

Notes to help you fill in form IHT205(2006)

These notes only apply when the deceased died on or after 1 September 2006 and you are filling in form IHT205(2006) with a version date of 01/11 or later. (You will find the version date on the bottom right of the form IHT205(2006).)

If the deceased died on or after 1 September 2006 and you have a form with an earlier version date, to get the correct version of the form:

- go to www.hmrc.gov.uk
- phone our helpline on 0300 123 1072.

If the deceased died before 1 September 2006, you will need the correct form IHT205 and booklet IHT206 for the date of death. These are also available from our website and helpline.

Read these notes carefully as they will help you to fill in form IHT205(2006) correctly. You may make yourself liable to financial penalties if the information you give in the form is incorrect, incomplete or false.

This guide is designed to help you fill in form IHT205(2006). It cannot explain everything about Inheritance Tax.

If you have any questions about Inheritance Tax and probate that this guide does not answer, or if you need any help to fill in form IHT205(2006):

- go to www.hmrc.gov.uk/inheritancetax/
- phone our helpline on 0 800 038 1234
- if calling from outside the UK, phone +44 191 236 5000

Our notes and forms, including IHT205(2006), are also available on the Internet or from our helpline.

Please note that you may be required to fill in forms for the Probate Service, in addition to the Inheritance Tax forms, to apply for a Grant of Representation. For more information please visit our website at www.hmrc.gov.uk or telephone our helpline.

If you need to write to us, our address (including DX address for solicitors and banks etc) is:

HMRC Trusts & Estates
Inheritance Tax
Ferrers House
PO Box 38
Castle Meadow Road
NOTTINGHAM
NG2 1BB

DX701201
NOTTINGHAM 4

Where do I send the forms?

When you have finished filling in form IHT205(2006) and any other forms required by the Probate Service, you should send all the forms for:

- applications in England & Wales, to the Probate Registry of your choice (see HM Courts Service booklets PA2 and PA4)
- applications in Northern Ireland, to either the Probate Office in Belfast or the District Probate Registry in Londonderry (see booklet "Dealing with a deceased person's estate").

Do not send the forms to HMRC Trusts & Estates

Contents

	Page
Introduction	4
Frequently asked questions	4
Excepted estate limit	5
Domicile	5
Transfer of unused nil rate band	5
Assets passing to a spouse, a civil partner or a qualifying charity	6
Jointly owned assets	7
What you should do first	8
Valuing assets	9
Estimating values and small estates	10
Filling in form IHT205(2006)	10
About the person who has died	10
About the estate	11
Gifts made out of income	13
Assets added to the estate for Inheritance Tax for which a grant is not required	22
Deceased's own assets for which a grant is required	24
Net qualifying value for excepted estates	31
What to do when you have finished the form	31
What to do if the value of the estate changes	32
Transfer of unused nil rate band – documents you should keep	34
Penalties	34
Notes on filling in form IHT217 <i>Transfer of unused nil rate band for excepted estates</i>	36
Where do I send the form?	37
Confidentiality	38
Data Protection Act	38

Some definitions

In this guide, we refer to the person who has died as "the deceased".

We refer to the deceased's husband or wife as their "spouse". A spouse is a person who is legally married to someone else.

A "civil partner" is someone who has legally registered a civil partnership with another person.

Introduction

You usually need a grant of representation to get access to most of the assets in the deceased's estate. The most common types of grant are

- a grant of probate, where the deceased left a Will, and
- a grant of letters of administration, where the deceased did not leave a Will.

You may hear both types of grant referred to as 'probate'.

Before you can get a grant, you need to pay any Inheritance Tax that is due, or be able to show that there is no Inheritance Tax to pay. For most estates there is no tax to pay and you will only need to fill in form IHT205(2006) to give brief details of the estate. If there *is* tax to pay, or if the affairs of the deceased do not meet certain conditions, you will have to provide a formal account of the estate by filling in form IHT400 *Inheritance Tax account* and sending it to us. You should start with form IHT205(2006). It will guide you through the various conditions that apply and help you to decide whether or not you need to fill in an IHT400.

Where do I start?

For many people, this will be only the first or second time that they have had to deal with probate and Inheritance Tax. In most estates, matters are very straightforward and form IHT205(2006), together with these notes, will help you to get things right. But before we start, here are some answers to the questions that are most often asked of our helpline. Have the form IHT205(2006) in front of you when you go through these notes so that you can see which part of the form we are referring to. The first part of the following notes refer to the information the top of form IHT205(2006) before question 1.

Frequently asked questions

Am I using the right form?

You can use form IHT205(2006) provided that the deceased was domiciled in the United Kingdom (UK). and there is no tax to pay because the gross value of the estate is less than:

- the excepted estate limit, or
- two times the excepted estate limit and you are claiming a transfer of unused nil rate band on form IHT217 from the estate of a spouse or civil partner who died before, (for deaths on or after 6 April 2010 only) or
- £1,000,000 **and** all or part of the estate passes to the deceased's spouse or civil partner, a qualifying charity or other UK national body.

You may find as you go through the form that some other conditions mean you must stop and fill in an IHT400 instead. But provided these initial conditions are met, you can start with form IHT205(2006).

What do you mean by 'gross value'?

The gross value of the estate for Inheritance Tax is the total of all the assets that make up the deceased's estate before any of their debts are taken off, plus any gifts made by the deceased.

What do you mean by 'estate'?

For Inheritance Tax purposes, a person's estate is made up of:

- assets in the sole name of the deceased
- their share of any jointly owned assets
- nominated assets
- assets they have given away, but kept an interest in
- assets from which they benefit, where they have elected not to pay the income tax charge
- assets in certain types of trust, in which the deceased had a right to benefit
- the value of an alternatively secured pension fund (ASP) from which the

deceased benefited as the original scheme member, or as a dependant who received benefits from the left over ASP fund of an original scheme member.

The total of these assets is added to the chargeable value of any lifetime gifts made in the seven years before death, to work out the amount on which tax is charged. (The chargeable value of gifts is the value of the gift after any exemptions are deducted.)

What is the 'excepted estate limit'?

The excepted estate limit is normally the same as the amount above which Inheritance Tax is payable (the Inheritance Tax nil rate band). The nil rate band is currently frozen for the tax years 2009-10 to 2014-15 at £325,000 but you can find the most up to date excepted estate limit on the website at: www.hmrc.gov.uk/inheritancetax/

The Inheritance Tax nil rate bands for earlier years are:

- £285,000 for tax year 2006-07
- £300,000 for tax year 2007-08
- £312,000 for tax year 2008-09

What do you mean by 'domiciled'?

Your domicile is the country where you intend to live for the remainder of your life. It is the country whose laws decide, for example, whether a Will is valid, or how the estate of a person who has not made a Will is dealt with when they die.

The fact that someone was born in the UK and have lived here for most of their life, or had moved to the UK permanently many years ago gives a good indication that they might be domiciled in the UK, but this can be a complicated legal issue. You can get more information about domicile on our website:

www.hmrc.gov.uk/cto/customerguide/page20.htm

If you are unsure about the deceased's domicile status, you might want to seek professional advice.

Transfers of unused nil rate band from the estate of a spouse or civil partner who died before

What is a transfer of unused nil rate band?

Since 9 October 2007, it has been possible for spouses and civil partners to transfer their unused nil rate band. This means that any part of the nil rate band that was not used when the first spouse or civil partner died can be transferred to the surviving spouse or civil partner for use by their estate on their death.

New rules mean that if the *whole* of the nil rate band is available to transfer to the estate of the second spouse or civil partner to die and you need to claim the transferred nil rate band you may still use the excepted estates procedures if certain rules apply. These rules are that:

- the person who has died now, died on or after 6 April 2010
- their spouse or civil partner who died before them died on or after 13 November 1974
- when the spouse or civil partner died their estate did not use up any of the nil rate band available to it, so the whole of the nil rate band is available to transfer
- the estate of the person who has died now is valued at less than two times the excepted estate limit and IHT205(2006) is being filled in.

An example of when the whole of the nil rate band is available to transfer:

Ralph died leaving a widow, Rita. All of Ralph's estate valued at £300,000 passed to Rita under the terms of Ralph's will. As everything that passes to a surviving spouse or civil partner is exempt from Inheritance Tax, all of the nil rate band is available to transfer to Rita's estate when she dies.

If the whole of the nil rate band is available to transfer that means that the estate of the spouse or civil partner who dies second has double the nil rate band before any Inheritance Tax becomes payable.

What does this mean for excepted estates?

It also means that the excepted estate limit for the estates that qualify is effectively doubled. For the tax year 2010-2011 this is £650,000.

If this applies to the estate you are dealing with you should fill in form IHT205(2006) and IHT217 to claim the transfer.

An example of when the whole of the nil rate band is *not* available to transfer:

Morag died on 1/5/2008 (when the nil rate band was £312,000) leaving a surviving civil partner, Alison. Morag's estate was valued at £400,000. In her will Morag left £100,000 to her daughter Gemma and the rest of her estate to Alison. Alison has now died leaving her estate valued at £500,000 to Gemma. As the £100,000 that passed to Gemma on Morag's death was not exempt from Inheritance Tax, £100,000 of the Inheritance Tax nil rate band (£325,000 in 2009-10) was used up.

You will need to fill in form IHT400 and IHT402 instead of form IHT205(2006) if you want to transfer the unused nil rate band and the whole of the nil rate band is not available.

For copies of the forms IHT400 and IHT402:

- go to www.hmrc.gov.uk
- phone our helpline on 01753 603121

Assets passing to a spouse or civil partner or to a qualifying charity

Why does it matter whether the estate passes to the spouse or civil partner or to a qualifying charity?

Broadly, assets that pass to the deceased's spouse or civil partner or to a qualifying charity are exempt from Inheritance Tax. So, if most of the assets pass to the deceased's spouse or civil partner, or to a qualifying charity, it is likely that there will be no tax to pay. If there is no tax to pay because of these exemptions, and the estate meets the other conditions that apply, mainly that the gross value is £1,000,000 or less, you will not have to fill in an IHT400. **But there are some restrictions to these exemptions.**

What do you mean by qualifying charity?

