How Inheritance Tax works: thresholds, rules and allowances

Contents

Overview

Inheritance Tax is a tax on the estate (the property, money and possessions) of someone who's died.

There's normally no Inheritance Tax to pay if either:

- the value of your estate (/valuing-estate-of-someone-who-died) is below the £325,000 threshold
- you leave everything above the £325,000 threshold to your spouse, civil partner, a charity or a community amateur sports club

> You may still need to report the estate's value (/valuing-estate-of-someone-who-died/check-type-of-estate) even if it's below the threshold.

If you give away your home to your children (including adopted, foster or stepchildren) or grandchildren your threshold can increase to £500,000 (/inheritance-tax/passing-on-home).

If you’re married or in a civil partnership and your estate is worth less than your threshold, any unused threshold (/guidance/transferring-unused-basic-threshold-for-inheritance-tax) can be added to your partner’s threshold when you die.

> This guide is also available in Welsh (Cymraeg) (/treth-etifeddiant).

Inheritance Tax rates

The standard Inheritance Tax rate is 40%. It’s only charged on the part of your estate that’s above the threshold.

Example

> Your estate is worth £500,000 and your tax-free threshold is £325,000. The Inheritance Tax charged will be 40% of £175,000 (£500,000 minus £325,000).

The estate can pay Inheritance Tax at a reduced rate of 36% (/inheritance-tax-reduced-rate-calculator) on some assets if you leave 10% or more of the ‘net value’ to charity in your will. (The net value is the estate’s total value minus any debts.)

Reliefs and exemptions

Some gifts you give while you’re alive (/inheritance-tax/gifts) may be taxed after your death. Depending on when you gave the gift, ‘taper relief’ might mean the Inheritance Tax charged on the gift is less than 40%.

Other reliefs, such as Business Relief (/business-relief-inheritance-tax) or Agricultural Relief (/guidance/agricultural-relief-on-inheritance-tax), allow some assets to be passed on free of Inheritance Tax or with a reduced bill.

Who pays the tax to HMRC

Funds from your estate are used to pay Inheritance Tax to HM Revenue and Customs (HMRC). This is done by the person dealing with the estate (/valuing-estate-of-someone-who-died) (called the ‘executor’, if there’s a will (/make-will)).

Your beneficiaries (the people who inherit your estate) do not normally pay tax on things they inherit (/tax-property-money-shares-you-inherit). They may have related taxes to pay, for example if they get rental income from a house left to them in a will.

People you give gifts to might have to pay Inheritance Tax, but only if you give away more than £325,000 and die within 7 years.

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Passing on a home **(/inheritance-tax/passing-on-home)**

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