Paul Robbins training and consultancy

Personal Tax

Potentially Exempt Transfers

Worked Example Model Answer

Derek made a lifetime transfer of £55,000 to his brother Rodney. He has not used the Inheritance Tax annual exemption in the current or previous tax year.

Task

Calculate the amount of the potentially exempt transfer.

If Derek died two years after making the potentially exempt transfer, leaving an estate of £400,000 (with no exempt transfers), how much Inheritance Tax is payable?

Potentially Exempt Transfer

Value of lifetime transfer	***£55,000***
***Less:* two annual exemptions (2 x £3,000)**	***(£6,000)***
Potentially exempt transfer	***£49,000***

Inheritance Tax Payable upon Derek's Death

Nil rate band	***£325,000***
***Less:* potentially exempt transfer – now chargeable**	***(£49,000)***
Nil rate band available against estate	***£276,000***

Value of estate	***£400,000***
***Less:* nil rate band available against estate**	***(£276,000)***
Amount chargeable to Inheritance Tax	***£124,000***
Inheritance Tax due (£124,000 x 40%)	***£49,600***