



WILLOW TREE
FINANCIAL SERVICES



Your Guide to Gifting

"Gifting is one of the simplest and most powerful ways to reduce the value of your estate and minimise a potential inheritance tax bill. But doing it well means understanding the rules."

Your Guide to Gifting Assets

Whether you're helping a loved one onto the property ladder, making regular gifts to grandchildren, or planning a longer-term legacy strategy, it's vital to understand how gifting interacts with Inheritance Tax (IHT).

This guide walks you through the most common gifting exemptions, explores complex rules like the '7 year rule' and the 'normal expenditure out of income' exemption, and provides helpful tools to track your giving over time.

Gifting is one of the simplest and most powerful ways to reduce the value of your estate and minimise a potential inheritance tax bill. But doing it well means understanding the rules. Used properly, gifting can be a generous (and tax-efficient) way to pass on wealth.

Thank you for downloading this guide, please get in touch if we can help further or to answer any questions.



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Understanding Inheritance Tax & Gifting

Gifts made during your lifetime can reduce the value of your estate for IHT purposes, but the rules vary depending on what you gift, when, and to whom.

🌿 What counts as a gift?

- Cash or bank transfers
- Physical items (e.g., jewellery, antiques, furniture)
- Property or land
- Stocks and shares
- Selling something below market value (e.g., selling a home to your child at a discount)

Exemptions: What You Can Give Tax-Free

Some gifts are automatically exempt from Inheritance Tax, regardless of their value:

🌿 Spouse or Civil Partner Gifts Unlimited gifts to your UK-based spouse or civil partner are completely exempt.

🌿 Charitable & Political Donations Gifts to registered charities, political parties and certain national institutions (like museums or universities) are free of IHT.

*Gifts in your Will don't count,
those are part of your estate.*

Using Your Annual Allowances

Annual Exemption

You can give away up to £3,000 each tax year without the gift being added to the value of your estate. If unused, you can carry forward one year's unused exemption.

Small Gift Allowance

You can gift up to £250 to any number of people, as long as you haven't used any other exemption on the same person.

Wedding Gifts

You can gift up to:

- £5,000 to a child
- £2,500 to a grandchild or great-grandchild
- £1,000 to anyone else

Normal Expenditure Out of Income

You can make regular gifts from surplus income, with no upper limit, provided:

- It forms part of a regular pattern
- It comes from your income (not capital)
- It doesn't impact your usual standard of living

This exemption allows you to gift unlimited amounts as long as:

- It's from surplus income (not capital)
- The gifts form part of a habitual pattern
- You maintain your normal lifestyle

Examples:

- Paying grandchildren's school fees
- Regular savings into an account for a child
- Monthly financial support for a dependent relative

HMRC applies this exemption only after death, so accurate record-keeping is essential.



The 7 Year Rule and Gifts with Reservation of Benefit

🌿 The 7 Year Rule

Gifts that don't qualify for exemptions are known as Potentially Exempt Transfers (PETs).

- If you live 7 years after making the gift, it's completely outside your estate
- If you die within 7 years, the gift may be subject to IHT

Taper relief may apply for gifts made 3–7 years before death, reducing the IHT payable:

- 3–4 years: 32%
- 4–5 years: 24%
- 5–6 years: 16%
- 6–7 years: 8%
- 7+ years: 0%

🌿 Gifts with Reservation of Benefit

If you give something away but continue to benefit from it, it stays part of your estate for IHT purposes. Common examples include:

- Giving away your home but continuing to live there rent-free
- Giving a painting to a family member but still displaying it in your home

These are called 'Gifts with Reservation' and are not effective for reducing IHT.

Keeping Records: Your Gifting Register

🌳 Use the templates provided in this guide to:

- Track all gifts given under each exemption
- Log dates, recipients, amounts and notes
- Keep a record of income and expenditure to support claims under the 'normal expenditure' exemption

This helps executors complete the IHT403 form with confidence

🌳 Use this table to calculate the estimated value of your estate:

(Compare this with your available nil-rate band and residence nil-rate band.)

Asset Type	Estimated Value (£)
Main home	
Other properties	
Vehicles	
Personal possessions (jewellery etc)	
Bank and building society accounts	
Investments (including ISAs)	
Life insurance policies (not in trust)	
Pension policies (not in trust)	
Other assets	
Total assets	
Minus liabilities (mortgages etc)	
Net estate value	

🌳 We recommend that you download and complete the [IHT403 form](#) each year to document your gifts. This is the form HMRC uses to assess any gifts made in the 7 years prior to death. Completing it annually helps ensure:

