

Private Client eNews – 06 July 2007

Look, in fact inspect, a gift horse in the mouth (tony@hcllp.co.uk)

A gift, also charmlessly known as a potential exempt transfer, will only become chargeable to inheritance tax at 40% if made within 7 years of the date of death (other than gifts between spouses and registered civil partners which are exempt.) This is true irrespective of the size of the gift.

Between years 3 and 7 a form of tapering relief may apply which reduces the tax payable by 20% each year that passes, so for years 3-4 the tax falls to 80% of 40%, 32%.

The significant point is that the tapering relief only applies to reduce the amount of tax *actually paid*. If none is payable on the potentially exempt transfer then tapering is irrelevant. For example, if the deceased's nil rate band, the tax free amount that can be given away on death, currently £300,000, remains available in its entirety, or in part, then no tax may be payable and so tapering relief will not apply.

The potentially exempt transfer will nevertheless have eaten into this tax free amount leaving less, or none, available for the beneficiaries of the deceased's will or under the intestacy rules.

The recipients of a taxable transfer, i.e. one which is no longer potentially chargeable but is *actually chargeable* to inheritance tax, are primarily liable though if they do not pay the tax within 12 months after the end of the month of death the executors of the deceased's will or administrators of the deceased's intestate estate become liable.

Lastly, remember that unless the gift is of cash Capital Gains Tax may also be a factor

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