

Technical Insights, Quick Reference Guide

The 14-year rule

This guide will assist you with the process of calculating the IHT due on failed gifts within 7 years of death and demonstrate how this impacts the overall IHT liability of the estate. We have a tool which performs the calculations described in this guide <https://www.quilter.com/help-and-support/tools/gifting-calculator/>

The 14-year rule

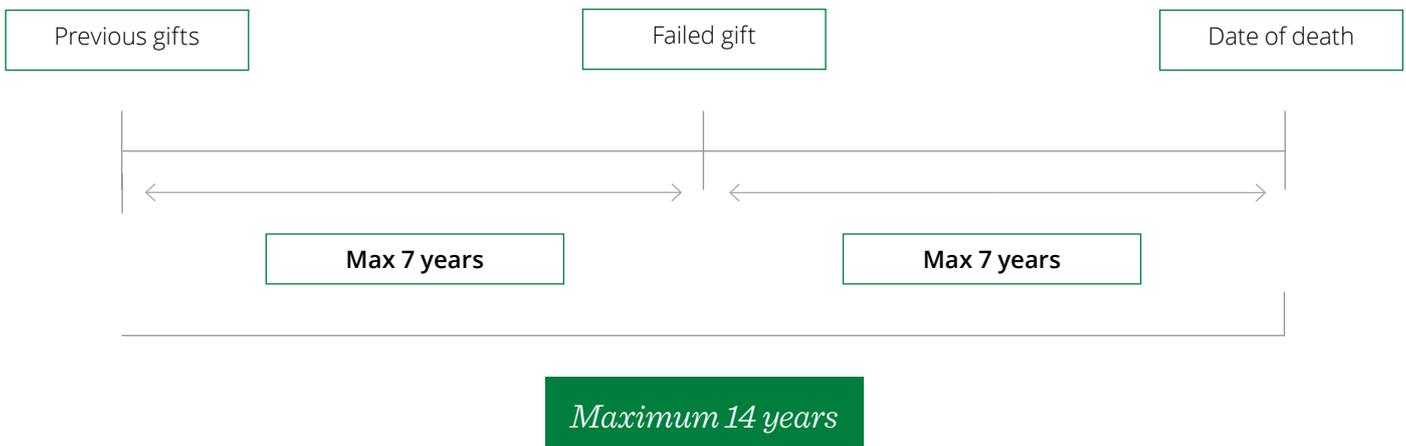
The rule essentially means that gifts made up to 14 years before death can affect the inheritance tax calculation.

If a Chargeable Lifetime Transfer (CLT) was made more than 7 years before death, it might still impact the tax on failed Potentially Exempt Transfers (PETs) or other CLTs made within 7 years of death.

When someone dies, any gifts made in the 7 years before death are reassessed for tax purposes. If there were CLTs made between 7 and 14 years before death, these can reduce the available nil rate band (the amount that can be given tax-free) for the gifts being reassessed.

The tax on gifts made within 7 years of death is recalculated at the death rate of 40%. If earlier CLTs (from 7 to 14 years before death) have used up part of the nil rate band, the tax on the more recent gifts can increase.

In essence, the 14-year rule ensures that earlier gifts can still influence the tax liability on later gifts, making it important to consider the timing of all significant gifts when planning for inheritance tax.



Calculating the tax on failed gifts

- Step 1.** Work out the total NRB available. This will be the NRB in the year of death plus any transferrable NRB from a previously deceased spouse/civil partner.
- Step 2.** Reduce the total available NRB by the value of gifts made in the 7 years immediately before the failed gift. To give you the remaining NRB. If the value of previous gifts exceeds the available NRB, the remaining NRB is £0.
- Step 3.** a) If the failed gift is less than the remaining NRB there will be no further tax on the failed gift, OR
b) If the failed gift exceeds the remaining NRB, tax the excess at the death rate of 40%*

Repeat each step for each failed gift.

Notes:

Step 1. Do not include any available Residence Nil Rate Band (RNRB)

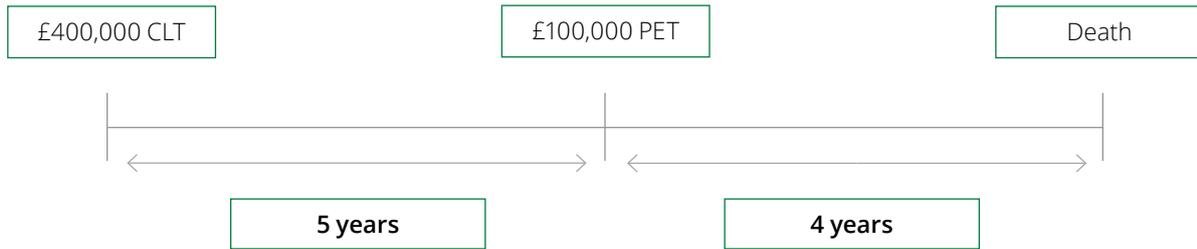
Step 3b). Where the failed gift in question is a CLT where 20% 'entry' charge has been paid, deduct this from tax liability.

*Taper relief may be available if the failed gift was made at least 3 years before death.

Suitable for financial advice professionals only.

Example - Part 1

Assume the available NRB in this example is £325,000



- The PET is within 7 years of death, it therefore fails and becomes chargeable.
- 'Look back' and capture a CLT made within 7 years before the PET.
- The CLT uses all the available NRB, £0 NRB remains.
- £100,000 PET is taxable in full.
- As failed PET is over 3 years before date of death, taper relief applies. In this case the rate of IHT is 24% as the gift is between 4 and 5 years before death.
- £100,000 x 24% = **£24,000**

Calculate the estate's remaining NRB separately

The above steps deal with the calculation of IHT due on the failed gifts only. A further calculation is required to work out the IHT liability on the remainder of the estate. To do this you need to know how much Nil Rate Band (NRB) is available for the estate to use.

Step 1. Calculate the available NRB. This will be the NRB at the time of death plus any transferred NRB from a previously deceased spouse/civil partner.

Step 2. Subtract from step 1 the value of PETs and CLTs made in the 7 years before date of death. This gives you the remaining NRB for the estate.

If the value of PETs and CLTs exceeds the available NRB, then the remaining NRB is £0.

Example - Part 2

- Only the failed PET of £100,000 is within 7 years of death
- £325,000 - £100,000 = **£225,000** remaining NRB

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