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SPOTLIGHT ON:

Tax-efficient giving

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STRATEGIC PLANNING OF GIFTS TO MINIMISE TAX LIABILITIES

Tax-efficient gift-giving is an essential aspect of estate planning that can significantly reduce your inheritance tax (IHT) liabilities while benefiting your loved ones. By carefully planning and utilising the available allowances and exemptions, you can ensure that more of your wealth passes on to your family and less is lost to taxes.

At our practice, we believe that understanding the rules around gift-giving is key to making informed decisions. In this guide, we'll walk you through the essentials of tax-efficient gift-giving for the 2024/25 tax year.

UNDERSTANDING THE BASICS OF TAX-EFFICIENT GIFT-GIVING

When we talk about tax-efficient gift-giving, we refer to the strategic planning of gifts to minimise tax liabilities, particularly IHT. For tax purposes, a gift is any transfer of money or assets to another person without receiving anything of equal value in return. This could include cash, property, shares or other valuable assets.

The current UK tax rules provide several ways to give gifts without incurring immediate tax liabilities. However, these gifts' timing, structure and documentation are vital to ensuring they remain tax-efficient. As of the 2024/25 tax year, IHT is charged at 40% on estates above the nil-rate band, which remains at £325,000 (there is also a 'residence nil rate band' of £175,000 per person, subject to certain restrictions). Properly planned gifts can reduce the taxable value of your estate, potentially saving your beneficiaries a significant amount in IHT.

ANNUAL GIFT ALLOWANCES

One of the simplest and most effective ways to give tax-efficient gifts is by utilising the annual gift allowance. For the 2024/25 tax year, you can give away up to £3,000 each year without it being added to the value of your estate for IHT purposes. This is known as the annual exemption.

If you didn't use your £3,000 allowance in the previous tax year, you can carry it forward, allowing you to give away up to £6,000 tax-free in the current year. However, this carry-forward can only be used for one year, so planning your gifts is important.

The annual exemption can be used to make gifts to any number of individuals, but it's worth noting that this is the total amount you can give away tax-free each year, not the amount per recipient. For example, you could give £1,000 to three people or the entire £3,000 to one person.

EXEMPTED GIFTS

In addition to the annual gift allowance, certain gifts are completely exempt from IHT. These exemptions provide further opportunities for tax-efficient gift-giving.

SMALL GIFTS EXEMPTION

You can give away up to £250 to any number of individuals each tax year, provided that the recipient doesn't also receive part of your £3,000 annual exemption. The small gifts exemption is particularly useful for making regular small gifts to friends and family without affecting your estate's IHT position.

GIFTS TO SPOUSES OR CIVIL PARTNERS

Gifts between spouses or civil partners are completely exempt from IHT, as long as both individuals are UK-domiciled. This means you can transfer any amount of money or assets to your spouse or civil partner without it being subject to IHT. This exemption is one of the most effective ways to manage the tax impact of your estate.

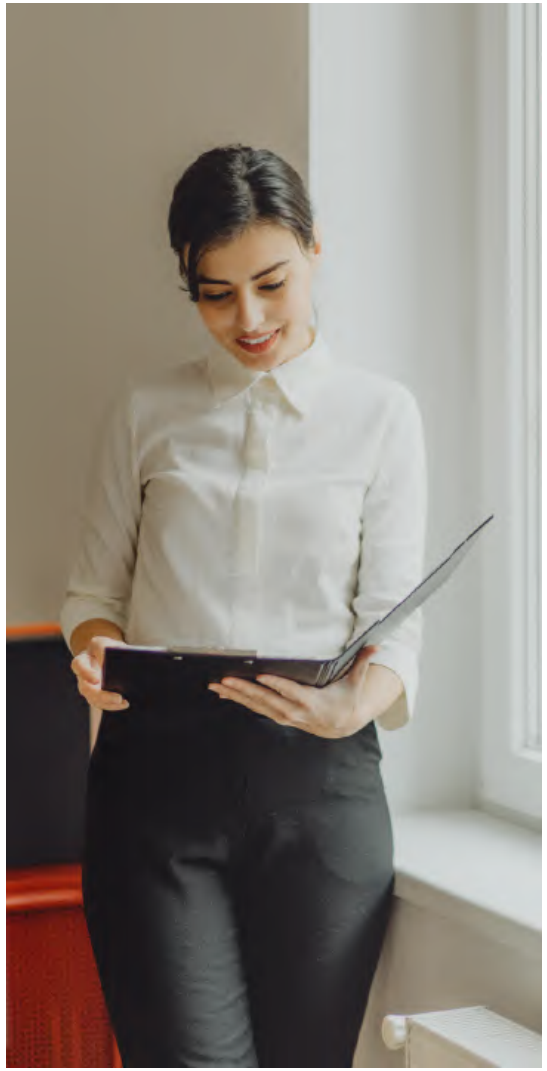
GIFTS TO CHARITIES AND OTHER EXEMPT ORGANISATIONS

