

Annexes to IHT206

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Annex 1

Charity exemption

Introduction

Where assets pass directly to any of the bodies or organisations listed below, they are exempt from inheritance tax and the value of the assets can be deducted from the estate on page 4 of form IHT205.

Exemption for charities

Any organisation that is registered as a charity with the Charity Commissioners or the Scottish Charity Index will qualify. These organisations will have a registered charity number. You can find out if an organisation is registered as a charity on the Internet at

www.charity-commission.gov.uk or www.oscr.org.uk/charityindex.stm

Alternatively the organisation itself should be able to tell you whether or not it is a registered charity.

Charity exemption is also available for legacies to

- Cathedrals, Minsters, Abbeys, churches, Parochial Church Councils,
- Friends of cathedrals etc
- Church officers, for example rector, vicar, church wardens etc., **but only where the gift is for the upkeep of the church etc and not to the person**
- Sunday Schools

- Children's homes
- Community centres
- Convalescent homes, homes for the blind
- Mentally or physically handicapped groups
- Old people's welfare committees
- Orphanages

- Hospices
- Hospital management committees
- Leagues of friends of hospitals
- Medical research funds
- Nursing associations
- Patient amenity funds attached to hospitals
- Samaritan funds attached to hospitals

- Organisations governed by Royal Charter such as
- Boy Scouts
- British Red Cross
- Girl Guides
- Royal British Legion (branches not clubs)
- St John Ambulance Brigade
- Sea Cadet Corps

- Community Amateur Sports Clubs, provided the legacy can only be used for the purposes of the Club in question and nothing else.

Exemption for National purposes

Exemption also applies for legacies to

The National Gallery
The British Museum
The National Museums of Scotland
The National Museum of Wales
The Ulster Museum
The Historic Buildings and Monuments Commission for England
The National Trust for Places of Historic Interest or Natural Beauty
The National Trust for Scotland.
The National Art Collections Fund
The Trustees of the National Heritage Memorial Fund
The National Endowment for Science, Technology and the Arts (with effect from 2 July 1998)
The Friends of the National Libraries
The Historic Churches Preservation Trust
The Nature Conservancy Council for England } previously the
The Nature Conservancy Council for Scotland } Countryside
The Countryside Council for Wales } Commission

Any other similar national institution which exists wholly or mainly for the purpose of preserving for the public benefit a collection of scientific, historic or artistic interest and which is approved for the purposes of this Schedule by the Commissioners for HM Revenue & Customs.

Any museum or art gallery in the United Kingdom which exists wholly or mainly for that purpose and is maintained by a local authority or university in the United Kingdom.

Any library the main function of which is to serve the needs of teaching and research at a university in the United Kingdom.

Any local authority.

Any Government department (including the National Debt Commissioners).

Any university or university college in the United Kingdom.

A Health Authority, National Health Trust or similar health service body, within the meaning of section 519A of the Income and Corporation Taxes Act 1988.

You can telephone our Heritage section helpline on 0115 974 2488 if you are not sure whether a particular body falls scope of exemption for national purposes.

Annex 2

Exemptions for gifts and lifetime transfers

Exemptions that can be deducted

You can take away certain exemptions from any gifts or lifetime transfers made by the deceased. If all the gifts or lifetime transfers meet the conditions for the exemptions and the total of all gifts is less than the cash limits given, you can still answer 'No' to question 2.

Small gift exemption

Gifts to any one person which do not exceed £250 in any one tax year to 5 April are exempt. This exemption covers gifts at birthdays and other festive occasions.

You cannot use this exemption in conjunction with any other exemption. This exemption can **only** be used if **all** the gifts made to the same person in one tax year do not exceed £250.

Annual exemption

Gifts not exceeding £3,000 in any one tax year to 5 April are exempt. This can apply to one gift or the total of a number of gifts to which the small gift exemption does not apply. If the gifts made in one year fall short of £3,000, any surplus can be carried forward to the next year (but no further) and can be used once the exemption for that year has been used up in full. But the exemption cannot be carried back to earlier years.

