Gifts in Wills and Inheritance Tax

Inheritance Tax can have a significant impact on the value of assets passed on to your loved ones. Leaving a gift to charity in your Will can reduce the Inheritance Tax (IHT) payable by your family and friends.

Inheritance Tax rules

IHT is currently charged at a rate of 40% on assets above certain thresholds.

Each individual has a 'nil-rate band' of £325,000, which means assets in your estate below this amount will not be subject to IHT. For married couples and civil partners, any unused portion of the nil-rate band can be transferred to the surviving partner, potentially doubling the tax-free allowance to £650,000.

Additionally, if you leave your main residence to direct descendants, including children, adopted, fostered or stepchildren and grandchildren, you are entitled to a residence nil-rate band of £175,000 each.

Any assets you hold above these thresholds are taxed at a rate of 40%.

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Leaving a gift in your Will

Leaving a gift to charity in your Will can reduce the IHT payable by your loved ones from 40% to 36%, if used in the correct way.

Charity gifts themselves are usually exempt from IHT, regardless of the value of the gift. If the gift to charity in a Will meets certain conditions, the lower rate of 36% IHT will apply to the taxable part of an individual's estate.

The reduced rate will apply if an individual leaves at least 10% of their net estate, known as ‘the baseline amount’, to charity.

Where the gift to charity falls short of 10% of the baseline amount, it may be possible for a deceased person's beneficiary to increase the gift to charity so that the lower IHT rate of 36% applies to the rest of the estate.

This page is kindly supported by Harold Stephens, experts in later life financial advice.