

How you can reduce your inheritance tax bill by giving to charity

What are the ground rules?

If your estate is worth over £325,000 when you die Inheritance Tax may be due but, **since 6 April 2012**, if you leave 10% of your estate to charity the tax due may be paid at a **reduced rate of 36% instead of 40%**.

How does the reduced rate work?

- Any gifts you make to a ‘qualifying’ charity – during your lifetime or in your will – will be exempt from Inheritance Tax.
- In order **to qualify** for the reduced rate you must leave **AT LEAST 10%** of the net value of your estate to a qualifying charity
- The net value of your estate is the sum of all the assets after deducting any debts, liabilities, reliefs, exemptions and the nil-rate band

Do you have an example?

The example below illustrates how this new rule increases the **cost effectiveness** of leaving a gift of 10% or more to a ‘qualifying’ charity in your will

Inheritance tax new rules

Example 1			Example 2	
without 10% gift (tax@40%)	with 10% gift (tax@36%)		with 10% gift (tax@36%)	without 10% gift (tax@40%)
£1,000,000	£1,000,000	value of estate	£ 525,000	£ 525,000
£ 325,000	£ 325,000	IHT allowance	£ 325,000	£ 325,000
£ 675,000	£ 675,000	net value of estate	£ 200,000	£ 200,000
£ 0	£ 67,500	10% gift to charity	£ 20,000	£ 0
£ 675,000	£ 607,500	leaves	£ 180,000	£ 200,000
£ 270,000	£ 218,700	IHT due	£ 64,800	£ 80,000
£ 405,000	£ 388,800	Remaining for beneficiaries	£ 115,200	£ 120,000
£ 16,200		Difference/actual cost to estate	£ 4,800	

So, in these examples

- If you leave a **gift of £67,500** from an estate of £1,000,000 the **actual cost** to your estate will be **only £16,200**
- If you leave a **gift of £20,000** from an estate of £525,000 the **actual cost** to your estate will be **only £4,800**

Where should I go for further information?

Ask your solicitor or go to the HM Revenue & Customs website at www.hmrc.gov.uk/inheritancetax



SEDBERGH
SCHOOL
FOUNDATION



1525
SOCIETY

Sedbergh School Foundation
Sedbergh
Cumbria
LA10 5HG
Tel: 015396 22218
Fax: 015396 22228
Website: www.sedberghschool.org/foundation