Gifts made out of income

Gifts that are made as part of the deceased's normal expenditure are exempt from inheritance tax, provided you can show that they

- formed part of the deceased's normal expenditure,
- were made out of income, and
- left the deceased with sufficient income to maintain their normal standard of living

'Normal expenditure' means that the payments were a regular part of the deceased's expenditure. Examples are where the deceased was paying a regular premium on an insurance policy for the benefit of another person, or perhaps where they were making a monthly or other regular payment to someone else. A one-off payment, even if it was out of income, will not be exempt.

If the deceased made any gifts out of income, they meet these conditions and do not exceed £3,000 in total each year, you can answer 'No' to question 2.

If the gifts come to more than £3,000 per year, you should answer 'Yes' to question 2, give details of the gifts and show how the exemption has been deducted on page 3 of form IHT205.

Gifts on marriage or civil partnership

If the gift was made

- on or shortly before the marriage or civil partnership,
- to one or both parties to the marriage or civil partnership, and
- to become fully effective on the marriage or civil partnership taking place

it will be exempt up to the following limits

- £5,000 if the deceased was a parent of one of the parties to the marriage or civil partnership
- £2,500 if the deceased was a grandparent or more remote ancestor of one of the parties to the marriage or civil partnership, or
- £1,000 in any other case.

Other exemptions that must be added back

There are other exemptions that are available, but you must add these back to establish whether the overall limit for the gross estate of £1,000,000 is exceeded. These are exemptions for transfers to

- the deceased's spouse or civil partner,
- charity,

and to political parties, housing associations, maintenance funds for historic buildings, and employee trusts.

Example 1

The deceased made gifts of £50,000 to his children, £100,000 to his wife and died leaving an estate of £500,000. The chargeable value of the gifts is

Total gifts	150,000	
Less		
Annual exemption	-6,000	(previous year's unused)
Spouse or civil partner exemption	<u>-100,000</u>	
Chargeable value	44,000	

The chargeable value is under the £100,000 limit for gifts, so the estate can qualify as an excepted estate. However, when filling in form IHT205, you should ignore the spouse or civil partner exemption and write the value of £144,000 in box 12.1. When this is added to the estate on death of £500,000, the gross value does not exceed £1,000,000 - so the estate can still qualify as an excepted estate

Example 2

The deceased made gifts of £50,000 to his children, £50,000 to a charity and died leaving an estate of £950,000. Here, the chargeable value of the gifts is also £44,000, but you must add the charity exemption back and write £94,000 in box 12.1. When this is added to the estate on death of £950,000, the gross value exceeds £1,000,000. The estate does not qualify as an excepted estate, even though the chargeable value for gifts is less than £100,000.

Example 3

The deceased made gifts of £120,000 to his children, £50,000 to a charity and died leaving an estate of £600,000. Here, the chargeable value of the gifts is £114,000.

As this exceeds the £100,000 limit for gifts, the estate cannot qualify as an excepted estate even though when adding back charity exemption to give a total of £164,000 and adding this to the estate on death of £600,000, the gross value does not exceed £1,000,000.

Annex 3

The right to live in a house

Introduction

It is very common for a married couple or civil partners to own their house jointly. Usually, they own their house as a joint asset and on the death of the first to die; their share passes automatically to the survivor, so that when the survivor dies, the whole property is part of their estate.

If, however, a couple own their house as 'tenants-in-common', the first to die can say what is happen to their share of the property in their Will. The Will might say something along the lines that

"...while my husband/wife/civil partner remains alive and desires to reside in the property and keeps the same in good repair and insured to its full value with insurers approved by my trustees and pays all rates, outgoings etc my trustees shall not make any objection to such residence and shall not disturb or restrict it in any way and shall not take any steps to enforce the trust for sale or to realise (sell) any share therein or to obtain any rent or profit from the property....".

On the survivor's death, the property passes on to someone else: usually a child.

So the surviving spouse or civil partner continues to live in the house, owning half of it in their own name and occupying the other half under the protection of the Will. Although the Will does not talk in terms of leaving the property in 'trust' for husband/wife/civil partner for life, the wording is such that, for inheritance tax, it has the same effect.

