

Gifting Assets: Understanding the Inheritance Tax Implications

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By **David Ambrose**, 1st October 2026

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Potentially Exempt Transfers and Chargeable Lifetime Transfers

Potentially exempt transfers (PETs) are often discussed in the context of the seven-year survival period. However, where the intended gift is already decided upon, there may be little benefit in delaying it solely because of the seven-year rule. Without the gift, the asset remains in the donor's estate; if the donor dies within seven years, the gift remains relevant to the inheritance tax calculation. It is therefore unnecessary to restrict PETs to the nil rate band every seven years.

Chargeable lifetime transfers (CLTs) are treated differently because they can attract lifetime inheritance tax at half the death rate, giving a maximum rate of 20%.

As CLTs are immediately chargeable, the nil rate band can effectively be used in full every seven years. After seven years after the gift, the CLT ceases to use the nil rate band for inheritance tax purposes, leaving a fresh nil rate band available.

Accordingly, the nil rate band, currently £325,000, may be used every seven years.

Trusts require appropriate knowledge and expertise to administer and may incur professional costs. An outright gift to an individual may therefore be simpler. A trust is generally relevant only where unrestricted access to the funds may be inappropriate.

Gifts Out of Income

The gifts out of income exemption can be particularly useful where an individual regularly provides financial support to family members, for example through contributions towards education or other living costs. Gifts out of income are exempt from inheritance tax. They are therefore neither CLTs, where made to a trust, nor PETs,

where made to an individual.

The exemption applies only if the following conditions are met.

- The gift must form part of the donor's normal expenditure. It must therefore follow an established pattern rather than be an isolated gift.
- The gift must be funded from income rather than capital. Capital includes cash savings, sale proceeds and withdrawals from an investment portfolio.
- After making the gift, the donor must retain enough income to maintain their usual standard of living. What constitutes that standard will depend on the donor's circumstances.

Gifts may be made to individuals for a specific purpose, such as paying school fees.

Get in Touch

At Dixcart UK, we work alongside clients to provide practical, well structured advice, as well as taking care of drafting of your will, helping to ensure that gifting strategies are both efficient and aligned with long term intentions. If you would like to review your position or discuss your options in more detail, please contact our team at advice.uk@dixcart.com.