By qualifying charity, we mean a charity established in the European Union (or other specified country) which

- would qualify as a charity under the law of England and Wales
- is regulated as a charity in the country of establishment (if appropriate) and
- has managers who are fit and proper persons to be managers of the charity.

Other qualifying bodies

Other qualifying bodies include UK national organisations such as the National Trust and National Gallery.

If you are not sure if an organisation is a qualifying charity or UK national body you should phone our helpline on **0300 123 1072**.

Assets which pass to a qualifying charity	Assets that pass to a qualifying charity are exempt from Inheritance Tax. The legacy must pass directly and unconditionally to the organisation. It must not pass into a trust for the benefit of the organisation concerned.
Assets which pass to the spouse or civil partner	<p>Where assets pass to the deceased's spouse or civil partner, both the deceased and their spouse or civil partner must have been domiciled (had their permanent home) in the United Kingdom throughout their lives.</p> <p>If either of them did not <i>and</i> the gross estate (the figure at box H) is likely to be more than the excepted estate limit, do not fill in form IHT205(2006) – you will need to fill in form IHT400 instead.</p> <p>If you would like more information about 'domicile' go to: www.hmrc.gov.uk/cto/customerguide/page20.htm</p> <p>It does not matter whether the assets pass directly to the spouse or civil partner, or whether they pass to a trust from which the spouse or civil partner is entitled to benefit.</p>
What about assets owned jointly with other people?	<p>Jointly owned assets</p> <p>Bank and building society accounts, stocks and shares and houses and land are the assets most usually owned in joint names. If the deceased owned any assets jointly with another person or people, you will need to include a value on the form for the deceased's share of the assets in the estate.</p> <p>Where assets are owned jointly by two or more people, the way in which those assets are owned makes a difference for probate and which box you use to enter the value on the form. The two types of ownership, 'joint tenants' and 'tenants in common' are explained below.</p>
Joint tenants	<p>If the deceased</p> <ul style="list-style-type: none"> • held an asset with someone else, and • their share passes automatically to the other joint owner, <p>We call the asset a 'joint asset' and the joint owners are known as 'joint tenants'. Joint bank accounts are usually owned in this way. You should work out the value of the deceased's share in a joint asset by dividing the value of the whole asset by the number of joint owners. Include this value in box 9.2. However, you should read the paragraph 'valuing joint bank accounts' on page 10 of these notes.</p>
Tenants-in-common	<p>If the deceased</p> <ul style="list-style-type: none"> • held an asset with someone else, and • their share passes under their Will (or if they did not make a Will, under the rules of intestacy) to the other joint owner or to someone else, <p>the joint owners hold the asset as 'tenants-in-common'. The deceased's share is usually in proportion to the money they put up to buy the asset or the amount they put into a joint account.</p> <p>You should list each asset held as tenants-in-common in box 13, give the value of the whole of the asset, and state the deceased's share, for example half, third etc.</p> <p>You should then include the value of the deceased's share of an asset owned as tenants-in-common in the relevant box in section 11.</p> <p>So, if the asset held as tenants-in-common was the deceased's house, include it in box 11.8 and so on. If the asset was not in the United Kingdom, include it in</p>

box 9.5.

How do I find out if a jointly owned asset is owned as joint tenants or tenants-in-common?

If the asset is a house or land, the Land Registry documents may be able to help. You can get a copy of the title register for the property from the Land Registry website at www.landregistry.gov.uk

The names of all the joint owners will be given on the title register and if it is held as tenants-in-common that should also be shown by the addition of a restriction on the Land Registry document known as a 'Form A restriction'. The Form A restriction will be in the following words (or similar):

"No disposition by a sole proprietor of the registered estate (except a trust corporation) under which capital money arises is to be registered unless authorised by an order of the court."

The Land Registry document will not say what share of the property was owned by each owner. To find out the share owned by each owner you will need to look at the declaration of trust document or, if the property was inherited jointly, the will by which it was inherited.

Jointly owned bank accounts

Most joint bank accounts in England and Wales are held as joint tenants, but if you want to check this, contact the banks and they should be able to tell you.

Other jointly owned assets

If any asset is purchased by two or more people together the asset will be automatically owned as joint tenants unless the owners direct otherwise, so there should be some documents that show that a particular asset is held as tenants-in-common.

Why does it make a difference how jointly owned assets are held?

The deceased's share of jointly owned assets, owned either as joint tenants or tenants-in-common, are included in the value of the estate for Inheritance Tax purposes.

But if the joint ownership was as joint tenants (most joint bank accounts and many houses are owned as joint tenants) the assets pass automatically to the other joint owner(s) when one dies, so the value of these assets is not included in the value of the estate for the grant of probate or letters of administration.

That is why the deceased's share of these assets is shown in section 9 on page 2 'Assets added to the estate for Inheritance Tax, for which a grant is not required'.

If the joint ownership was as tenants-in-common the value of the deceased's share must be shown on the grant of probate or letters of administration. The deceased's share of these assets is shown in section 11 on page 3 'Deceased's own assets for which a grant is required'.

What you should do first

So what do I do now?

Make a thorough search of all the deceased's papers. Make a rough list of their assets, investments, their other financial interests and the debts they owed when they died.

If the deceased had to fill in Self Assessment tax returns, they may have kept records to fill in those forms and these may help. Bank statements and building society passbooks may help you to discover whether any gifts were made. Remember that although the income from certain assets such as ISAs is not liable to Income Tax, both the capital and the income are liable to Inheritance Tax and must be included.

You may also find it useful to ask others what they knew of the deceased's financial affairs. People who might be able to help are

- any solicitor or accountant who dealt with the deceased's affairs,
- the deceased's close family (especially to discover gifts),
- anyone named in the Will who might know about the deceased's affairs,
- any close business associates of the deceased,
- the deceased's bank, stockbrokers or other financial advisors (the bank may have other papers or valuables lodged with them for safekeeping).

You will need to make quite detailed enquiries so that you can find out about everything that makes up the deceased's 'estate'.

When you have completed your rough list of assets etc, you will need to find out the value of each of the assets concerned.

It is very important that you provide full and accurate information and value the assets correctly, because you may make yourself liable to a financial penalty if the values you give or the information you provide is incorrect, incomplete or false.

What do I do when I have got the assets and the values sorted out?

When you have got a good idea about the assets that make up the estate, and their values, add up the figures. If the gross value of all the assets, when added to the chargeable value of any gifts the deceased made, is less than £1,000,000, you may continue to fill in form IHT205(2006).

But, if the gross value

- **is more than £1,000,000**

or

- **is more than the excepted estate limit (or two times the excepted estate limit where you are claiming a transfer of unused nil rate band) and no assets pass to the deceased's spouse or civil partner or to a qualifying charity**

do not fill in any more of form IHT205(2006) - you will need to fill in form IHT400.

Valuing assets

How do I value all the assets?

For Inheritance Tax purposes, you have to value all the assets as if each item had been sold on the open market on the date the person died. This is called the 'open market value'. It represents the realistic selling price of an asset, not an insurance value or replacement value.

You should be able to value some of the estate assets quite easily, for example money in bank accounts, stocks and shares. In other instances, for example, houses and land, will probably need the help of a professional valuer. When you employ a valuer, make sure you ask them to give you the 'open market value' of the asset.

There is more detailed help about valuing different types of assets later on in these notes.

Valuing assets owned jointly

It does not matter whether the assets are owned as joint tenants, or as tenants-in-common, (see the guidance on joint tenants and tenants in common on page 7) the starting point in valuing of the deceased's share is their share of the whole value. So, if three people contributed equally to a bank account with £900 in it and it was held as joint tenants, the deceased's share will be £300 and that should be entered in box 9.2. But there are some special rules about valuing other types of asset.

Valuing a share in houses, buildings and land	<p>If the deceased owned land or buildings with other people, you should start by working out the value of the deceased's share.</p> <p>If the other joint owner is not the deceased's spouse or civil partner, you can reduce the value of the deceased's share by 10%. But if the house, land or building is wholly owned by husband and wife or civil partners, special rules apply and you should not reduce the deceased's share by 10%.</p>
Valuing joint insurance policies	<p>If the deceased owned an insurance policy jointly with someone else, you should include the deceased's share of the policy as a joint asset in box 9.2. If the policy is known as "joint life and survivor" policy, you should still include the deceased's share of the policy. The insurance company should be able to give you an estimate for the value of the whole policy at the date of death, so you can work out the value of the deceased's share.</p>
Valuing joint bank accounts	<p>Valuing the deceased's share of a bank account is quite easy, as the example on page 9 shows. But sometimes an account may be held in joint names just for convenience. For example, if an elderly person can no longer get out, they may add a son or daughter's name to their bank account so the son or daughter can operate the account for them.</p> <p>If an account is in joint names for convenience and the deceased provided all the money in the account, you should treat the account as if it was in the deceased's sole name. Include the full balance of the account in box 9.2 (for joint tenants) or 11.1 (if the account was held as tenants-in-common). But the opposite also applies, and if the deceased did not provide any of the money in the account and their name was on it for convenience only, then, so long as the provider did not intend to make a gift, there is no need to include anything about the joint account on form IHT205(2006).</p>

Estimating values and small estates

What do I do if I cannot get an accurate value?	<p>If you do not know the exact amount or value of any small item, such as an income tax refund or household bill, do not put off applying for the grant just because you do not know the exact figures. You may use an estimated figure. You should not guess at a value, but try to work out an estimate based on the information available to you. If you do include an estimate, use box 13 to tell us which values are estimates.</p>
Do I still have to get accurate values when the estate is very small?	<p>No, you do not. If the gross value of the estate is likely to be below £250,000, or the estate is exempt because it is passing to a spouse or civil partner or to a qualifying charity, you can estimate the value of the assets. You should not guess at a value, but try to work out an estimate based on the information available to you. There is no need to use box 13 to show the figures are estimates in such estates.</p>

Filling in form IHT205(2006)

Page 1

About the person who has died

Fill in boxes 1.1 to 1.7 of form IHT205(2006) giving the name, date of death and other information that we ask for about the deceased.