Effect for inheritance tax

If you are dealing with the survivor's estate and they occupied their matrimonial or civil partnership home (or a property that replaced it) under such terms, you will need to treat the survivor's estate as if they were entitled to benefit from a trust. You should answer question 4 on form IHT205 'Yes'.

The same rules about trusts apply. So if this interest in the house is the only 'trust' asset and the value of the house (or a share of the house) is less than £100,000, you should include the value of the property occupied under the 'trust' in box 12.3.

If, within 7 years of their death, the survivor ceases to occupy the property, or the property is sold and not all the proceeds are reinvested in a replacement property, you should answer question 2(b) 'Yes'. The survivor will be treated as making a transfer of the trust capital in which they ceased to benefit. You should include that value as a gift in box 12.1.

If you are not sure how to treat the deceased's interest in a property, you should telephone our helpline to discuss the circumstances.

Annex 4

Pensions

Introduction

Where someone has the benefit of a pension in addition to the State pension, this additional pension will normally provides two types of benefit. These are

- retirement benefits, or
- death benefits.

It is not possible to take both benefits. If the person gets to retirement age and takes their retirement benefits (a lump sum plus pension); the death benefits no longer apply. However, if they die before taking their retirement benefits, the death benefit is payable according to the pension scheme rules or the policy provisions. No retirement pension is paid.

Approved and unapproved schemes

For income tax purposes, pension schemes and pension policies are divided into two categories: approved or unapproved. You need to find out which applied to the deceased's scheme or policy.

The scheme papers or policy documents should say whether or not a particular pension provision is approved or unapproved. If you are cannot be sure whether a pension is approved, then the pension provider should be able to tell you.

Effect for inheritance tax of unapproved schemes

If the deceased had taken out a pension in an unapproved scheme *and* they died before taking their retirement benefits, you will need to check to see if the death benefits were written into trust. If they were, then if the people who could benefit from the trust included the deceased, or their estate, or their personal representatives, there will be a gift with reservation of benefit.

The estate cannot then qualify as an excepted estate and you should stop filling in form IHT205 - you will need to fill in form IHT400.

Question 8(b)

If the deceased dies before taking their retirement benefits, a lump sum may be payable under the pension scheme or pension policy. A lump sum will be part of the deceased's estate if

- it is payable to their personal representatives as of right or because no-one else qualifies for payment, or
- the deceased could direct who the lump sum was to be paid to by making a binding nomination/instruction, or
- the deceased could manufacture a situation (for example, by revoking a nomination) so that the lump sum would be payable to the estate, or
- it is a refund of contributions.

In each of these cases, the amount of the lump sum should be included in box 11.11

A lump sum will not be part of the deceased's estate if the pension trustees are free to decide who it is payable to (even if they do decide to pay the lump sum to the personal representatives). Similarly, any 'ex gratia' payments paid to the estate are not part of the IHT estate, as the deceased had no 'right' to them.

You must take care to determine exactly how the lump sum is payable. If the deceased has completed a 'letter of wishes', the trustees may well pay the lump in accordance with the letter. But even if that means the lump sum is paid to the estate, it is not part of the deceased's estate for inheritance tax, because the 'letter of wishes' did not bind the trustees. Only if the lump sum was payable under a binding nomination should the lump sum be part of the estate, irrespective of who it is paid to.

Question 10

If the deceased was entitled to benefit from a pension scheme or pension policy and they had not taken their full retirement benefits before they died, you will need to answer this question.

These notes only apply where any dealings with the pension benefits took place at a time when the deceased had been diagnosed with a terminal illness, or was in such poor health as to be uninsurable.

Where any dealings took place at a time when the deceased was in normal health for their age, then even if they have died shortly afterwards, you can answer 'No' to both questions 10(a) and 10(b).

Question 10(a)

A person will dispose of the benefits payable under a pension scheme or pension policy where, for example, they put the death benefits into trust, or allocate some of their pension to someone else. If this disposal took place when the deceased had been diagnosed with a terminal illness, or was in such poor health as to be uninsurable, you should answer question 10(a) 'Yes'.