Gifts to registered charities, political parties and certain national institutions are also exempt from IHT. If you're charitably inclined, this exemption allows you to support your favourite causes while reducing the taxable value of your estate. Additionally, leaving 10% or more of your estate to charity can reduce the IHT rate on the remainder of your estate from 40% to 36%.

POTENTIALLY EXEMPT TRANSFERS (PETS)

A potentially exempt transfer (PET) is a gift that becomes exempt from IHT if you live for seven years after making the gift. PETs are a powerful tool for reducing the taxable value of your estate, but they require careful planning and documentation. When you make a PET, the value of the gift is immediately removed from your estate for IHT purposes. However, if you pass away within seven years of making the gift, it may still be subject to IHT. The rate of tax applied to a PET that becomes chargeable within seven years is reduced on a sliding scale, known as taper relief. For example, if you survive three to seven years after making the gift, the IHT rate progressively reduces from 40% to 8%.

This sliding scale makes it beneficial to make large gifts as early as possible. Even if you're unsure about living for the full seven years, the potential reduction in IHT liability can still make PETs a valuable part of your estate planning strategy.



REGULAR GIFTS FROM SURPLUS INCOME

One often overlooked exemption is the ability to make regular gifts from your surplus income. These gifts are exempt from IHT as long as they're made from your income (not capital), are regular and don't affect your standard of living.

To qualify, you must demonstrate that the gifts are part of a regular pattern and that you have sufficient income to cover your living expenses after making the gifts. Common examples include regular payments to children or grandchildren, contributions to someone's living costs or paying for life insurance premiums.

Keeping detailed records is essential to proving that these gifts qualify for the exemption. You should document the source of the income, the amounts gifted and evidence that your standard of living hasn't been affected. If done correctly, this exemption allows you to reduce the value of your estate over time without triggering an IHT liability.

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GIFTS FOR WEDDINGS AND CIVIL PARTNERSHIPS

Weddings and civil partnerships provide another opportunity for tax-efficient gift-giving. You can give tax-free gifts to someone getting married or entering a civil partnership, with the amount varying depending on your relationship with the couple.

- parents can give up to £5,000
- grandparents can give up to £2,500
- anyone else can give up to £1,000.

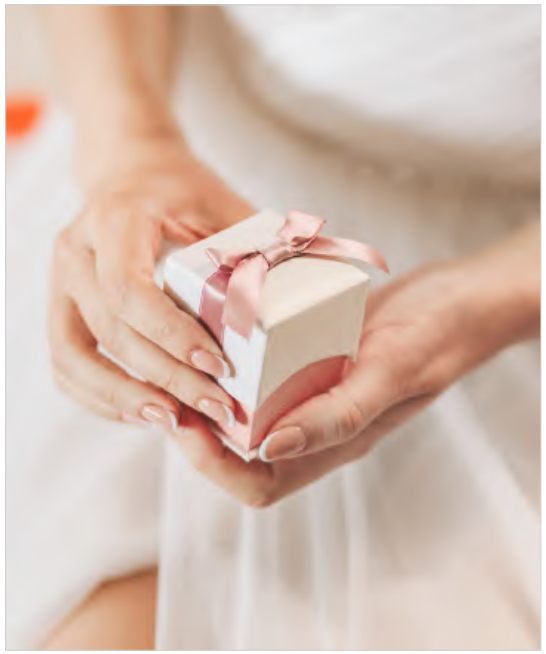
These gifts must be given on or shortly before the wedding or civil partnership ceremony to qualify for the exemption. They are a straightforward way to provide financial support to a loved one on their special day while also reducing the value of your estate for IHT purposes.