Box 1.5	For marital or civil partnership status, please select the appropriate code a, b, c or d and enter it in box 1.5.
Box 1.6	Say what the deceased's occupation was and whether or not they were retired. For example, 'Builder', 'Retired teacher'
Box 1.7	You should be able to find the deceased's National Insurance number on letters from HMRC or on the state pension P60. If the deceased was in receipt of

benefits paid directly into their bank account their National Insurance number will appear in the bank statement.

About the estate

Question 2

Gifts and transfers

If the deceased had made any gifts (or other transfers of assets) during their lifetime, you will need to take these into account to find out whether the estate qualifies as an excepted estate. You must start with all gifts and transfers that the deceased made; even those made to their spouse or civil partner or to a qualifying charity.

What is a gift?

For the purposes of this booklet, gifts are transfers of money or other assets made by the deceased **during their lifetime**. Gifts do not include bequests and legacies made in the deceased's Will. So, if, while he was still alive, the deceased gave his son £8,000 to buy a car, that would be a gift. If the deceased's Will says: "I give £5,000 to my son" that would be a legacy under the Will, not a gift.

A gift or transfer will be relevant for Inheritance Tax if, having made the gift or transfer, the value of the deceased's estate has gone down. So this will include straightforward cash gifts or a gift of a particular asset. Other transactions such as the sale of a house for less than its full market value, or a gift of shares that results in the deceased losing control of a company will also be relevant. If you are not sure what the effect of a transaction is for Inheritance Tax purposes, please call our helpline and ask their advice.

Question 2(a)

You can answer 'No' to this question if the only gifts the deceased made did not exceed £3,000 each year. You can ignore normal birthday or festive gifts or gifts in consideration of marriage or civil partnership within the limits shown on page 14.

Allowable exemptions

If the deceased did make gifts (or other transfers) that exceeded £3,000 in any one year, you can take away certain allowable exemptions from the gifts. The only exemptions that you can take away to find out whether the estate qualifies as an excepted estate are:

- Small gifts exemption
- Annual exemption
- Exemption on gifts made in consideration of marriage or civil partnership
- Exemption for gifts made as normal expenditure out of income – provided the total value of gifts out of income is under £3,000 for each tax year. See page 13 for more information.

You can still answer 'No' to this question if the **only** gifts the deceased made

- were all made to individuals more than 7 years before the death, or
- were fully covered by the exemptions.

Question 2(b)

We explain what a trust is for Inheritance Tax in the notes for question 4 on page 16. If you answer question 2(b) 'Yes', the deceased is treated as if they had made a transfer or gift of the trust assets in which their right to benefit ceased. This means that the trust assets must conform to the rules that apply to gifts and should be added to any other gifts or transfers that the deceased had made themselves.

Specified transfers	<p>If you answer 'Yes' to either part of question 2 the gifts and transfers must qualify as 'specified transfers'. To qualify as 'specified transfers' the assets given away can only be:</p> <ul style="list-style-type: none"> • cash • listed stocks and shares • household and personal goods • houses, land and buildings <p>and</p> <p>the total value of the gifts <i>at the time the gifts were made</i>, after taking away any exemptions that are allowable, must be less than £150,000.</p> <p>You should include the value of all the gifts and transfers in box 9.1. If the transfer arose because the deceased gave up their right to benefit from a trust, write the name of the person who set up the trust and the date it was set up in box 13.</p>
Gifts of houses, land or buildings	<p>Gifts of houses, land or buildings only qualify as 'specified transfers' if they were outright gifts from one individual to another. If gifts of houses, land or buildings were to a trust, or the deceased kept back any kind of benefit from the property or was entitled to use the property, stop filling in form IHT205(2006) now - you will need to fill in form IHT400.</p> <p>If the assets given away were not of the type listed above, stop filling in form IHT205(2006) now - you will need to fill in form IHT400.</p> <p>Or, if the value of all the gifts and transfers in box 9.1, after deducting the allowable exemptions, is more than £150,000, stop filling in form IHT205(2006) now – you will need to fill in form IHT400.</p> <p>However, if the value is more than £150,000 <i>only</i> because the deceased made gifts that would be exempt under one of the “Other exemptions” listed below, you can continue to fill in form IHT205(2006) and write a value greater than £150,000 in box 9.1. There are some examples below that explain this rule.</p>
Allowable exemptions that can be deducted	<p>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.</p>
Small gift exemption	<p>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.</p> <p>You cannot use small gift 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.</p>
Annual exemption	<p>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.</p>

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. An example would be where the deceased was 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 made out of income are more than £3,000 per year, you should answer 'Yes' to question 2 and give details of the gifts in box 9.1 of form IHT205(2006).

Deaths on or after 1
March 2011

Where the deceased died on or after 1 March 2011 and made gifts out of income that exceed £3,000 per year, you must not deduct the exemption for the years concerned. The full value of the gift must be added to all the other gifts in box 9.1 to arrive at the total value for gifts.

If this means that:

- the total for gifts exceeds £150,000, or
- the gross estate is more than the excepted estate limit (or two times the excepted estate limit where you are claiming a transfer of unused nil rate band) and no assets pass to the deceased's spouse or civil partner or to a qualifying charity

do not fill in any more of form IHT205(2006) - you will need to fill in form IHT400.

Example 1

The deceased made gifts out of income to his grandchildren totalling £5,000 for each of the 3 tax years before he died. He also made annual gifts to his children totalling £3,000 for each of those years. He died on 3 March 2011 leaving an estate of £320,000 to his unmarried partner.

Total gifts	24,000	
less annual exemptions	<u>9,000</u>	(£3,000 for each tax year)
Chargeable value	15,000	

As the gifts out of income exceed £3,000 each year the full value of the gifts must be entered at box 9.1. For the purposes of determining if the estate is an excepted estate, no exemptions for gifts out of income can be deducted from the value of the gifts.

The gross value for Inheritance Tax (box H) is £335,000, (£15,000 gifts plus £320,000 estate) which is above the excepted estates limit of £325,000, so this estate cannot qualify as an excepted estate and an IHT400 will need to be completed instead of an IHT205(2006).

Example 2

Alice, a widow, died on 9 April 2011. She made gifts out of income to her nephews totalling £10,000 for each of the 6 tax years before she died and then left an estate of £500,000 to her sister.

As her husband had died before her, leaving all his estate to Alice, and all of his Inheritance Tax nil rate band unused, Alice's estate claimed a transfer of unused nil rate band to double up the nil rate band available to Alice's estate. (see page 5)

Gifts out of income	60,000
Estate	<u>500,000</u>
Gross value for Inheritance Tax	560,000

The chargeable value of the gifts out of income is under the £150,000 limit for gifts. When the gifts are added to the estate of £500,000 the gross value for Inheritance Tax does not exceed the excepted estate limit.

The excepted estate limit is £650,000 in this case as they can double up the limit of £325,000 because they are claiming a transfer of unused nil rate band from the estate of Alice's husband who died before her.

Gifts on marriage or civil partnership

If the gift was made

- on or shortly before the marriage or civil partnership ceremony,
- 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 or step-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 cannot be deducted when calculating the gross estate

There are other exemptions that are available, but you should not deduct these, at this stage, 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,
- qualifying charities,

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

Example 1

The deceased made lifetime gifts totalling £100,000 to his children and £100,000 to his wife in the year before he died, and died leaving an estate of £500,000. The chargeable value of the gifts is

Total gifts	200,000
Less	
Annual exemption	-6,000 (previous year's unused)
Spouse or civil partner exemption	<u>-100,000</u>
Chargeable value	94,000

The chargeable value is under the £150,000 limit for gifts, so the estate can qualify as an excepted estate. However, when filling in form IHT205(2006), you should ignore the spouse or civil partner exemption and write the value of £194,000 in box 9.1. 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 qualifying

charity and died leaving an estate of £950,000. Here, the chargeable value of the gifts is £44,000, but you must not deduct the charity exemption and write £94,000 in box 9.1. 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 £150,000.

Example 3

The deceased made lifetime gifts of £170,000 to his children, £50,000 to a qualifying charity and died leaving an estate of £600,000. Here, the chargeable value of the gifts is £164,000.

As this exceeds the £150,000 limit for gifts, the estate cannot qualify as an excepted estate even though when adding back charity exemption to give a total of £214,000 and adding this to the estate on death of £600,000, the gross value does not exceed £1,000,000.

Gifts made more than 7 years before the death

In most cases, you can ignore gifts and transfers that were made more than 7 years before the death. But you should not ignore gifts or transfers where

- the deceased kept back some benefit or interest in the assets given away or was entitled to use the assets given away (when you should answer question 3a or 3b 'Yes') (see note for question 3 below), **or**
- the deceased had made a gift or transfer *within 7 years of death and within 7 years of that gift* the deceased had transferred assets to a discretionary trust or to a company.

In the second situation, you do not need to tell us about the gift or transfer made more than 7 years ago. But the person who received the gift or transfer made within 7 years of the death may have a separate liability to Inheritance Tax. If you are aware that these circumstances apply we recommend that the person who received the gift or transfer should telephone our helpline to discuss their circumstances.

Question 3

Gifts with reservation of benefit

If the deceased has made a gift where they

- have kept back a benefit of any kind in the assets given away, or
- are entitled to continue to use the assets given away, or
- the person receiving the assets has not taken full and exclusive ownership of them,

the gift is known as a "gift with reservation of benefit". A very simple and common example is when someone gives their house to someone else, often their child, but carries on living in the house.

If the asset given away was a house, and either the deceased or their spouse or civil partner continued to benefit from, or have use of, the property through a lease or trust or similar right or arrangement, the gift may be treated as a gift with reservation.