Question 10(b)

A person can change the benefits to which they were entitled under a pension scheme or pension policy by

- making additional contributions to the pension scheme or policy,
- transferring their benefits from one pension scheme to another,
- a failure to take their pension on reaching pension age,
- a failure to request ill health retirement where the deceased met the requirements for that form of retirement,
- opting for income drawdown or making any changes to an income drawdown that has already been arranged
- opting for phased retirement or making changes to the number of segments taken where phased retirement has already been opted for.

'Income drawdown' is a particular situation where the deceased has reached pension age but has chosen not to use their retirement benefits to buy an annuity. Instead, they decide to 'draw' a certain level of income from the pension funds with a view to buying an annuity at a later date.

'Phased retirement' is where the deceased has divided their pension entitlement into a series of segments and has agreed a plan with their pension provider to take so many segments each year on retirement.

If any such changes took place when the deceased had been diagnosed with a terminal illness, or was in such poor health as to be uninsurable, you should answer question 10(b) 'Yes'.

Our pensions helpline is 0131 777 4296. Please note that this telephone number relates to inheritance tax only.

Annex 5

Valuing stocks and shares quoted on the Stock Exchange

Introduction

You do not have to get a professional valuation for quoted stocks and shares. You can value shares quoted on the London Stock Exchange by finding the price of the shares in a newspaper. The Financial Times has the most comprehensive listings and may be available in your local library. Alternatively, you can use the Stock Exchange Historic Price Service.

How to go about valuing shares

First of all, make a list of all the shares, including the name, nominal value and type of shares - for example, 'Abbey National Plc 10p ordinary shares'. Then, if you are using a newspaper, find the shareholding and write down the price given for each shareholding. To find out the value of the shares, multiply the number of shares by the price given.

So if the deceased held 1,250 shares and the price was 1093½p, the value for the holding is £13,668.75.

Sometimes, for unit trusts, the newspaper may show two prices, take the lower one.

You should take the value of the shares on the day the person died - remember that a newspaper printed on the day the deceased died will have share prices for the day before.

If the deceased died on a day when the Stock Exchange was closed take the price for either the next or last day when the Stock Exchange was open, whichever is the lower. For example, if the person died on a Sunday you can take the price for either the Monday after or the Friday before.

Keep your list with the deceased's papers and other records.

Stock Exchange Historic Price Service

The Stock Exchange can tell you what the price was for all the stocks and shares on the Stock Exchange Daily Official List.

The Internet service (www.londonstockexchange.com) delivers the Historic Price reports on-line, while you wait, for prices after 10 June 1999.

Requests for prices before 10 June 1999 need to be made in writing. You should provide a full description of the stocks and shares you need a quotation for, you will also need to give the date of death.

You can send your request in writing by:

e-mail: products@londonstockexchange.com
fax: 020 7797 1952, or
post: Historic Price Service
London Stock Exchange
10 Paternoster Square
LONDON EC4M 7LS

There is a charge for both the Internet and the manual service. Please check the London Stock Exchange website to find out what the current charges are.

The Stock Exchange will tell you what the end of day quotation was for each of shares. The price will appear as a range such as 1091 - 1101p. To work out the value of the shares, you need to work out the 'quarter-up' price. This is the lower price, plus one quarter of the difference between the two prices. So, in this example, the price would be 1091p plus one quarter of 10p or 2½p. The price for the shares would be 1093½p.

Dividends

If a dividend was due when the deceased died, the shares will be marked 'xd'. Such a marking indicates that the dividend will be paid to the deceased and you will need to include a value in the estate. Usually, the dividend will be paid to the estate before you need to apply for a grant, in which case you should add the net value of the dividend to the value of the shares and put the total value in box 11.3.

If you are ready to apply for a grant, but the dividend has still not been paid, put the value of the shares only in box 11.3. As the value for the shares will now be an estimate, tick the box alongside.

