Inheritance Tax in Plain English: The £325,000 Nil Rate Band Explained

Inheritance Tax (IHT) is a tax that may be charged on a person's estate after they die. An estate includes things such as property, money, investments and personal possessions. **Although many people worry about Inheritance Tax, not every estate has to pay it. One of the key reasons is the Nil Rate Band, which currently stands at £325,000.**

The term "Nil Rate Band" can sound complicated, but the principle is quite simple. It is the amount of an estate that can be passed on without any Inheritance Tax being charged. In other words, the first £325,000 of a person's estate is normally taxed at 0%.

For example, if someone dies with an estate worth £250,000, no Inheritance Tax would usually be due because the estate is below the £325,000 threshold. If the estate is worth £400,000, the first £325,000 would normally be tax-free, while the remaining £75,000 could be subject to Inheritance Tax.

The standard rate of Inheritance Tax is generally 40% on the value of the estate above the available tax-free allowances. Using the example above, the £75,000 above the threshold could potentially be taxed at 40%, resulting in a tax bill of £30,000. However, the actual amount due can vary depending on the circumstances and any additional reliefs that may apply.

One important point is that assets left to a spouse or civil partner are generally exempt from Inheritance Tax. This means that if someone leaves their estate to their spouse or civil partner, there is often no Inheritance Tax to pay on those assets, regardless of their value.

There is also a valuable rule for married couples and civil partners known as the transferable Nil Rate Band. If the first spouse or civil partner dies and does not use all of their £325,000 allowance, the unused portion can usually be transferred to the surviving spouse or civil partner. This can potentially double the available Nil Rate Band to £650,000 when the second person dies.

Many homeowners may also benefit from an additional allowance known as the Residence Nil Rate Band. This applies when a main residence is passed to direct descendants, such as children or grandchildren. Depending on the circumstances, this allowance can increase the amount that can be passed on before Inheritance Tax becomes payable.

Inheritance Tax is not only relevant when someone dies. Certain gifts made during a person's lifetime can also affect the tax position. **In some cases, gifts may become exempt if the person survives for at least seven years after making them.** There are also some smaller gift exemptions available.

The rules surrounding Inheritance Tax can be complex, particularly where large estates, trusts or substantial gifts are involved. It is sensible to seek advice if you are unsure about how you may be affected.