If anything like this applies to the deceased, and you are not sure whether the arrangements should be treated as a gift with reservation, you should call our helpline. Depending on the complexity of the arrangements, we may not be able to give a definitive answer over the telephone. In these circumstances we recommend that you answer question 3(a) 'Yes'.

3(c) An income tax charge, on pre-owned assets, was introduced in the 2005-06 tax year. This charge generally applies to assets that a person disposed of but continued to obtain benefit or enjoyment from. It can also apply when a person contributed to the purchase of an asset for another person that they subsequently obtained benefit or enjoyment from. The legislation gives the taxpayer the option to elect to have the assets in question treated as part of their estate for Inheritance Tax purposes, under the reservation of benefit rules. So long as the election remained in place, the taxpayer would not have to pay

the income tax.

You should answer 'Yes' if the deceased received benefit from a pre-owned asset and elected to pay the IHT charge, under the reservation of benefit rules, rather than pay the pre-owned assets income tax charge. To make this election, the deceased must have submitted a form IHT 500. It is not possible for an election to be made on the deceased's behalf, after death.

You should answer 'No' if the deceased received benefit from a pre-owned asset and paid the pre-owned assets income tax charge or if the deceased did not dispose of or contribute to the purchase of any assets in this way.

If you answer any part of question 3 'Yes', stop filling in form IHT205(2006) now – you will need to fill in form IHT400.

Question 4

Assets held in trust

A trust is an obligation binding a person who legally owns the assets (the 'trustee') to deal with the assets for the benefit of someone else. A trust might be in the form of a trust deed or set up by a Will.

Interests in possession

We call assets that are held in trust 'settled property'. We say that the deceased had an 'interest in possession' in settled property where they had a right to:

- the income from assets (for example, dividends from shares, interest from a bank account or rent from a let property)
- payments of a fixed amount each year, often in regular instalments, or
- live in a house or use the contents without paying any rent.

When someone has a right to live in a house, this can have the same effect as a trust for Inheritance Tax, even though the right to live in the house is not formally expressed as a trust for that person's benefit. Often, this type of right arises under another person's Will and can apply whether or not the house is owned jointly.

If the deceased did not own their home and was not a tenant either, they may have been living there under this sort of arrangement. If so, you may need to include the value of the deceased's home on form IHT205(2006). For more information please go to our website at www.hmrc.gov.uk or phone the helpline on 01753 603121.

In some circumstances, where a person has an interest in possession in, or is treated as having interest in possession in settled property, they are treated for Inheritance Tax as if they owned those assets personally. You should answer 'yes' to question 4 if the deceased's interest in possession is:

- A trust that was set up before 22 March 2006 or
- A trust that was set up on or after 22 March 2006 **and was**
 - an immediate post death interest
 - a disabled person's interest
 - a transitional serial interest

Immediate post death interest

An immediate post death interest is where the deceased was entitled to benefit from assets held in a trust that meets the following conditions

- The trust was set up under a will or intestacy
- The deceased became entitled to the interest in possession on the death of the person whose assets passed into the trust
- The trust was not for a bereaved minor or a disabled person
- The conditions above applied throughout the life of the trust.

Disabled person's interest

A disabled person's interest is where

- a trust was set up after 29 March 1981 and, during their life,
 - a disabled person benefited from not less than half the assets applied **and**
 - nobody had a **right** to benefit from the trust.
- a trust for the benefit of a disabled person (under which they have a right to benefit) is set up on or after 22 March 2006.
- An individual who has a condition likely to lead to them becoming a disabled person sets up a trust, for their own benefit, on or after 22 March 2006.

For these purposes the definition of a disabled person is a person who:

- is incapable, by reason of mental disorder (within the meaning of the Mental Health Act 1983), of administering their property or managing their affairs.
- is in receipt of attendance allowance (under Section 35 or Section 64 of either the Social Security Act 1975) or the Social Security (Northern Ireland) Act 1975 or would be if they were not undergoing certain treatments or met the residence qualifications.
- is in receipt of disability living allowance, at the highest or middle rate (under section 72(8) of the Social Security Act 1975 or the Social Security Act (Northern Ireland) Act 1975) or would be if they were not provided with certain living accommodation or if they met the residence qualifications.

Transitional serial interest

There are two types of transitional serial interest. The first is where

- The deceased has an interest in possession in settled property (a trust) and
- The assets comprising the current trust were previously subject to another interest in possession trust that was set up before 22 March 2006 and
- The current trust was set up between 22 March 2006 and 5 April 2008, inclusive

The second type arises where the deceased had an interest in possession which arose on the death, on or after 22 March 2006, of the holder of a previous interest in possession and if either

- the new holder is the spouse or civil partner of the previous holder, or
- the settled property consists of a contract of life insurance.

If the deceased had the right to benefit from more than one trust, or the value of the assets in a single trust was more than £150,000, stop filling in form IHT205(2006) now - you will need to fill in form IHT400.

Foreign trusts

In deciding how to answer question 4, it does not matter whether the trustees are resident in the UK or abroad. You must take into account all the trusts treated as part of the deceased's estate, in which the deceased had a right to benefit.

Trust assets passing to the deceased's spouse or civil partner or a qualifying charity.

Assets passing in trust which qualify for spouse or civil partner or charity exemption should be excluded when applying the £150,000 limit. You should show the exemption you are deducting for the trusts assets in box 14

Question 5

Foreign assets

Inheritance Tax is charged on the worldwide assets of someone who is domiciled (has their permanent home) in the United Kingdom so it includes any overseas assets that they owned. You should include the sterling value of any overseas assets in box 9.5.

The Isle of Man and the Channel Islands are not part of the United Kingdom.

If the answer to question 5 is 'Yes', and the gross value of the overseas assets is more than £100,000, stop filling in form IHT205(2006) now - you will need to fill in form IHT400.

The £100,000 limit applies to the estate as a whole, so to be sure that the limit of £100,000 is not exceeded, you will need to add together

- any foreign assets that the deceased owned in their own name, plus
- their share of any jointly owned foreign assets, and
- any foreign assets held in a trust.

Where the deceased owned foreign assets, you may also need to take out a separate grant in the country where the assets are, so that you can deal with them

Question 6

Insurance premiums

If the deceased was paying insurance premiums on a policy that will pay out to someone else, you may need to take the premiums paid into account as gifts. You can answer 'No' to this question if the policy was for the benefit of the deceased's spouse or civil partner.

Where the deceased was paying premiums on an insurance policy for the benefit of someone else, you can answer 'No' to question 6 if

- the insurance policy is **not** held in trust, **and**
- the premiums paid each year are covered by the exemption for regular gifts out of income, (limited to £3,000 for each tax year for deaths on or after 1 March 2011) **and**
- they did not buy an annuity *at any time*.

If the insurance policy is **not** held in trust and the premiums are **not** covered by the exemption, then each premium is a gift of cash. You can answer 'No' to question 6 but you must take the premiums into account in answer to question 2.

You can also answer 'No' to question 6 if

- the insurance policy is held in trust (this will be the most common case), **and**
- it was put into trust more than 7 years ago, **and**
- the premiums paid each year are covered by the exemption for regular gifts out of income, **and**
- they did not buy an annuity *at any time*.

If the insurance policy **is** held in trust, and it was put into trust more than 7 years ago, but the premiums are **not** covered by the exemption, then each premium is a gift of cash. You may answer 'No' to question 6 but you must take the premiums into account in answer to question 2.

In any other case, for example where the policy was put into trust within 7 years of the death, or if the deceased both paid premiums on a life insurance policy that were not for their own benefit or paid out to the estate and they bought an annuity at any time you must answer 'Yes' to question 6 and stop filling in form IHT205(2006) now. You will need to fill in form IHT400 instead.

Page 2

Question 7

Pensions

If the deceased only had a State Pension answer 'No' to question 7 and ignore question 8.

Where someone has the benefit of a pension in addition to the State Pension, this additional pension will normally provide 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 benefit no longer applies. 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.

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

Approved, unapproved and registered schemes

For Income Tax purposes, pension schemes and pension policies are approved, unapproved or registered. You need to find out which applied to the deceased's scheme or policy. The scheme papers may provide this information. If they do not, the pension scheme provider should be able to tell you. **HMRC cannot tell you what type of scheme it is.**

Question 8

Question 8 asks three questions about the deceased's pension arrangements as there are some circumstances where an Inheritance Tax charge can arise on pension arrangements.

You can answer 'No' to all three parts of question 8 and move on to question 9 if all of the following apply:

- the deceased had not reached the age of 75 before 22 June 2010 (this means they were born on or after 22 June 1935)
- the deceased did not receive any type of dependant's pension
- the deceased had made no arrangements to change their pension in the 2 years before they died, other than pensions paid to a spouse or civil partner

If these do not apply, read the rest of this section to help you answer the questions.

Question 8, first bullet

Alternatively secured or unsecured pension

An alternatively secured pension fund (ASP) is an unsecured pension fund for the benefit of a person who reached the age of 75 between 6 April 2006 and 21 June 2010 (inclusive).

An unsecured pension fund is a fund in a registered pension scheme that has been earmarked to provide benefits for a person but has not been used to purchase pension benefits or an annuity (other than a short term annuity payable for not more than 5 years ending before the member reaches the age of 75).

A registered pension scheme is a pension scheme or arrangement registered under Section 153 Finance Act 2004.

The deceased may have benefited from an ASP fund because

- they were the original scheme member in their own right **or**
- they died with a dependant's ASP fund to which they became entitled as a 'dependant' or 'relevant dependant' of a scheme member who died.

If the deceased benefited from an ASP fund the estate will not qualify as an excepted estate. Stop filling in form IHT205(2006) now – you will need to fill in form IHT400.

Question 8, second bullet

Dependant's pension

You should answer 'Yes' to this question if the deceased benefited from a dependant's unsecured pension fund to which they became entitled as a 'relevant dependant' of a scheme member who died with an alternatively secured pension fund.

