# Notes to help you fill in Inheritance Tax Online

These notes are for when the deceased died on or after 6 April 2011 and you are using Inheritance Tax Online (IHT Online).

If the deceased died before 6 April 2011, you will need the correct paper form. This is IHT205 along with IHT206 'Notes'. These are available online at:

- https://www.gov.uk/government/collections/inheritance-tax-forms

Don't try and use these notes to help you with the IHT205, or use the IHT206 'Notes' to help you with IHT Online.

Read these notes carefully as they will help you to fill in the online service correctly.

You may be liable to financial penalties if the information you give is incorrect, incomplete or false.

These notes are designed to help you fill in Inheritance Tax Online. They cannot explain everything about Inheritance Tax.

If you have any questions about Inheritance Tax and probate that these notes do not answer, or if you need any help to fill in the online service, either:

- go to **www.gov.uk/inheritance-tax**
- phone our helpline on **0300 123 1072**
  – If you're calling from outside the UK, phone **+44 300 123 1072**

You may be required to fill in forms for the probate service, in addition to filling in Inheritance Tax Online, to apply for a grant of representation. For more information go to **www.gov.uk/inheritance-tax** or phone our helpline.

## Contents

## Registration Deceased's details

### What is meant by 'permanent home' or 'domiciled'

Your permanent home, or domicile, is the country where you intend to live for the remainder of your life. It is the country whose laws decide, for example, whether a Will is valid, or how the estate of a person who has not made a Will is dealt with when they die.

The fact that someone was born in the UK and has lived here for most of their life, or had moved to the UK permanently many years ago, gives a good indication that they might be domiciled in the UK, but this can be a complicated legal issue. You can get more information about domicile. Go to: https://www.gov.uk/inheritance-tax/when-someone-living-outside-the-uk-dies.

If you are unsure about the deceased's domicile status, you might want to seek professional advice.

## Estate return overview

### What is meant by 'estate'

For Inheritance Tax purposes, a person's estate is made up of:
- assets in the sole name of the deceased
- their share of any jointly owned assets
- nominated assets
- assets they have given away, but kept an interest in
- assets from which they benefit, where they have elected not to pay the Income Tax charge
- assets in certain types of trust, in which the deceased had a right to benefit

The total of these assets is added to the chargeable value of any lifetime gifts made in the 7 years before death, to work out the amount on which tax is charged. (The chargeable value of gifts is the value of the gift after any exemptions are taken off.)

### What is meant by 'Estate value'

The gross value of the estate for Inheritance Tax is the total of all the assets that make up the deceased's estate before any of their debts are taken off, plus any gifts made by the deceased. This figure is also needed if you are applying for probate.

### What the 'threshold' is

The excepted estate limit is normally the same as the threshold above which Inheritance Tax is payable (the Inheritance Tax threshold or nil rate band). The threshold (nil rate band) is currently frozen for the tax years 2009 to 2018 at £325,000 but to find the most up to date threshold limit on the website, go to: https://www.gov.uk/government/publications/rates-and-allowances-inheritance-tax-thresholds/inheritance-tax-thresholds.

**Assets - Deeds of variation**

If two people, say husband and wife, die within a short period of time, it is possible for the beneficiaries of the second to die to alter the devolution of the estate of the first to die by executing a deed of variation within 2 years of that death. The effect is that they can redirect assets from the first estate away from the second estate.

But redirecting assets in these circumstances only has effect for Inheritance Tax purposes. It does not alter the value of the second estate for probate purposes. It is the value of the second estate as at the date of death that determines whether you can fill in IHT Online, or whether you must fill in paper form IHT400. If the gross value of the second estate, as at the date of death, exceeds the threshold, you must fill in paper form IHT400.

**Assets - at the date of death**

When you enter the value of assets or debts into the IHT Online system do not include pence. You should round assets down and debts up to the nearest pound.

You must include all the assets that were part of the deceased's estate as at the date of death.

**Assets - Finding Assets**

**What to do now**

Make a thorough search of all the deceased's papers. Make a rough list of their assets, investments, their other financial interests and the debts they owed when they died.

If the deceased had to fill in Self-Assessment tax returns, they may have kept records to fill in those forms and these may help. Bank statements and building society passbooks may help you to discover whether any gifts were made. Remember that although the income from certain assets such as ISAs is not liable to Income Tax, both the capital and the income are liable to Inheritance Tax and must be included.

You may also find it useful to ask others what they knew of the deceased's financial affairs. People who might be able to help are:

- any solicitor or accountant who dealt with the deceased's affairs
- the deceased's close family (especially to discover gifts)
- anyone named in the Will who might know about the deceased's affairs
- any close business associates of the deceased
- the deceased's bank, stockbrokers or other financial advisers (the bank may have other papers or valuables lodged with them for safekeeping)

You will need to make quite detailed enquiries so that you can find out about everything that makes up the deceased's 'estate'.

When you have completed your rough list of assets etc, you will need to find out the value of each of the assets concerned.

