

## GUIDE TO INHERITANCE TAX

**This guide introduces the basics of inheritance tax (IHT) and some scenarios. Inheritance Tax is a legal matter, and you should always seek Legal and Financial advice prior to writing your Will.**

Leaving your entire estate to a charity can reduce, and in some situations, eliminate your Inheritance Tax liability.

If you leave something to charity in your will, then it won't count towards the total taxable value of your estate. This is called leaving a 'charitable legacy'.

You can also cut the Inheritance Tax rate on the rest of your estate from 40% to 36% if you leave at least 10% of your 'net estate' to a charity.

### **Below are some examples of how this would work:**

The basic principle is that if an individual leaves 10% or more of their estate in their will to charity, the rate of inheritance tax (IHT) will be reduced from 40% to 36%. However, this doesn't necessarily mean that they must leave 10% of the whole estate – the rules are more generous than this. In short, it is only necessary to leave 10% of the net value of their estate. This is the sum of the assets after deducting any debts, reliefs, exemptions, and the tax-free band.

The rules on how to work out what you can give away to charity to secure the lower tax rate aren't always as straightforward as the examples below. Community Impact Bucks always advise any potential donors to discuss the tax implications with their professional advisor.

### **Scenario 1**

Robert dies leaving an estate worth £500,000. He has a full tax-free band of £325,000 so his taxable estate is £175,000. To qualify for the reduced rate of tax he needs to leave 10% of £175,000 to charity i.e. £17,500. The £17,500 qualifies for the charitable gift exemption leaving £157,500 which is taxable at 36% making a tax liability of £56,700. This leaves £425,800 for his heirs.

## Scenario 2

Had Robert left a legacy of £15,000 to charity his estate would not have qualified for the reduced rate, as £15,000 is less than 10% of the net value. After making a deduction of the tax-free band of £325,000 and the charitable gift exemption of £15,000, his taxable estate would be £160,000. This would be taxed at 40% making a tax liability of £64,000 leaving just £421,000 for his heirs.

## Scenario 3

If Robert left nothing at all to charity his taxable estate would be £175,000 and the tax charged at 40% would be £70,000 leaving £430,000 for his heirs.

Whilst Robert's heirs would be better off if he left nothing to charity at all, as can be seen in examples 1 and 2 above, by reducing what is available to his heirs by just £4,200 the charity benefits by £17,500.

Learn more about cutting your Inheritance Tax bill in [\*\*Gifts and exemptions from Inheritance Tax\*\*](#).

Visit [\*\*GOV.UK\*\*](#) to find more information on which part of your estate pays Inheritance Tax, calculators and relevant forms.

*Thank you to Heart of Bucks for advising us on Inheritance Tax Guidelines for this information sheet.*

*DISCLAIMER: The contents of this information sheet do not constitute legal advice and are not meant to be complete or exhaustive. Although Community Impact Bucks tries to ensure the information is accurate and up to date, you should advise potential donors to seek legal advice.*