THE IMPORTANCE OF RECORD-KEEPING

Accurate record-keeping is a critical component of tax-efficient gift-giving. Without proper documentation, you may find it difficult to prove to HMRC that your gifts qualify for the various exemptions and allowances.For each gift you give, you should keep detailed records that include:

- the date of the gift
- the recipient's details
- the value of the gift
- the type of gift (for example, cash, property)
- any relevant exemptions or allowances applied.

For regular gifts from surplus income, you should also maintain records of your income and living expenses and how you calculated that the gifts didn't affect your standard of living. This documentation will be invaluable if HMRC questions your estate after your death, ensuring that your gifts are correctly accounted for and exempted from IHT.



GIFTING PROPERTY AND OTHER HIGH-VALUE ASSETS

Gifting property, shares or other high-value assets can have significant tax implications, particularly with respect to capital gains tax (CGT). When you gift an asset that has increased in value since you acquired it, you may be liable for CGT on the gain.

However, there are strategies to minimise CGT liabilities when making such gifts. For example, you could transfer assets that have not appreciated significantly or utilise the CGT annual exemption, which allows you to make gains of up to £3,000 (for the 2024/25 tax year) without incurring CGT.

Gift Hold-Over Relief, on the other hand, essentially allows the individual to gift an asset and not have to pay any capital gains on the gift (with the recipient instead paying it when they sell the asset). The gift has to be business assets (which can include shares, but they must be unlisted).

To further minimise CGT, if an individual has exhausted their annual exemption, they could transfer the asset to their spouse, who can then gift it, utilising their own exemption. Similarly, for the £3,000 annual gift exemption and wedding gift exemptions, if more needs to be given, assets can be transferred to a spouse, who can then re-gift to the intended recipient, effectively doubling the exemptions by using both spouses' allowances.

If you're considering gifting high-value assets, it's advisable to seek professional advice to explore the most tax-efficient way to do so. We can help you navigate the rules and ensure that your gift achieves the desired tax benefits.

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THE ROLE OF TRUSTS IN TAX-EFFICIENT GIFTING

Trusts can be valuable in tax-efficient gift-giving, particularly for managing large gifts or protecting family wealth across generations. By placing assets into a trust, you can reduce the value of your estate for IHT purposes while retaining some control over how the assets are used.

There are different types of trusts, each with its own tax implications.

- **Discretionary trusts**: These allow trustees to decide how to distribute the trust's income and capital among the beneficiaries. These can be useful for providing for future generations while maintaining flexibility.
- **Bare trusts**: In a bare trust, the beneficiaries have an absolute right to the trust's assets. The assets are held in the trustee's name, but the beneficiaries have the right to the income and capital.

Trusts can be complex, and setting one up requires careful consideration of your goals and the tax implications. It is essential to work with an adviser who can guide you through the process and ensure that the trust is structured to achieve your objectives.

SEEKING PROFESSIONAL ADVICE

While the principles of tax-efficient gift-giving are straightforward, the rules can be complex and mistakes can be costly. Professional advice is invaluable when planning significant gifts or complex arrangements, such as trusts or gifting high-value assets.

Our firm specialises in helping clients navigate the rules around gift-giving and estate planning. We can work with you to develop a personalised strategy that maximises the tax benefits of your gifts while ensuring that your wealth is preserved for your loved ones.

IN SUMMARY

Tax-efficient gift-giving is essential to estate planning, allowing you to pass on your wealth while minimising tax liabilities. By understanding the available allowances and exemptions, keeping accurate records and seeking professional advice when needed, you can ensure that your gifts are both generous and tax-efficient.

Whether you're looking to make small gifts to family members, transfer high-value assets or set up a trust, we're here to help. Contact us today to discuss your estate planning needs and learn how we can help you and future generations.

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