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Inheritance Tax UK threshold: How some people could boost their threshold to reduce bill

INHERITANCE TAX (IHT) is a tax on the estate of a person who's died, and the Inheritance Tax threshold can have an impact on how much IHT needs to be paid. What is the threshold?

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Inheritance Tax is often described as the UK's "most hated tax", although not every estate will be subject to the tax. With the standard Inheritance Tax rate being 40 percent, it can tot up to be a significant tax bill in some cases.

However, it may be that there is no Inheritance Tax to pay on some estates.

For instance, there is usually none to pay if the value of the estate is below the £325,000 threshold.

Even if it is below the threshold, it will still need to be reported to HM Revenue and Customs (HMRC), Gov.uk points out.

Should the value of the estate exceed this figure, there is another way in which Inheritance Tax wouldn't be payable.

This is usually if the person left everything above the threshold to their spouse, civil partner, a charity, or a community amateur sports club.

Some people may look to increase their threshold, and currently, this can be done by giving away one's home to direct descendants such as children or grandchildren.

This can increase the threshold to £475,000.

This is known as the additional main residence nil-rate band, and Gov.uk points out that there is a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2million.

This withdrawal rate is at £1 for every £2 over this threshold.

There's another way a person can increase their threshold and this can happen if a person is married or in a civil partnership.

For people who are in this situation and who have an estate worth less than their threshold, it's possible to transfer any unused threshold to their partner's when one dies.

This means that the surviving partner's threshold can be as much as £950,000, gov.uk explains.

The standard Inheritance Tax rate is only charged on the part of the estate that's above the threshold.

There are also situations where an estate can pay a Inheritance Tax at a reduced rate.

For instance, it could be the estate pays the rate of 36 percent on some assets, if the deceased person leaves 10 percent or more of the "net value" to charity in their will.

Speaking to Express.co.uk, James Kipping, Tax Partner at MHA Macintyre Hudson, said: "If you give to charity during your lifetime or in your Will the value of those bequests is free of Inheritance Tax, so it can be a useful way of reducing your Inheritance Tax bill, while benefiting a good cause.

"If on death you leave at least 10 percent of your estate to charity, it will cut how much Inheritance Tax is due on the rest.

"The rate at which Inheritance Tax is calculated is 36 percent rather than 40 percent.

"This rate is set against the balance of the estate to the extent that it exceeds the available nil-rate band (currently £325,000, although it can be reduced or eliminated by certain gifts made in a person's lifetime).

"This means your favourite charities benefit and so does your family by paying a lower rate of Inheritance Tax on the remaining assets."