Annex 6

Intestacy rules; what the surviving spouse or civil partner is entitled to when the deceased died without leaving a Will

Introduction

Where the deceased died without leaving a Will, they are said to have died "intestate" and the law sets out how the estate must devolve. This is only relevant where the deceased leaves a surviving spouse or civil partner, because the part of the estate which passes to the spouse or civil partner will be exempt from inheritance tax. The circumstances vary depending on who else survives the deceased.

The intestacy rules in England & Wales

1. If the deceased dies leaving a surviving spouse or civil partner, but with no children and without

- parent, or
- brother or sister, or
- nephews or nieces,

the surviving spouse or civil partner takes the whole estate. If this applies to this estate, use box 15.1 to explain that none of these people survive the deceased. Copy the figure from box K to box H.

2. If the deceased dies leaving a surviving spouse or civil partner, and with children and/or grandchildren and/or great-grandchildren the surviving spouse or civil partner takes

- personal goods
- a legacy of £125,000, and
- one half of the remaining estate in trust for life.

Use box 15.1 to explain who survives the deceased.

If box K is less than £125,000, the spouse or civil partner will take the whole estate irrespective of who survives the deceased. Copy the figure from box K to box H.

If box K is more than £125,000 add up the value of

- the personal goods,
- the sum of £125,000, plus
- one half of the amount that results from the sum of box K, minus box 11.2, minus £125,000.

and write this figure in box H.

3. If the deceased dies leaving a surviving spouse or civil partner, without children or grandchildren etc **but** is survived by

- parent, or
- brother or sister, or
- nephews or nieces,

the surviving spouse or civil partner takes

- personal goods
- a legacy of £200,000, and
- one half of the remaining estate absolutely.

Use box 15.1 to explain who survives the deceased.

If box K is less than £200,000, the spouse or civil partner will take the whole estate irrespective of who survives the deceased. Copy the figure from box K to box H.

If box K is more than £200,000 add up the value of

- the personal goods,
- the sum of £200,000, plus
- one half of the amount that results from the sum of box K, minus box 11.2, minus £200,000.

and write this figure in box H.

The intestacy rules in Northern Ireland

1. If the deceased dies leaving a surviving spouse or civil partner, but with no children and without
 - parent, or
 - brother or sister, or
 - nephews or nieces,

the surviving spouse or civil partner takes the whole estate. If this applies to this estate, use box 15.1 to explain that none of these people survive the deceased. Copy the figure from box K to box H.

2. If the deceased dies leaving a surviving spouse or civil partner, and with children and/or grandchildren and/or great-grandchildren the surviving spouse or civil partner takes
 - personal goods
 - a legacy of £125,000, and
 - if one child survives, one half of the remaining estate absolutely, but when more than one child survives, one third of the remaining estate absolutely.

Use box 15.1 to explain who survives the deceased.

If box K is less than £125,000, the spouse or civil partner will take the whole estate irrespective of who survives the deceased. Copy the figure from box K to box H.

If box K is more than £125,000 add up the value of

- the personal goods,
- the sum of £125,000, plus
- one half (or one third) of the amount that results from the sum of box K, minus box 11.2, minus £125,000.

and write this figure in box H.

3. If the deceased dies leaving a surviving spouse or civil partner, without children or grandchildren etc **but** is survived by
 - parent, or
 - brother or sister, or
 - nephews or nieces,

the surviving spouse or civil partner takes

- personal goods

- a legacy of £200,000, and
- one half of the remaining estate absolutely.

Use box 15.1 to explain who survives the deceased.

If box K is less than £200,000, the spouse or civil partner will take the whole estate irrespective of who survives the deceased. Copy the figure from box K to box H.

If box K is more than £200,000 add up the value of

- the personal goods,
- the sum of £200,000, plus
- one half of the amount that results from the sum of box K,
- minus box 11.2, minus £200,000.

and write this figure in box H.

If the deceased dies without leaving a surviving spouse or civil partner, it does not matter, for tax purposes, who inherits the estate. You should not put any figure in box H. If you need to know how to distribute the estate, telephone our helpline.

This booklet has no legal power.
It reflects the tax law at the time of writing.
We may need to take into account special circumstances
for a particular estate.

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