If you answer 'Yes' to question 8, the estate will not qualify as an excepted estate. Stop filling in form IHT205(2006) now – you will need to fill in form IHT400.

'Dependant'

A 'dependant' is defined by law as a person who at the date of the scheme member's death was:

- the spouse or civil partner of the member **or**
- a child of the member who
 - was **under** the age of 23 **or**
 - aged 23 or **over** and in the opinion of the Scheme Administrator was dependent on the member because of physical or mental impairment.
- Any other person who in the opinion of the Scheme Administrator was
 - financially dependent on the member **or**
 - had a financial relationship of mutual dependence with a member **or**
 - was dependent on the member because of physical or mental impairment.

A 'relevant dependant' is defined by law as a person who, at the date of the scheme member's death

- was a 'dependant', as defined above, who was the person's spouse or civil partner **or** was financially dependent on the member at that time.

Question 8, third bullet

You can answer this question 'No' if the deceased was drawing their retirement pension in full.

Changing pension benefits

If the deceased was entitled to a pension (either from a pension scheme or a personal pension policy) and they had not taken their full retirement benefits by the time they died, you may need to take into account any changes they made to their pension benefits. **You can ignore the State pension** in answering this question.

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 read the following notes to decide how to answer this question 8, bullet 3.

Transfer of pension entitlement

If the deceased had not taken their full retirement benefit from a pension scheme or personal pension policy, any changes to the benefits they were entitled to may have given rise to a transfer of assets. Such a transfer is not a 'specified transfer' so the estate cannot qualify as an excepted estate.

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 question 8, bullet 3.

Disposing of pension benefits

A person disposes 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 8, bullet 3 'Yes'.

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
- failing to take their pension on reaching pension age

- failing 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 8, bullet 3 'Yes'.

But if the answer to any of the questions at 8 is 'Yes', stop filling in form IHT205(2006) now - you will need to fill in form IHT400.

Guaranteed pension payments

If the deceased was receiving a pension from a pension scheme or pension policy, the payments may have been guaranteed for a certain period of time. If the guarantee period ends after the death, the payments will continue to be made to the estate, and the right to receive those payments is an asset of the estate. If this applies to the deceased's estate include the value of the right to receive the payments in box 11.11.

If you have access to the Internet, you can download some software called 'Annuity Calculator' from the HM Revenue & Customs website that will work out the value of this right. Otherwise, add up all the payments that still have to be made and deduct 25% to give an estimated figure.

You should ignore the (usually reduced/lower) pension that continues to be paid *directly* to the deceased's surviving spouse or civil partner.

Lump sum payments

If the deceased dies before retirement or 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 (where the payer is not legally obliged to make the payment) 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 sum 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.

If you decide that a lump sum is not part of the estate, give the name of the pension scheme and say why you do not think it is part of the estate in box 13.

If you decide that the lump sum is part of the estate, include its value in box 11.11.

Deceased's assets at the date of death

When you write the value of assets or debts on the form, do not include pence. You should round assets down and debts up to the nearest pound. If you leave a box blank we shall assume you mean that the deceased did not own any assets of the type described.

You must include all the assets that were part of the deceased's estate *as at the date of death*.

Deeds of Variation

We say this because if two people, say husband and wife, die within a short period of time, it is possible for the beneficiaries of the second to die to alter the devolution of the estate of the first to die by executing a Deed of Variation within two years of that death. The effect is that they can redirect assets from the first estate away from the second estate.

But redirecting assets in these circumstances *only* has effect for Inheritance Tax purposes. It does not alter the value of the second estate for probate purposes. It is the value of the second estate *as at the date of death* that determines whether you can fill in form IHT205(2006), or whether you must fill in form IHT400. If the gross value of the second estate as at the date of death exceeds the excepted estate limit, you must fill in form IHT400.

Section 9

Assets added to the estate for Inheritance Tax, for which a grant is not required

These are the assets which the deceased owned or benefited from when they died but which are not included in the value of the estate for the grant of probate or letters of administration.

The assets that the deceased owned outright and the deceased's share of any jointly owned assets owned as tenants-in-common (see page 7 of this guide), which will be included in the value of the estate for the grant of probate or letters of administration should be shown in section 11 on page 3.

Assets which are not included in the value of the estate for the grant of probate or letters of administration (and for which a grant is not required), have to be added to the estate for Inheritance Tax purposes in section 9. You should include these assets in boxes 9.1 to 9.5. If there are any debts to deduct against these assets, you should include these debts in boxes 10.1 to 10.4. If the debts are more than the value of the corresponding assets, tell us what the total assets and debts were in box 13 and write nil in the relevant numbered boxes.

Box 9.1 Gifts

If your answer to question 2 was 'Yes', you should write the total value of the gifts or other lifetime transfers made by the deceased, after taking off any

- small gifts exemption
- annual exemption
- exemption for gifts made on marriage or civil partnership you have deducted in this box
- exemption for gifts made out of income – for deaths on or after 1 March 2011 you can only deduct this exemption if the gifts total is less than £3,000 for each tax year.

Any other exemptions (for example, spouse or civil partner exemption or charity exemption) you are deducting from the gifts should be listed at box 14, on page 4, not at box 9.1

More information on exemptions can be found by visiting our website at www.hmrc.gov.uk

In box 9.1, please tell us

- the date of gift,
- the name of the person who received the gift,
- what was given away,
- its value

and set out how you have deducted the exemptions. Use box 13 if you need more room to give details of gifts.

Box 9.2

Share of joint assets passing by survivorship.

If the deceased owned any jointly owned assets passing automatically to the surviving joint owner by survivorship (joint tenancy) you should describe each joint asset and write the value of the whole of it in the space provided at box 9.2. If the joint property is a house give the address. Use box 13 if you need more room to give details of joint assets. You should write the total value of the deceased's share of these joint assets in box 9.2

See page7 of this guide for more information about jointly owned assets.

If the joint assets were owned by the deceased and their spouse or civil partner you must still include them at the appropriate box. You should deduct any spouse or civil partner exemption at box 14.

Box 9.3

Assets held in trust

If your answer to question 4 was 'Yes', you should write the gross value of the trust assets in this box. If the trustees only give you one figure that is after deduction of any debts, include that here instead. You should write the name of the person who set up the trust and the date it was set up in the space provided at box 9.3

Box 9.4

Nominated assets

If the deceased, during their lifetime, 'nominated' an asset to pass to a particular person after their death, enter the value of that asset in box 9.4.

The only assets that can be nominated in this way are deposits of up to £5,000 in friendly societies and industrial and provident societies or, before 1 March 1981, National Savings certificates and accounts.

Legacies in the Will are not nominated assets.

Do not include nominated pension benefits here, these are covered earlier in this booklet at page21 under 'lump sum payments'.

Box 9.5 Assets outside the United Kingdom	<p>You should include in this box the value of assets outside the UK, plus the deceased's share of any foreign assets that were owned jointly with someone else. You need to convert the value in the foreign currency to £ sterling. You can find conversion rates for the most common currencies in the daily newspapers and on the Internet.</p> <p>Remember that the Channel Islands and the Isle of Man are outside the UK for Inheritance Tax purposes.</p>
Box A	Add up the figures in boxes 9.1 to 9.5 and write the answer in box A - Gross value of assets for which a grant is not required.
Section 10	Debts payable out of assets totalled in box A
Box 10.1 Share of mortgage on jointly owned property.	<p>You should include in this box the deceased's share of any mortgage secured on jointly owned property that is shown in box 9.2. If there was a joint mortgage protection policy, you should include the share of the mortgage in this box and the share of the money that the policy paid out in box 9.2</p>
Box 10.2 Share of other debts payable out of joint assets.	<p>You should include in this box the deceased's share of any other debts actually owed when they died that are payable out of jointly owned assets shown in box 9.2.</p>
Box 10.3 Debts payable out of trust assets	<p>You should include in this box any debts that are payable out of trust assets. If the trustees only give you one figure for the trust assets that is after deduction of any debts, include that figure in box 9.3 and leave this box blank. If there are no assets in box 9.3 there will be no debts in box 10.3.</p>
Box 10.4 Debts owing to persons outside the United Kingdom	<p>You should include in this box any debts which the deceased actually owed when they died and which were owed to someone who lived abroad.</p>
Box B	Add up the figures in boxes 10.1 to 10.4 and write the answer in box B – Total debts payable out of assets in boxes 9.1 to 9.5.
Box C	Take away the value in box A from box B (A minus B) and write the answer in box C – Net value of assets for which a grant is not required.
Section 11	<p>Deceased's own assets for which a grant is required</p> <p>These are the assets which are included in the value of the estate for the grant of probate or letters of administration, even if you do not need to produce a copy of the grant to get access to these assets.</p> <p>You must include the gross value for both the deceased's own assets and their share of any assets held as tenants-in-common (not passing by survivorship) in section 11. If you are including a share of an asset, such as a house, please list each item held as tenants-in-common at box 13. You should give the value of the whole asset and state the deceased's share, for example, 'half'.</p> <p>You should then include the value of the deceased's share of an asset held as tenants-in-common in the relevant box in section 11.</p> <p>Gross value means the value of the assets before deduction of any debt, relief or exemption. If you need to include an estimated value, read the paragraph 'Estimating values and small estates' on page 10 of this guide.</p>

Joint assets which pass to the surviving joint owner (by survivorship) should not be included here. Instead you should include them at box 9.2.

See page 7 of this guide for more information about jointly owned assets.

When you write the value of assets or debts on the form, do not include pence. You should round assets down and debts up to the nearest pound. If you leave a box blank we shall assume you mean that the deceased did not own any assets of the type described.

Box 11.1

Cash, money in banks, building societies and National Savings

You should include in this box the total figure for all the money in bank and building society accounts, National Savings investments and cash when the person died. This will include

- cash held by the deceased, kept at home or elsewhere, such as a safety deposit box,
- money in current, deposit, high interest, fixed interest, term, bond and money market accounts,
- accounts with supermarkets or insurance companies,
- National Savings Bank accounts,
- Premium Bonds,
- cash in an ISA,
- travellers' cheques.