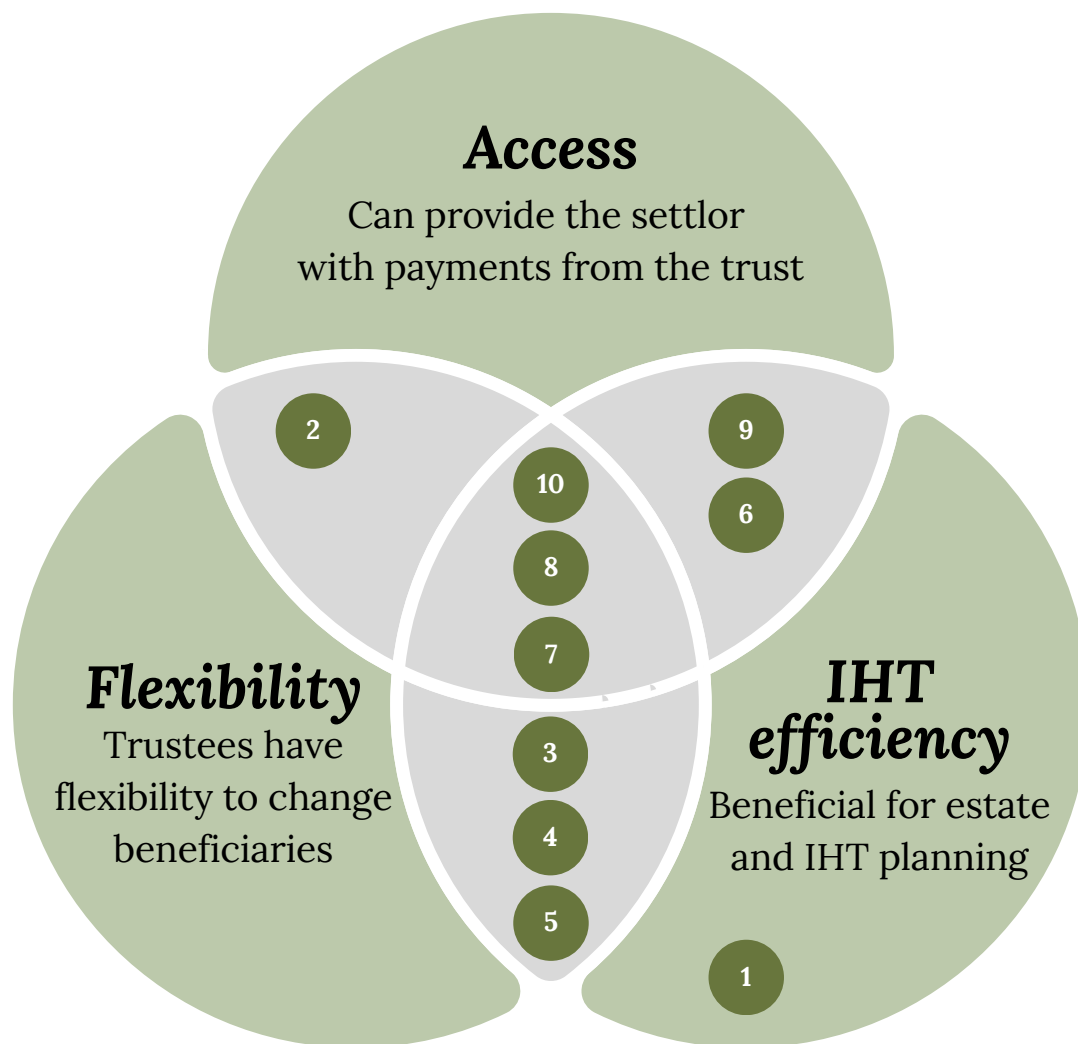
- Executors have a clear record
- Claims for exemptions (like normal expenditure) are backed up

Gift Record Sheet

Date of Gift	Amount of Gift £	Recipient	Exemption*

*Exemption: Annual / small gift / wedding / normal expenditure out of income / potentially exempt.

Types of Trusts



1	Absolute (bare) trust	A simple IHT solution where the settlor does not require access to the trust, knows who they want to leave their wealth to, and requires no future flexibility.
2	Discretionary trust settlor included	Provides the settlor with control and flexibility over how wealth is distributed. As the settlor is also a beneficiary, you can still benefit from your gift. However, the trust does not reduce the value of your estate.
3	Discretionary trust – settlor excluded	An IHT solution for settlors who do not require access to the trust and want to maintain some level of control and flexibility over the distribution of wealth.
4	Best start in life trust	A discretionary trust that provides the settlor with an IHT-efficient way of passing on wealth either during their lifetime or on death, and can provide tax-efficient payments for the benefit of minors (eg to pay for schooling).
5	Excess income trust	A discretionary trust that uses the settlor's excess income to build a nest egg for beneficiaries in the future, free of IHT.
6	Discounted gift trust – bare	The settlor gifts money to a trust and receives regular fixed payments for the whole of their life or until the trust fund runs out – no discretion to change beneficiaries.
7	Discounted gift trust – discretionary	The settlor gifts money to a trust and receives regular fixed payments for the whole of their life or until the trust fund runs out – discretion to change beneficiaries.
8	Lifestyle trust	A flexible solution where the settlor gifts money to a trust and has the option of taking lump sum payments at fixed points in the future.
9	Loan trust – bare	Provides the settlor with access to the interest-free loan they made to the trustees, with future investment growth being outside of their estate for IHT – no discretion to change beneficiaries.
10	Loan trust – discretionary	Provides the settlor with access to the interest-free loan they made to the trustees, with future investment growth being outside of their estate for IHT – discretion to change beneficiaries.

“Gifting isn’t just about saving tax. It’s about creating the legacy you want. Whether you want to help family today, support a cause close to your heart, or reduce the burden on your estate, we can help you put a plan in place.”



**Let's make sure
your giving is
meaningful and
tax-efficient**

Get in touch to talk through your options

- **Financial Planning, Budgeting and Goals**
- **Mortgages**
- **Pensions Planning and Investments**
- **Retirement Planning**
- **Protection and Insurance**
- **Wills, Trusts and Estate Planning**

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**Thank you for downloading our
Guide to Gifting. We look forward to
helping you in the future.**



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