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Inheritance Tax

Understanding Inheritance Tax

Inheritance Tax is the tax payable on the death of an individual based on the value of their assets. It can be complex to understand and is often misunderstood. As one of the most unpopular taxes, it is important to consider ways to minimise the liability with careful planning.



Key facts about Inheritance Tax

The rate of Inheritance Tax is 40% - although it can be different in some circumstances. Inheritance Tax is the tax paid on the value of the assets of somebody who has died. Sometimes it is paid on transfers to trusts or gifts made during a person's lifetime - but it is more commonly known as the tax paid when someone has died.

The Nil Rate Band

- The Nil Rate Band is the amount that can be left free of Inheritance Tax for each individual.
- Every individual has their own Nil Rate Band, regardless of their wealth.
- For the tax year 2024-2025, this is set at £325,000 and is frozen until 2030.
- Lifetime gifts can erode the Nil Rate Band, but it starts the same for all adults domiciled and resident in the UK.

The Residence Nil Rate Band

- Some individuals can benefit from the Residence Nil Rate Band which will apply if they have an interest in a property they have lived in, which is closely inherited by a lineal descendant. Typically this will be your child or children.

Who pays Inheritance Tax

Who is responsible for paying Inheritance Tax will depend upon the circumstances. Normally this is the Personal Representative of the deceased. Sometimes recipients of gifts during a lifetime or Trustees for a Trust asset will have to pay a proportion of Inheritance Tax which falls due because of a death.

Annual gift exemption

An individual has an annual exemption of £3,000 each tax year. Gifts to this value are free of any Inheritance Tax, no matter how long the donor survives after the gift.

Tax-Free spousal and civil partner transfers

Gifts to spouses or civil partners are exempt from Inheritance Tax during the person's lifetime and on their death.

Planning to minimise Inheritance Tax

Gifts to charity

Gifts to charity are left free of Inheritance Tax. If at least 10% of your total assets are left to charity then the Inheritance Tax rate itself is reduced from 40% to 36%.

Drafting a correct will

Each year the total Inheritance Tax paid increases in part due to rising property prices and the freezing of the tax free allowances. A correctly drafted will is vital when considering Inheritance Tax planning.

Spending your wealth

Spending your money is one of the best ways of minimising the Inheritance Tax liability!

Find out more

For more information please contact our Private Client Team who will be happy to assist you.