The figure should include interest that was owed up to that date but was not actually paid into the account. You can get these figures from the bank or other organisation holding the account.

National Savings investments include

- National Savings Certificates
- National Savings Capital or Deposit Bonds
- National Savings Income Bonds
- Pensioners Guaranteed Income Bonds
- Children's Bonus Bonds
- First Option Bonds
- Save As You Earn Contracts
- Year Plans
- Premium Bonds, including unclaimed prizes

You can get help with finding out the value of all National Savings investments:

- online at www.nsandi.com/help/deathclaims
- by telephoning the National Savings Enquiry Line **0845 964 5000**.

Box 11.2

Household and personal goods

The term 'household and personal goods' means things such as furniture, pictures, paintings, china, TV, audio and video equipment, cameras, jewellery, cars, caravans, boats, antiques, stamp collections and so on. You do not have to get a professional valuation for items worth less than £500 although you should do if you think any items may be worth more than £500. If you do estimate the value, remember to use the open market value not an insurance or replacement value.

The open market value is the realistic selling price for the items. This is likely to be the value the item might fetch if sold at auction or through the local paper.

Box 11.3

Stocks and shares quoted on the Stock Exchange

You should include in this box

- UK Government securities such as Treasury Stock, Exchequer Stock, Convertible Stock and Consolidated Stock,
- all stocks, shares, debentures and other securities listed on the Stock Exchange Official List,
- Unit trusts,
- Investment trusts,
- Open-Ended Investment Companies,
- shares in an ISA.

You should also include any dividends that were due, but had not been paid before the death.

If the deceased was an Underwriter at Lloyds, you should include their business portfolio of shares in box 11.7 and not in box 11.3.

You do not have to get a professional valuation for listed stocks and shares. You can value shares quoted on the London Stock Exchange by finding the price of the shares in the financial pages of a newspaper.

First of all, make a list of all the shares, including the name, nominal value and type of shares - for example, 'A N Other 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:

$$1250 \times 1093.5p = \mathbf{£13,668.75}$$

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.

Box 11.4

Stocks and shares not quoted on the Stock Exchange

You should include in this box

- shares in a private family company which are not listed on the Stock Exchange
- shares listed on the Alternative Investment Market (AIM)
- shares traded on OFEX (an unregulated trading facility for dealing in unquoted shares).

You will be able to value shares on AIM or OFEX in the same way as quoted stocks and shares.

Private company shares

For private company shares, you should give an estimate of the open market value of the shares. You may need to contact the company's secretary or accountant to get this value.

You should **not** include just the nominal value of such shares - for example the nominal value for 1,000 £1 ordinary shares is £1,000 - unless that genuinely reflects your estimate of the open market value of the shares.

Box 11.5

Insurance policies, including bonuses and mortgage protection policies.

You should include in this box the total value for

- life insurance policies paying out to the estate, including any bonuses that are paid,
- money paid under a mortgage protection policy (if the policy was in joint names, include the amount payable in box 9.2),
- insurance policies held in ISAs,
- payments received under investment schemes which pay 101% of the unit value on death,
- payments received under investment or re-investment plans, bonds or contracts with a financial services provider which pay out on death,
- insurance policies on the life of another person but under which the deceased was to benefit.

Box 11.6

Money owed to the deceased

You should include in this box

- money which the deceased had lent to someone else and which had not been repaid at the date of death,
- money which the deceased had lent to trustees linked to a life insurance policy held in trust,
- money for which the deceased held a promissory note or 'IOU',
- money which the deceased had lent to someone and which is secured by a mortgage over property,
- money owing to the deceased from a director's loan account or current account with a company.

You should include the face value of the loan, after taking off any repayments that had been made. You should also include any interest due up to the date of death.

Box 11.7

Partnership and business interests

You should include in this box the net value of all the deceased's business interests. Ideally, accounts for the business should be prepared at death and it will be the total of the deceased's capital and current accounts that will be the starting point. Remember, though, that the value for capital assets in accounts is usually the 'book' value, and this is often different from the open market value that is required for Inheritance Tax.

If the deceased was an Underwriter at Lloyds, you should include their business portfolio of shares here and not in box 11.3.

Where necessary, you should increase (or decrease) the value of the business interests that is shown in the accounts to reflect any adjustments that are necessary through replacing the 'book' value with the open market value.

Box 11.8

Freehold/leasehold residence

You should include the open market value of a home owned or partly owned by the deceased unless it was held in joint names and passes to the other joint owner by survivorship. If the deceased had moved to a nursing or other residential care home shortly before they died and the property had been left vacant, you should still include it in this box. If the property had been let after the deceased moved out, you should include the value in box 11.9. and not 11.8. Write the address of the property, including the postcode, in the space provided.

If the property is a farmhouse read the note about box 11.10 on page 28.

If the deceased's home passes by survivorship to the other joint owner do not include it here. Include the value at box 9.2 instead.

Valuing houses, land and buildings

Valuing houses, land and buildings can be complicated and you are strongly advised to use a professional valuer.

You should ask the valuer to take account of the state of repair of the property (which may decrease its value) and any features that might make it attractive to a builder or developer, such as large gardens, or access to other land that is suitable for development (which may increase its value).

If you get several valuations which give a range of values for the property, it is probably best to adopt a value that is somewhere in between the highest and lowest values that you have got.

If, having arrived at your figure and before you apply for a grant, you find out about other information that casts doubt on your figure, you must reconsider it. For example, you may have estimated that the property was worth £250,000. When you try to sell it you market it at £270,000 and receive some offers at that figure or more. This suggests that the open market value for the property may be closer to £270,000. In these circumstances we recommend that you ask the valuer to consider amending the valuation, taking into account such things as the length of time since the death and movements in the property market.

Box 11.9

Other freehold/leasehold residential property

You should include in this box the open market value of any other residential property that was owned by the deceased which was either let or could be let but was vacant when they died. We explain how you should value the property at box 11.8. Write the address, including the postcode, in the space provided. You should include any rent due to the date of death in box 11.11.

Box 11.10

Other land and buildings

You should include in this box any other land and buildings the deceased owned. This will include

- farms, (if the person who has died lived on a farm, include the value of the whole farm here, do not include a separate value for the farmhouse in box 11.8),
- business property, for example a hotel, shop, factory etc,
- timber and woodlands,
- other land and buildings such as lock-up garages, redundant or derelict land, quarries, airfields etc, and
- other rights that attach to land, such as fishing or shooting rights.

We explain how you should value the property at box 11.8. We recommend that you get professional advice if the estate contains this sort of land as it can be very difficult to value. Write the address or location of the property in the space provided.

Box 11.11

Any other assets

You should include in this box any other assets owned by the deceased that you have not included in boxes 11.1 - 11.10. Examples are

- money owed in salary or wages,
- arrears of pension or unclaimed benefits,
- rents due for the period to death,
- income due from a trust for the period to death,
- refunds from private health schemes,
- Income Tax or Capital Gains Tax repayments,
- money or assets that are due to the deceased from the estate of someone else who died before them,
- refunds from gas or electricity, insurances or licences.

Box D

Add up boxes 11.1 to 11.11 and write the answer in box D - Gross value of assets for which a grant is required. If the value in box D is nil stop filling

in form IHT205(2006) now – you will need to fill in form IHT400.

Section 12

Debts payable out of assets shown in boxes 11.1 to 11.11

Box 12.1

Funeral expenses

You may deduct funeral expenses and reasonable mourning costs. You may also deduct the cost of a headstone or plaque marking the site of the deceased's grave.

These expenses may also include a reasonable amount to cover the cost of:

- flowers
- refreshments provided for mourners after the service
- necessary expenses incurred by the executor or administrator in arranging the funeral

Write the total of these costs in this box.

Allowable funeral costs do not include travelling or accommodation costs for the mourners.

Box 12.2

Mortgage or share of a mortgage on a property or land in boxes 11.8 to 11.10

You should include in this box any mortgage secured on property that you have included in section 11. If the deceased only owned a share of the property concerned, you should only include the same share of the mortgage.

For example, the deceased owned a half share of a house valued at £200,000. The property had a mortgage of £50,000 secured on it. The deceased's share of the property in box 11.8 is £100,000 and the deceased's share of the mortgage in box 12.2 is £25,000.

If the deceased had a mortgage protection policy, you should include the mortgage in this box and the money that the policy paid out in box 11.5.

Box 12.3

Other debts owed in the United Kingdom

You should only include in this box debts which the deceased actually owed when they died. For example, household bills, uncleared cheques for goods and services provided before the death and credit card debts. **Do not** include fees for professional services carried out **after** the death, such as solicitors' or estate agents' fees and valuation fees.

If the person who has died had written a cheque to make a gift before they died and the cheque had not cleared by the death, you must **not** treat the cheque as a deduction. You must include the value for the deceased's bank account without deducting the cheque. You should not show the intended gift as a gift in answer to question 2.

Box E

Add up boxes 12.1 to 12.3 and write the answer in box E – Total debts payable out of assets in boxes 11.1 to 11.11.

Box F

Take away the figure in box E from the figure in box D (D minus E) – Net estate in the UK for the grant.

Box G

Add up boxes C (on page 2) and F and write the answer in box G – Net estate for Inheritance Tax purposes

Box H

Add up boxes A (on page 2) and D and write the answer in box H – Gross value for Inheritance Tax

If the value in box H is:

- more than the excepted estate limit (£325,000 for tax year 2010-11 or £650,000 where you are claiming a transfer of the unused nil rate band from the estate of a spouse or civil partner who died before)
- and**

- none of the assets pass to the deceased's spouse or civil partner or to a qualifying charity

stop filling in form IHT205(2006) now - you will need to fill in form IHT400.

See page 5 for more information about transfers of unused nil rate band.

