

Reduce inheritance tax by leaving a gift to charity



Many people choose to make charitable gifts in their Wills. As well as supporting a charity to continue their valuable work, making a charitable gift in your Will could also have Inheritance Tax (IHT) advantages for your estate.

It was recently reported that Doreen Lofthouse, famous for her entrepreneurial success in bringing Fisherman's Friends cough sweets to the wider market, left her £41 million fortune to a charity that aims to develop and support her hometown. Charitable gifts are exempt from IHT and so these assets would have passed free of IHT.

While not everyone is an OBE winning philanthropist with a multimillion pound estate, you might want to include charitable gifts in your Will to support those causes that mean the most to you, whilst also benefitting from the IHT exemption.

IHT is charged at a rate of 40% on estates over the IHT threshold. The threshold, also known as the nil rate band, is currently set at £325,000. This means that any part of your estate above that value may be taxed. Some estates may also benefit from an additional Residence Nil Rate Band, currently set at £175,000.

Gifts to UK charities and registered community amateur sports clubs are exempt from IHT, under the charity exemption. This means that a gift to charity in your Will is not subject to IHT, and does not count towards the nil rate band, therefore reducing the taxable value of your estate. There is no value limit to this exemption.

To encourage charitable giving on death, tax legislation also provides that, where you are leaving a gift of 10% or more of your net estate to charity, the overall rate of IHT payable on your estate will reduce from 40% to 36%.



How we can help

We can draft your will to take advantage of this lower rate. This could be by creating a discretionary trust of your estate, with a letter of wishes to your executors requesting that 10% or more passes to charity. Alternatively, we can draft your will to include specific charitable gifts, including conditions (if desired) on how and if those gifts take effect if the lower tax rate does not apply.

If you wish to update your will or if you would like further advice on charitable giving, please contact our [wills, trusts and probate team](#).

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