Simplifying the 'seven year rules'

Getting to grips with what is required to administer a loved one's estate can be challenging, particularly at an already difficult time. Where inheritance tax is payable, the tax rules, HMRC requirements and exemptions that may apply are enough to baffle anyone!

It is currently very important to identify gifts made during the seven years before a person's death but they are easily overlooked. What is the seven year rule? Why does it matter?

Under current inheritance tax legislation, outright gifts are potentially ignored ('exempt') when calculating the value of a person's estate for inheritance tax purposes. However, they only become fully exempt if the person making the gift survives the gift by seven years. If he or she dies within seven years of making the gift, a number of factors will affect the inheritance tax position. These include how long before death the gift was made, who received the gift and the availability of the deceased's inheritance tax free 'nil rate band'.

The complexity of this rule has been noted. In July 2019, the Office of Tax Simplification (OTS) issued its second report which outlined the possible ways for the calculation of inheritance tax to be simplified.

On lifetime gifts, the report suggested:

- replacing the multiple lifetime gift exemptions which currently exist with a personal gifts allowance;
- reducing the seven year period during which a lifetime gift may become subject to IHT to five years;
- abolishing taper relief (i.e. the gradual reduction of IHT potentially payable as the seven years pass);
- removing the need to take account, in some unusual circumstances, of gifts made up to seven years before the current seven year period;
- simplifying and clarifying the rules on the IHT payable where the donor does not survive for seven years;

and
- reforming the current exemption that applies to gifts made out of income rather than capital.

So has anything changed? Not yet. With other matters higher-up the government's list of priorities, it is not clear whether or not these suggestions will take effect anytime soon! Nonetheless, it is always a good idea to think about your own affairs and the inheritance tax implications which could affect your estate.

How we can help

If you would like to discuss inheritance tax or estate planning or administration, please get in touch with Hannah Glover on 01892 506 057 or at hannah.glover@cripps.co.uk.

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