Page 4

Box 13 Additional information

Use this space to provide any information we ask for earlier in these notes, such as details of jointly owned assets, or if you need more space for any reason. If you want us to take anything into account, write it here. You may continue on a separate piece of paper if you do not have enough room.

Box 14 Exemptions

If the value in box H (page 3) is less than the excepted estate limit (325,000 for tax year 2010 – 2011) write '0' in box J and copy the value in Box G (page 3) to Box K. You do not need to read the rest of this page - go on to page 31 of this booklet and continue reading at paragraph 'Net qualifying value for excepted estates'.

If any of the assets pass to the deceased's spouse or civil partner, a qualifying charity or other qualifying body, these assets are likely to be exempt from Inheritance Tax. There is more information about these exemptions on page 6 of this guide.

Box 14

You should describe the extent of the exemption, or list the specific assets that are entitled to exemption, in this box.

Box J

Write the total value of all exemptions in box J

For example

1. If the deceased's Will or the rules of intestacy say that the whole estate is to pass to their spouse or civil partner, say so, and write the value from box G in box J.
2. If the deceased made lifetime gifts to their spouse or civil partner or to a qualifying charity list the gifts and any exemption to be deducted from them in this box. Also show any exemptions to be deducted from the estate that passes on death. Add all the exemptions together and write the total figure in box J.
3. If there are legacies of £30,000 to the children, with $\frac{3}{4}$ of the remainder of the estate passing to the spouse or civil partner and $\frac{1}{4}$ to the children, explain that the estate is to devolve in this way, work out how much the spouse or civil partner is to receive and write that value in box J.
4. If the spouse or civil partner is to receive the household and personal goods and the deceased's home, list these two items in this box and write their total value in box J.
5. If there are any legacies to qualifying charities, write the names of the organisations that benefit in this box. Write the total of all the legacies passing to a qualifying charity in box J. If there is not enough room in the box because there are lots of legacies to different qualifying charities, you only need to list those organisations receiving more than £25,000. For the others, tell us how many other qualifying charities benefit and include one figure for the total of the smaller legacies.
6. If there is a mixture of assets passing to the deceased's spouse or civil partner and to qualifying charities, tell us as much as you can in this box

and write the total amount of exemption in box J. Use box 13 if you need more room.

Box K

Take away the value in box J from the value in box G (G minus J) and write the answer in box K. This is the net qualifying value of the estate.

Net qualifying value for excepted estates

Provided the value in box K does not exceed the excepted estate limit, (£325,000 for 2010-2011) you may apply for a grant of representation without filling in form IHT400.

If it exceeds the excepted estate limit but is less than two times the excepted estate limit (£650,000 for 2010-2011) **and** you are claiming transfer of unused nil rate band from the estate of a spouse or civil partner who died before, (see page 5 of this booklet) you may apply for a grant of representation without filling in form IHT400. You must now fill in form IHT217 *Claim to transfer unused nil rate band for excepted estates* and attach it to this form.

For a copy of form IHT217:

- go to www.hmrc.gov.uk
- phone our helpline 0 800 00 0000

If the value in box K exceeds the excepted estate limit, and you are **not** claiming a transfer of unused nil rate band, stop filling in form IHT205(2006) now - you will need to fill in form IHT400.

And finally.....

Read the declaration.

If the value in box H on page 3 is less than the excepted estate limit, you should tick the first box .

If the value in box H on page 3 is more than the excepted estate limit, but less than two times the excepted estate limit and you are attaching form IHT217, you should tick the second box.

If the value in box H on page 3 is less than £1,000,000 *and* you have deducted spouse or civil partner or charity exemption so that the value in box K is below the excepted estate limit, you should tick the third box.

Signing the form

Each person who will be applying for a grant should read the statements above the signatory boxes. In signing the form each person is saying that they have read the statements and will comply with their terms. Each person applying for a grant should write their name and address in one of the boxes and sign and date the form.

What to do when you have finished the form

The following paragraphs provide answers to the questions that are most often asked of our helpline.

Do I need a copy of the form?

Yes, we recommend that you keep a copy of the signed form for your own records and because you will need it should the value of the estate change after the grant such that tax becomes payable. You may be asked to provide a copy of the form or you may need details of the estate for the Department for Work and Pensions. We will not be able to provide you with a copy of this form if you have not kept a copy for yourself.

What about all the papers and records I have used to fill in the form?

You do not need to send in copies of any of the other papers you have used to fill in form IHT205(2006) - just the form itself and any continuation page(s) for box 13. But you should keep the papers and records safe in case we ask you for them.

When will I hear from you if you want to see the papers and records?

Provided you have used form IHT205(2006) correctly, it is unlikely you will hear from us. We have 35 calendar days after the issue of the grant to write to you about the information you have given in the form. If we do not write to you in that time, we will not need to see the papers and records and you will not have to pay any Inheritance Tax.

However, this does not apply if there is anything about the estate you have not told us on this form.

The shaded paragraphs are for people who are applying for a grant without the help of a solicitor or other agent.

What do I do now?

There are slightly different processes to follow depending on whether you are applying for a grant in England & Wales or Northern Ireland.

England & Wales

Read the booklet PA2 and follow the instructions to fill in form PA1. When you have gathered together all the papers needed to apply for probate, send form IHT205(2006), form IH217 (if completed) and those papers to the relevant probate registry as explained in booklet PA2.

What happens then?

Booklet PA2 tells you what will happen in detail. Briefly, the probate registry will ask you to come for an interview. Provided everything is satisfactory, the probate registry will send you the grant and will send form IHT205(2006) and form IHT217 (if completed) to us.

Northern Ireland

Read the booklet "Dealing with a deceased's person's estate". When you have gathered together all the papers needed to apply for probate, telephone the Belfast or Londonderry office to make an appointment for an interview. You will need to take all the papers to apply for probate and the IHT205(2006) and form IHT217 (if completed) with you. After your interview, the probate office will send you the grant and will send form IHT205(2006) and IHT217 (if completed) to us.

What happens after I get the grant?

You can begin to deal with the estate by collecting in the assets and paying the debts and legacies.

What to do if the value of the estate changes

What do I do if the value of the estate changes?

If, after you have got the grant, you find some more assets, or you discover that the value of an asset has changed - for example, the house or some personal goods have been sold for a different figure, you should amend your working copy of the form. If, having made these changes, the value at box K is more than the Inheritance Tax nil rate band, you will need to tell us about the changes and pay the tax.

How do I tell you about changes?

You should fill in a form IHT400 *Inheritance Tax account*, to tell us about the estate if any changes bring the estate over the Inheritance Tax nil rate band.

You must send form IHT400 to us within 6 months of finding out about the change to the estate. If you are late in sending the form to us, you may make yourself liable to financial penalties.

How do I work out Inheritance Tax?

You can work out the tax that is payable by deducting the Inheritance Tax nil rate band from the revised value of the estate and taking 40% of that amount. You might need to add some interest to the tax that is due. Interest runs from 6 months after the end of the month in which the death occurred. Our helpline can tell you what the rate of interest is.

Inheritance Tax
reference number

If you calculate that there is tax to pay, you will need to apply for an Inheritance Tax reference number and payslip so that you can make the payment.

You can apply for a reference:

- online at www.hmrc.gov.uk/inheritancetax/
- on form IHT422 available online or from our helpline **0300 123 1072**.

If you do not want to work out the tax yourself, just send form IHT400 to us (see address on page 2). We will then send you a calculation of the tax and any interest that you owe.

If you calculate that there is still no tax to pay, but the changes mean that the estate no longer qualifies as an excepted estate, keep a list of the changes. This is so that you can include them in an Inheritance Tax account if further changes come to light later which mean that there is Inheritance Tax to pay. There is no need to tell us about changes if there is no Inheritance Tax due.

What do I do if the
exemptions change?

The exemptions may change if those who inherit the estate change after the date of death. The beneficiaries of an estate can alter those who inherit an estate by executing a Deed of Variation. If the people who inherit the estate change and as result the estate is above the Inheritance Tax nil rate band meaning there is tax to pay, fill in an IHT400 and follow the guidance on working out the tax and getting a reference number on page 34.

For example, if all the assets were left to the surviving spouse, box K on form IHT205(2006) should show '0'. But if the spouse redirects £100,000 to his/her children, you should reduce the exemption shown in box H by that amount and rework the answer in box K. But as box K still does not exceed the Inheritance Tax nil rate band there is no need to tell us about the change.

But if, in the same example, the spouse redirected £400,000 to the children, the new figure in box K would exceed the nil rate band and there would be tax to pay. So you would then need to fill in form IHT400 and follow the guidance on working out the tax and getting a reference number on page 32 and above.

What if the changes
are covered by other
exemptions or reliefs?

This can happen when, for example, all the assets are left to the spouse, but they include a farm that the spouse redirects (by a Deed of Variation) to the children. You should reduce the value of the spouse or civil partner exemption by the value of the farm and rework the answer in box K. If box K still does not exceed the nil rate band there is no need to tell us about the change, but if it is more than the nil rate band, you must fill in form IHT400.

If you consider the farm qualifies for agricultural relief, this may mean that there is still no tax to pay, but you should also include the relief in Schedule IHT414 *Agricultural relief*. You should send a copy of the deceased's Will and the Deed of Variation with the forms.

What if the value of the
estate changes and I
need to claim a
transfer of unused nil
rate band after the
grant?

If the value of the estate changes so that it is now over the Inheritance Tax nil rate band, but you can claim a transfer of unused nil rate band which would mean that there is still no tax to pay you should send:

- a copy of the IHT205(2006)
- a completed C4 *Corrective account* showing the amendments to the estate
- a completed form IHT217 *Claim to transfer unused nil rate band for excepted estates*

to HMRC Trusts & Estates at the address on page 2.

Transfer of unused nil rate band – documents you should keep

Documents and information you should keep

If the deceased whose estate you are dealing with now left a surviving spouse or civil partner, you should keep full details of this estate in a safe place. This is so that a claim may be made for the transfer of any unused nil rate band on the death of the surviving spouse or civil partner.

