

# Strategic lifetime gifting

How to minimise your IHT liability during your lifetime.

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The Autumn Budget 2024 introduced some unexpected provisions regarding Inheritance Tax (IHT) that have wide-ranging implications for those whose estates are likely to be subject to IHT following their death. Inheritance Tax is payable on an estate with a net value of more than £325,000. The government charges any estate above that figure at a flat rate of 40%. There are, of course, exemptions. For example, no IHT liability for transfers between spouses and civil partners exists. However, leaving your entire estate to your spouse or civil partner might be stoking up a future IHT liability. This article will discuss the options available through lifetime gifting to minimise your exposure to Inheritance Tax. But before we look at estate planning, we must consider the changes introduced in the Autumn Budget 2024.

## What changes did the Autumn Budget 2024 introduce?

Four key changes in the Autumn Budget 2024 impacted Inheritance Tax.

### Freeze on nil-rate band

The nil-rate band of £325,000, below which you do not pay IHT, has been frozen until 2030. The previous government had already frozen this figure until 2028. The Chancellor's Autumn Budget 2024 extended that freeze until 2030. That means if your net estate is over £325,000, it will be subject to IHT.

### Unused pensions to be subject to IHT from April 2027

The Autumn Budget 2024 introduced a new rule regarding unused pensions. Currently, unused pension funds fall outside the estate for IHT purposes. That means they do not count as part of the estate and are not subject to IHT. Some people who did not need to rely on their pension earmarked it for distribution to others after their death as it was held outside their estate and not subject to IHT.

However, from 2027, any unused pension fund will be subject to IHT as part of the estate. The government has launched a technical consultation to determine how this will work in practice.

### Agriculture and Business Property Relief changes

Farmers and businesses are entitled to 100% relief on their business assets, which means these assets are

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not subject to IHT. However, starting in April 2026, any agricultural or business assets over £1 million will be subject to IHT at a reduced rate of 50% of the current rate. That means IHT will be charged on those assets over £1 million at a rate of 20%.

### Residency-based IHT for former “non-doms”

The Autumn Budget 2024 abolished the “non-dom” status and introduced a residence-based taxation system. Under the new rules, the government will classify a foreign national who has resided in the UK for at least 10 out of 20 tax years as a “long-term resident.” Once this status has been established, their worldwide assets become subject to UK Inheritance Tax (IHT). Previously, such individuals could exclude foreign assets from IHT calculations. The changes also impact offshore trusts: assets placed into an offshore trust while the individual held non-dom status may now be included in their estate for IHT purposes.

## Using lifetime gifting to reduce your exposure to Inheritance Tax

Estate planning always considers lifetime giving as part of mitigating against IHT. When you dispose of assets through gifting, you can reduce your exposure to IHT. However, there are certain conditions you must fulfil if your estate is to avoid paying IHT.

### Taper Relief (the 7-year rule)

If you gift property, assets or investments more than seven years before you die, these will no longer be considered part of your estate. All such gifts are considered potentially exempt transfers because they must meet specific criteria to be excluded from IHT calculations.

### Potentially exempt transfers

HMRC define a potentially exempt transfer as a lifetime transfer of value that satisfies three conditions:

- It is a transfer by an individual made on or after 18 March 1986
- It would be a chargeable transfer apart from [Section 3a of the Inheritance Tax Act 1984](#) (or, if only partly chargeable, is a potentially exempt transfer to the extent that it would be chargeable), and
- It is a gift to another individual or a specified trust.

These conditions mean that the transfer must be for value to an individual or a specified trust where the transfer would be subject to IHT. Transfers between spouses do not count because they are exempt from IHT.

If the gift donor survives over seven years, the gift's value falls outside the estate and is not subject to IHT. However, the donor must divest themselves of the gift entirely.

### Gifts with reservations

Gifts with reservations occur when the gift donor makes the gift but retains an interest in it or benefits from it. A good example of this is when a parent transfers ownership of the family home to the children but remains living in it rent-free. While the donor has made a gift of the ownership, the donor benefits from the gifted property by continuing to live in it. In such circumstances, HMRC would include the house's value in the estate for IHT purposes.

## Additional gift exemptions

There are also annual gift exemptions that everyone enjoys. You can make annual gifts totalling £3,000 to anyone you want. If a child is getting married, you can give them a gift of £5,000. You can also make a wedding gift of £2,500 to a grandchild and £1,000 to anyone else. In addition, you can make as many small gifts of £250 as you like.

### Gifts to charities

Any gift you make to charity is exempt from IHT. This rule applies during your lifetime and on death. In addition, if you leave 10% or more of your estate to charity, the rate of IHT your estate will pay will be reduced from 40% to 36%. So, charity gifting can lead to substantial savings in very large estates.

## Estate Planning following the Autumn Budget 2024

The overall rules about making gifts have not changed. However, the budget brought assets into the estate that previously were outside it and not subject to IHT.

Your tactics may need to change to address this. Regular lifetime giving, provided it is not a gift with reservations, remains the most straightforward way of reducing the value of your estate.

If you have an unused pension, depending on your personal tax situation, it may be beneficial to withdraw some of the funds and gift them to others. The withdrawal would still be subject to an immediate income tax charge but might be IHT-efficient.

Dealing with the changes to agricultural and business property relief can be challenging as these are integral assets for your business. You will need to consider family involvement in the business and the basis of ownership of the assets. If you transfer ownership but continue in the business, HMRC will likely view this as a gift with reservations.

The UK government claims that reliefs available for agricultural and business property can total up to £3 million. However, this level of relief is only attainable in specific, limited circumstances.

## **Seek legal and financial advice before doing anything**

Whatever you do, you must take legal and financial advice if you intend to take steps to mitigate your IHT exposure. Failure to carry out any estate planning and lifetime giving correctly can lead to HMRC adding the value of property, assets, and investments back into your estate's value and subject to IHT.

**The landscape of Inheritance Tax and lifetime gifting is evolving. To understand how these changes affect you and to explore bespoke strategies for lifetime gifting and estate planning, contact [Herman Cheung](#), a specialist private client solicitor and TEP at West End law firm RIAA Barker Gillette (UK) today for expert legal and financial advice.**

*Note: This article is not legal advice; it provides information of general interest about current legal issues.*