

**Use this precedent to help you work out the IHT on the estate of Amanda Taylor, exercise 2.**

There are two parts to this precedent.

The first part deals with the tax on the failed PET.

The reason we deal with the failed PET first is a) you need to ensure this failed lifetime gift is taxed correctly, and b) you need to know how much of the Nil Rate Band (NRB) is left to offset against the death estate.

If there is no PET, then you do not have to complete this part. The deceased will have a complete NRB intact to offset against their death estate.

The second part deals with the tax on the death estate.

We have completed step one for you in both calculations.

**Part One: Steps to calculate IHT on the PET.**

**Step 1 – what is the “transfer of value”**

PET

**Step 2 – what is the value of the PET?**

£

**Step 3 – apply relevant exemptions and reliefs to the PET.**

Based on the facts of the question, deduct the applicable lifetime deductions that apply to a PET:

• Spouse/civil partner

• Charities and political parties

• Marriage: Parent – £5,000, Grandparent – £2500, Other - £1,000

• Small gifts – £250.

• Normal expenditure out of income.

• Annual exemption - £3000 and can carry forward 1 year.

• Gift for maintenance, education, training from parents to children. If child over

18 they must be in full time education.

**Equals £**

**Step 4 – Calculate the appropriate rate of tax.**

Deduct RNRB if it applies

Deduct any transfer of RNRB if it applies.

Deduct the NRB.

Deduct transfer of NRB if it applies.

**Equals £**

If the value above is greater than the NRB then it becomes chargeable at 40%.

**Equals £**

Reduced by taper relief if transferor survives between 3 – 7 years.

**Equals inheritance tax to pay on the PET £**

Make a note of any remaining NRB that is left as you will need to carry it over to part 4 of the death estate in the precedent below.

**Part Two: Steps to Calculate Inheritance Tax on the death estate.**

**Step 1 – what is the “transfer of value”**

Death estate

**Step 2 – what is the value transferred?**

On a death estate to calculate the value transferred:

Firstly, add together all the assets.

Then deduct any excluded property such as a life policy in trust or the value of a pension.

The deduct all debts and liabilities.

Remember assets that attract relief or are exempt should still be included at this stage. If assets are held as joint tenants-the half share owned by the deceased needs including as an asset for tax purposes.

Assets less excluded property less debts/liabilities:

**Equals: £**

**Step 3 – apply relevant exemptions and reliefs available on death.**

Death:

• Spouses/civil partners

• Gifts to charities

Apply the applicable reliefs:

• Business property

• Agricultural property

**Equals £**

**Step 4 – Calculate the appropriate rate of tax.**

Deduct RNRB if applicable.

Deduct any transfer of RNRB if applicable.

Deduct the NRB.

Deduct transfer of NRB if applicable.

Equals £

If the value transferred is less than the RNRB, NRB and any transfers then there will be no IHT to pay.

Next apply the appropriate rate of tax of 40%

**Equals IHT to pay: £**