The information and documents you should keep are:

- a copy of the IHT205(2006) or full written details of the assets in the estate and their values
- a copy of the grant of representation (probate or letters of administration)
- a copy of the Will, if there was one
- a note of how the estate passed if there was no Will
- a copy of any Deed of Variation or similar document if one was executed to change the people who inherited the estate

The widow, widower or surviving civil partner may wish to keep these documents with their own Will, if they have made one, or with other important documents, to ensure that a claim can be made for the transfer of unused nil rate band on their death.

Penalties

The UK has introduced a new system of penalties for inaccuracies in tax returns and other documents given to us . This includes information given on form IHT205(2006) for deaths on or after 1 April 2009. Under the new system if you take reasonable care when filling in form IHT205(2006), we will not charge you a penalty, even if you make a mistake.

Why do we need penalties?

Most people take care to fill in their forms correctly. We want to encourage that and help them to get it right. We use penalties to stop people who do not take care from gaining an unfair advantage.

When are penalties charged?

You should only use form IHT205(2006) if the estate is an 'excepted estate' and there is no Inheritance Tax to pay on the estate. We may charge financial penalties if you include an inaccuracy in form IHT205(2006) which, when corrected later, means that there is some Inheritance Tax to pay after all.

How to avoid a penalty

If you take reasonable care to get it right, we will not charge a penalty if you make a mistake. We will normally accept you have taken reasonable care if you have followed the guidance in this booklet and have:

- made a thorough search of the deceased's papers and documents to trace the assets, investments and other financial interests the deceased had when they died
- contacted others, such as family, friends, accountants etc who may have known about the deceased's affairs
- included details of all the deceased's assets, liabilities, other financial transactions and interests that are subject to Inheritance Tax on form IHT205(2006)
- taken reasonable steps to arrive at the "open market" value of those assets

If you don't take reasonable care, we can penalise any inaccuracies. The penalties will be higher if they are deliberate.

What should I do if I discover an inaccuracy?

If, after you have applied for a grant, you discover an inaccuracy which, when corrected, means that Inheritance Tax is payable by the estate, you should tell us about it as soon as possible. We explain what you should do in the section of this booklet called 'What to do if the value of the estate changes' on page 32.

But there is no need to tell us about inaccuracies that do not mean there is tax to pay. Instead, make a note of them in case anything else comes to light later on which means that tax is payable when all the inaccuracies are corrected.

How to reduce a penalty

Telling us about an inaccuracy does not mean you will automatically be subject to a penalty. Depending on the circumstances, we often view that as taking reasonable care to get your tax right. We can substantially reduce any penalty if you:

- tell us about any inaccuracies before we ask you about them
- help us work out the correct amount of tax
- answer any questions we ask you fully, promptly and honestly.

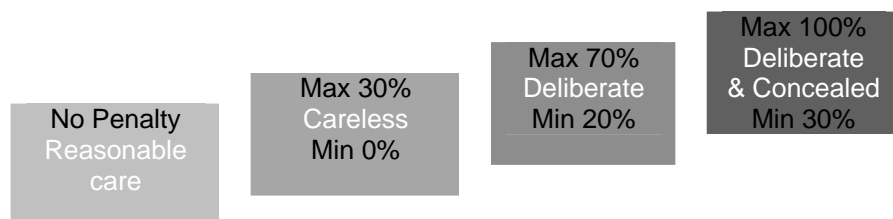
What if the inaccuracy arises from information provided by someone else?

If another person has provided you with information about the deceased's affairs; for example, a member of the family has told you about a gift they received, and that person deliberately gave you the wrong information, or kept back some information, we can charge a penalty on them.

We expect you to have checked that information against the other information you have discovered about the deceased and to have questioned any inconsistencies. If you can show you have done so, we will normally accept you have taken reasonable care and we will not charge you a penalty because of the inaccuracy.

What are the penalties?

The penalty is a percentage of the amount of tax that has not been paid. The penalty rate depends on why you made the inaccuracy. The less serious the reason, the smaller the penalty will be.



How will I know if I have to pay a penalty?

We will discuss the estate with you to work out the correct amount of tax that is payable and any penalty that may be due, before we send a penalty notice. That way you can understand what has happened and why we are doing this.

If you don't agree, you can appeal against the penalty to an independent tribunal, usually the First-tier Tribunal of the Tax Chamber. You can also opt for an internal review by an independent HMRC officer, which is a quick and inexpensive way to resolve disputes. See our factsheet HMRC 1 at:

www.hmrc.gov.uk/factsheets/hmrc1.pdf

Where can I get more help?

You can find more information on penalties for errors at:

www.hmrc.gov.uk/about/new-penalties/index.htm

You can find out more information about Inheritance Tax and tax on the estates of deceased people at: www.hmrc.gov.uk/inheritancetax/

Notes on filling in form IHT217

When do I need to fill in form IHT217?

You will need to fill in form IHT217 *Claim to transfer unused nil rate band for excepted estates* if:

- the figure at box K, form IHT205(2006) is above the Inheritance Tax nil rate band (£325,000 for tax year 2010-11), but below 2 times the nil rate band (£650,000)

and

- you are claiming a transfer of unused nil rate band from the estate of a spouse or civil partner who died before. (see notes on page 5)

Where can I get form IHT217?

If you need a copy of form IHT217:

- go to www.hmrc.gov.uk/inheritancetax
- phone our helpline on 0 800 00 0000

Most of the notes to help you fill in form IHT217 are included in the form, but the following additional notes may help you.

Can all estates use this claim form?

No. If the estate of the spouse or civil partner who died first used up any part of the nil rate band so that 100% of the nil rate band is not available to transfer, then you should claim the transfer by filling in form IHT400 *Inheritance tax account* and claim form IHT402 instead of the IHT205(2006) and IHT217.

There are also other rules about the estate of the spouse or civil partner who died first which mean that you should fill in forms IHT400 and IHT402 instead. These are where any of the following apply to the spouse or civil partner who died first, or their estate:

- they died before 13 November 1974
- they were domiciled outside the UK at the date of death
- the estate was not wholly exempt from Inheritance Tax
- they had jointly owned assets that passed to someone other than the spouse or civil partner who has died now
- they had made gifts to chargeable (non-exempt) beneficiaries in the 7 years before they died
- agricultural or business relief applied to assets in the estate
- they made any gifts with reservation of benefit
- they benefited from a trust during their lifetime.

Deeds of Variation

If a Deed of Variation, or other similar document, has been executed to change who inherited the estate of the first spouse or civil partner to die you should fill in form IHT217 to show the effect of the Will or intestacy and the Deed together.

This means that if the whole of the first estate passed to the surviving spouse or civil partner by Will and a Deed of Variation was executed to pass part of the estate to the children, then the part of the estate that passed to the children would not be exempt from Inheritance Tax. If this is the case, you should claim the transfer by filling in form IHT400 *Inheritance tax account* and claim form IHT402 instead of the IHT205(2006) and IHT217.

Box 10, page 2
Gifts

Gifts made in the seven years before the deceased died would be exempt if they were made to a spouse or civil partner or a charity or other qualifying body (see page 6 of this guide). There are also other exemptions such as annual, small gifts and gifts in consideration of marriage and civil partnership which can be deducted. There is more information on these exemptions on pages 11 to 14.

But any gifts which are not exempt, such as lifetime gifts to the deceased's children, would reduce the amount of nil rate band available to transfer and

100% of the nil rate band would not be available. If that applies, the claim for the transfer of unused nil rate band must be made on forms IHT400 and IHT402 and not forms IHT205(2006) and IHT217.

Gifts made out of income

Where the spouse or civil partner who died first, died on or after 1 March 2011, the exemption for gifts out of income (see page 13 of this guide) cannot be deducted from gifts if the value of the gifts total more than £3,000 for each year.

Deaths on or after 1 March 2011

If that applies, the transfer of unused nil rate band must be made on forms IHT400 and IHT402.

If the value of gifts made out of income total less than £3,000 for each tax year the exemption can be deducted in full.

Deaths before 1 March 2011

Where the spouse or civil partner who died first died before 1 March 2011, the value of the exemption for gifts out of income can be deducted in full.

Keep a copy of the form for your records

We strongly recommend that you keep a copy of the completed forms IHT205(2006) and IHT217 (if completed) for your records. Neither HM Revenue & Customs Inheritance Tax nor the Probate Service will be able to provide you with a copy once you have sent in the form.

Where do I send the form?

See page 32 of this booklet for information about what to do next.

When you have finished filling in form IHT205(2006), IHT217 if required, and any other forms required by the Probate Service, you should send all the forms for:

- applications in England & Wales, to the Probate Registry of your choice (see booklets PA2 and PA4)
- applications in Northern Ireland, to either the Probate Office in Belfast or the District Probate Registry in Londonderry (see booklet "Dealing with a deceased person's estate").

Do not send the forms to HMRC Trusts & Estates

Confidentiality

You have a right to the same high degree of confidentiality that all taxpayers have. We have a legal duty to keep your affairs completely confidential and cannot give information to others about an estate, trust or transfer even if they have an interest in it, unless the law permits us to do so. This means we may only discuss a taxpayer's affairs with that person, or with someone else that the taxpayer has appointed to act for them.

In the case of someone who has died, this means that we can only discuss an estate with the people (or person) who have signed and delivered form IHT205(2006); that is the executors or administrators, or another person appointed to act for them; usually a solicitor or an accountant.

Data Protection Act

HMRC is a Data Controller under the Data Protection Act. We hold information for the purposes of taxes, social security contributions, tax credits and certain other statutory functions as assigned by Parliament. The information we hold may be used for any of HMRC's functions.

We may get information about you from others, or we may give information to them. If we do, it will only be as the law permits, to

- check the accuracy of information
- prevent or detect crime
- protect public funds

We may check information we receive about you with what is already in our records. This can include information provided by you as well as others such as other government departments and agencies and overseas tax authorities. We will not give information about you to anyone outside HMRC unless the law permits us to do so.

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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