It is very important that you provide full and accurate information and value the assets correctly, because you may make yourself liable to a financial penalty if the values you give or the information you provide is incorrect, incomplete or false.

**What to do when you have got the assets and the values sorted out**

When you have got a good idea about the assets that make up the estate, and their values, add up the figures. If the gross value of all the assets, when added to the chargeable value of any gifts the deceased made, is less than or equal to £1million, you may continue to complete IHT Online.

But, if the gross value:

- is more than £1million or
- is more than the Inheritance Tax nil rate band (or twice the Inheritance Tax nil rate band where you are claiming a transfer of unused nil rate band) and no assets pass to the deceased's spouse or civil partner or to a qualifying charity

**Do not fill in any more of IHT Online – you will need to fill in paper form IHT400 instead.**

If you're using IHT Online while you're still trying to find out assets, the service will calculate the estate value based upon the values for each asset that you provide. If the estate value is over £1 million, you'll be asked to complete the paper form IHT400 and you'll be given a copy of what you've already entered online to help you with this.

## Valuing Assets

### Assets - How to value all the assets

For Inheritance Tax purposes, you have to value all the assets as if each item had been sold on the open market on the date the person died. This is called the 'open market value'. It represents the realistic selling price of an asset, not an insurance value or replacement value.

You should be able to value some of the estate assets quite easily, for example, money in bank accounts, stocks and shares. In other instances, for example, houses and land, you will probably need the help of a professional valuer. When you employ a valuer, make sure you ask them to give you the 'open market value' of the asset.

There is more detailed help about valuing different types of assets later on in these notes.

### Valuing assets owned jointly

It does not matter whether the assets are owned as joint tenants, or as tenants in common, (read the guidance on joint tenants and tenants in common) the starting point in valuing the deceased's share is their share of the whole value. So, if 3 people contributed equally to a bank account with £900 in it and it was held as joint tenants, the deceased's share will be £300. But there are some special rules about valuing other types of asset.

### Valuing a share in houses, buildings and land

If the deceased owned houses, land and buildings with other people you should start by working out the value of the deceased's share.

If the other joint owner is not the deceased's spouse or civil partner, you can reduce the value of the deceased's share by 10%. But if the house, land or building is wholly owned by husband and wife or civil partners, special rules apply and you should not reduce the deceased's share by 10%.

### Valuing joint insurance policies

If the deceased owned an insurance policy jointly with someone else, you should include the deceased's share of the policy as a joint asset. If the policy is known as a 'joint life and survivor' policy, you should still include the deceased's share of the policy. The insurance company should be able to give you an estimate for the value of the whole policy at the date of death, so you can work out the value of the deceased's share.

### Valuing joint bank accounts

Valuing the deceased's share of a bank account is quite easy but sometimes an account may be held in joint names just for convenience. For example, if an elderly person can no longer get out, they may add a son's or daughter's name to their bank account so the son or daughter can operate the account for them.

If an account is in joint names for convenience and the deceased provided all the money in the account, you should treat the account as if it was in the deceased's sole name and include the full balance of the account. But if the opposite applies, and the deceased did not provide any of the money in the account and their name was on it for convenience only, then, so long as the provider did not intend to make a gift, there is no need to include anything about the joint account in IHT Online.

## Assets - Properties

### Freehold/leasehold residence

You should include the open market value of the deceased's share of a home owned or partly owned by the deceased unless it was held in joint names and passes automatically to the surviving joint owner. If the deceased had moved to a nursing or other residential care home shortly before they died and the property had been left vacant, you should still include it.
If the property had been let after the deceased moved out, you should include the value. Write the address of the property, including the postcode, in the space provided.

If the property is a farmhouse read the notes in other land and buildings.

If the deceased's home passes automatically to the surviving joint owner, do not include it here, it should be included in joint assets.

### Valuing houses, land and buildings

Valuing houses, land and buildings can be complicated and you are strongly advised to use a professional valuer. You should ask for, and include, the 'open market value' not a 'probate value'.

You should ask the valuer to take account of the state of repair of the property (which may decrease its value) and any features that might make it attractive to a builder or developer, such as large gardens, or access to other land that is suitable for development (which may increase its value).

If you get several valuations which give a range of values for the property, it is probably best to adopt a value that is somewhere in-between the highest and lowest values that you have got.

If, having arrived at your figure and before you apply for a grant, you find out about other information that casts doubt on your figure, you must reconsider it. For example, you may have estimated that the property was worth £250,000. When you try to sell it you market it at £270,000 and receive some offers at that figure or more. This suggests that the open market value for the property may be closer to £270,000. In these circumstances we recommend that you ask the valuer to consider amending the valuation, taking into account such things as the length of time since the death and movements in the property market.

**Other freehold/leasehold property**

You should include the open market value of any other residential property that was owned by the deceased which was either let or could be let but was vacant when they died.

