Personal Tax

Inheritance Tax on Death

Exercise 2 Model Answer

Ernest died and left an estate which was valued at £1,600,000. He had not made any lifetime transfers.

In his will, he left £1,000,000 to his wife and £45,000 to Oxford University, with the balance of his estate to be divided equally between his four children.

Task

Calculate the amount of Inheritance Tax payable.

Calculate how much money each of Ernest's four children will receive.

Calculation of Inheritance Tax – Ernest

Total value of estate	*£1,600,000*
Less: exempt transfers	
To his wife	*(£1,000,000)*
To Oxford University	*(£45,000)*
Sub total	*£555,000*
Less: nil rate band	*(£325,000)*
Chargeable to Inheritance Tax	*£230,000*
Inheritance Tax (£230,000 x 40%)	*(£92,000)*

Calculation of Amount Due to Ernest's Children

Total value of estate	*£1,600,000*
Less: transfers to Ernest's wife and to Oxford University	*(£1,045,000)*
Less: Inheritance Tax	*(£92,000)*
Balance of estate to be shared between Ernest's children	*£463,000*

Ernest's children will each receive £115,750 (£463,000 / 4)