



Inland
Revenue

Inheritance tax

An introduction

CAPITAL TAXES
IHT3



This leaflet helps you to work out if any inheritance tax will be due on your estate after your death.

The majority of estates, more than 96%, do not have to pay any inheritance tax because they are below the threshold.

What is an 'estate'?

A person's estate includes the total of

- everything owned in his or her name
- the share of anything owned jointly
- gifts from which he or she keeps back some benefit, for example, a house still lived in and maintained, although given to someone else
- assets held in trust from which he or she gets some personal benefit, for example, an income.

What is the current threshold?

The threshold for deaths on or after 6 April 2004 is £263,000.

If your estate (including assets held in trust and any gifts you have made within seven years of your death) is less than the threshold, no inheritance tax will be due on it.

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.

Do I need to include every gift I've made within seven years?

No. Some outright gifts are exempt. When you are working out your estate, you do not need to include

- wedding gifts of up to £5,000 to each of your children (including step-children and adopted children) or the person that your child is marrying
- wedding gifts up to £2,500 to each grandchild or the person that your grandchild is marrying
- wedding gifts of up to £1,000 to anyone else
- payments for the maintenance of your spouse, ex-spouse, dependent relatives and, usually, your children who are under 18 or in full-time education
- other gifts up to a value of £3,000 in any one tax year, plus any unused balance of £3,000 from the previous tax year (The tax year starts on 6 April in one year and ends on 5 April in the following year.)
- outright gifts in any tax year up to a total of £250 each to any number of people, but only if the total of all gifts made by you to the recipient in the same tax year does not exceed £250.

You can make gifts under more than one of the above headings to the same person and they will be free from inheritance tax. For example, to a child in the year they marry, you could give £5,000 as a wedding gift plus £3,000 as another gift, and these would be exempt.

What happens if I leave everything to my spouse?

Anything that you give during your lifetime or leave on your death to your spouse is free of inheritance tax, but both of you must be domiciled in the UK.

Is inheritance tax payable on gifts or bequests to charity?

No. All outright gifts and bequests to UK registered charities are completely free of inheritance tax.

How do I work out if inheritance tax is due?

If the value of your estate is above the threshold, then inheritance tax is payable. However, the following are exempt from inheritance tax

- anything you leave to your spouse
- anything you leave to a UK registered charity, and
- any bills outstanding at your death, including your funeral expenses.

Example

Mr Jones died on 10 April 2004 leaving his whole estate to his daughter. The threshold for inheritance tax at the time is £263,000 and the rate of inheritance tax is 40%.

Assets	Value
House	£210,000
Car	£9,500
Bank account	£19,250
Shares	£30,075
Premium Bonds	£500
Total value	£269,325

Allowable deductions

Telephone bill	£55
Electricity bill	£45
Gas bill	£35
Funeral expenses	£950
Total deductions	£1,085

Net value of Mr Jones' estate **£268,240**

Inheritance tax is payable because the net value of the estate is above the threshold of £ 263,000. Tax is charged at 40%.

Net value of assets	£268,240
less threshold	£263,000
Total liable to inheritance tax	£5,240
Inheritance tax (£5,240 x 40%)	£2,096

Who pays the inheritance tax due on an estate?

The executor or administrator (also known as the 'personal representative') is liable to pay any inheritance tax due on an estate.

Are there any charges if inheritance tax is paid late?

We charge interest on any tax not paid by the due date, no matter what caused the delay in payment. The due date is six months after the end of the month in which the death occurred. So, in the example on page 3, interest is due from 1 November 2004.

Where can I get more help?

If you think your estate (including trust property and gifts) may be more than the threshold, please phone our Probate and Inheritance tax Helpline on **0845 3020 900**.

You may also find the leaflets listed on the inside back cover useful. You can get them free

- on the internet at **www.inlandrevenue.gov.uk**
- by e-mailing **ir.purchasing@gt.net**
- by calling our Orderline on **0845 234 1000**
- by fax on **0845 234 1010**.

Inheritance tax (IHT) is administered by Inland Revenue Capital Taxes. We have three branches that deal with IHT and their addresses are given below. If you write to Capital Taxes, please quote our reference number. If you do not know it, you should give the full name of the person who has died ('the deceased') and the date of death.

Nottingham

Inland Revenue Capital Taxes
Ferrers House
PO Box 38
Nottingham
NG2 1BB

Edinburgh

Inland Revenue Capital Taxes
Meldrum House
15 Drumsheugh Gardens
Edinburgh
EH3 7UG

Belfast

Inland Revenue Capital Taxes
Level 3, Dorchester House
52-58 Great Victoria Street
Belfast
BT2 7QL

Staff at our Helpline will be pleased to help you if you have any questions about inheritance tax. They can also tell you of any changes to the threshold or rate of tax. Our advisers deal with enquiries of genuine uncertainty about the law but cannot comment on tax planning or advise about transactions that are designed to avoid or reduce tax. Our leaflet COP10 'Information and advice' explains this further. You may also wish to contact a professional adviser about inheritance tax.

Please note

Inland Revenue Capital Taxes are specialist offices dealing with inheritance tax only. If you have any questions about capital gains tax you should contact your Tax Office or any Inland Revenue Enquiry Centre.

Further information

We produce a wide range of leaflets. You might find the following useful.

- COP10 Information and advice.
- IHT2 Inheritance tax. Lifetime gifts
- IHT8 Inheritance tax. Alterations to an inheritance following a death
- IHT11 Payment of inheritance tax from National Savings or from British Government stock
- IHT13 Inheritance tax. Penalties
- IHT14 Inheritance tax. The personal representatives' responsibilities
- IHT16 Inheritance tax. Settled property
- IHT17 Inheritance tax. Businesses, farms and woodlands
- IHT18 Inheritance tax. Foreign aspects.
- COP1 Putting things right. How to complain

Our leaflets are available at www.inlandrevenue.gov.uk and from any Inland Revenue Enquiry Centre. Most are open to the public from 8.30am to 5.00pm, Monday to Friday. Addresses are in your local phone book under 'Inland Revenue' and at www.inlandrevenue.gov.uk/local

You can get many leaflets from our Orderline, by

- phone or textphone (for Minicom users) on **0845 9000 404** from 8.00am to 10.00pm, every day except Christmas Day, Boxing Day and New Year's Day
- fax on **0845 9000 604**
- completing the on-line order form at www.inlandrevenue.gov.uk/contactus/staustellform.htm
- writing to
PO Box 37
St Austell
Cornwall
PL25 5YN.

Orderline calls are charged at local rates.

Please note that the Orderline does not supply IHT leaflets.

Your library or Citizens Advice Bureau may also have copies of some of our leaflets, but may not have them all.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

Issued by

Inland Revenue Marketing and Communications
April 2004 © Crown Copyright 2004

Printed by The Astron Group 04/04 NSV Code R2P 3313



Inland
Revenue