/19, they are exempt in full, being covered by the annual exemption for 2018/19 of £3,000 and the unused exemption of £1,000 from 2017/18 which has been carried forward to 2018/19.

#### **Gifts exceeding the annual exemption**

If the value of the gifts in the tax year exceeds the available annual exemption (£3,000 plus any unused exemption brought forward from the previous tax year) and other exemptions are not available, the gifts are exempt up to the value of the available exemption. If the balance is a gift by an individual, it will be a PET; otherwise it may be an immediately chargeable lifetime transfer.

#### **Example**

Harry makes a gift from capital of £10,000 in 2018/19 to his son Paul. It is the only gift he makes in the tax year. In 2017/18 he used his annual exemption in full.

The first £3,000 of the gift is covered by the annual exemption. The remaining £7,000 is a PET.

#### **Multiple gifts**

Where a transferor makes multiple gifts in a tax year, the annual exemption is applied to the gifts in the order in which they are made.

**Example**

In May 2018, Barbara gives £2,000 to her daughter Julie; in October 2018, she gives £2,000 to her daughter Jane and in December 2018 she gives £2,000 to her son James.

In 2017/18, she fully utilised her annual exemption.

The gift to Julie is fully exempt, falling entirely within the annual exemption.

The first £1,000 of the gift to Jane is exempt, utilising the remaining £1,000 of the annual exemption. The remaining £1,000 is a PET.

The gift to James is a PET.

**Tip**

Consider the timing of gifts and whether other exemptions, such as that for small gifts, may be available.