**Other land and buildings**

You should include any other land and buildings the deceased owned. This will include:

- farms (if the person who has died lived on a farm include the value of the whole farm here)
- business property, for example, a hotel, shop, factory etc
- timber and woodlands
- other land and buildings such as lock-up garages, redundant or derelict land, quarries, airfields etc
- other rights that attach to land, such as fishing or shooting rights

We recommend that you get professional advice if the estate contains this sort of land as it can be very difficult to value.

**Assets - Jointly owned**

**Joint tenants**

If the deceased held an asset with someone else, and their share passes automatically to the other joint owner we call the asset a 'joint asset' and the joint owners are known as 'joint tenants'. Joint bank accounts are usually owned in this way.

You should work out the value of the deceased's share in a joint asset by dividing the value of the whole asset by the number of joint owners. However, you should also read the paragraph 'Valuing joint bank accounts'.

**Tenants in common**

If the deceased:

- held an asset with someone else
- their share passes under their Will (or if they did not make a Will, under the rules of intestacy) to the other joint owner or to someone else

the joint owners hold the asset as 'tenants in common'. The deceased's share is usually in proportion to the money they contributed to buy the asset or the amount they put into a joint account.

**How to find out if a jointly owned asset is owned as joint tenants or tenants in common**

If the asset is a house or land, the Land Registry documents may be able to help. You can get a copy of the title register for the property from the Land Registry website. Go to: **www.landregistry.gov.uk**

The names of all the joint owners will be given on the title register and if it is held as tenants in common that should also be shown by the addition of a restriction on the Land Registry document known as a 'Form A restriction'.

The Form A restriction will be in the following words (or similar).

'*No disposition by a sole proprietor of the registered estate (except a trust corporation) under which capital money arises, is to be registered unless authorised by an order of the court.'*

The Land Registry document will not say what share of the property was owned by each owner. To find out the share owned by each owner you will need to look at the declaration of trust document or, if the property was inherited jointly, the Will by which it was inherited.

**Assets – Money**

You should include the total value for all the money in bank and building society accounts, National Savings investments and cash when the person died. This will include:

- cash held by the deceased, kept at home or elsewhere, such as a safety deposit box
- money in current, deposit, high interest, fixed interest, term, bond and money market accounts
- accounts with supermarkets or insurance companies
- National Savings Bank accounts
- Premium Bonds
- cash in an ISA
- travellers' cheques

The figure should include interest that was owed up to the date of death but was not actually paid into the account. You can get these figures from the bank or other organisation holding the account. National Savings investments include:

- National Savings Certificates
- National Savings Capital or Deposit Bonds
- National Savings Income bonds
- Pensioners Guaranteed Income Bonds
- Children's Bonus Bonds
- First Option Bonds
- Save As You Earn contracts
- Year Plans
- Premium Bonds, including unclaimed prizes

You can get help with finding out the value of all National Savings investments:

- online, go to **www.nsandi.com/what-do-i-do- when-someone-dies**
- by phoning the National Savings Enquiry Line on **0500 007 007**

An ISA can also be taken out without using money – this could be an insurance policy held in an ISA. If you're not sure of what's in the ISA then you should check with the provider.

### Assets – Household and personal goods

The term 'household and personal goods' means things such as furniture, pictures, paintings, china, TV, audio and video equipment, cameras, jewellery, cars, caravans, boats, antiques, stamp collections and so on. You do not have to get a professional valuation for items worth less than £500. Although you should do if you think any individual item may be worth more than £500. If you do estimate the value, remember to use the open market value not an insurance or replacement value.

The open market value is the realistic selling price for the items. This is likely to be the value the item might fetch if sold at auction or through the local paper. The value could be low, or even nil, provided that it is honest.

## Assets – Pensions

If the deceased only had a State Pension, you can answer 'No' to the questions about Pensions.

Where someone has the benefit of a pension in addition to the State Pension, this additional pension will normally provide 2 types of benefit. These are:
- retirement benefits
- death benefits

It is not possible to take both benefits. If the person reaches retirement age and takes their retirement benefits (a lump sum plus pension) the death benefit no longer applies. However, if they die before taking their retirement benefits, the death benefit is payable according to the pension scheme rules or the policy provisions. No retirement pension is paid.

### Approved, unapproved and registered schemes

For Income Tax purposes, pension schemes and pension policies are approved, unapproved or registered. You need to find out which applied to the deceased's scheme or policy. The scheme papers may provide this information. If they do not, the pension scheme provider should be able to tell you. **We cannot tell you what type of scheme it is**.

The Pensions question asks about the deceased's pension arrangements as there are some circumstances where an Inheritance Tax charge can arise on pensions.

You can answer 'No' to this question if the deceased was drawing their retirement pension in full and had not made any arrangements to change their pension in the 2 years before they died, other than pensions paid to a spouse or civil partner.

### Changing pensions benefits

If the deceased was entitled to a pension (either from a pension scheme or a personal pension policy) and they had not taken their full retirement benefits by the time they died, you may need to take into account any changes they made to their pension benefits. **You can ignore the State Pension** in answering this question.

If the deceased was entitled to benefit from a pension scheme or pension policy and they had not taken their full retirement benefits before they died, you will need to read the following notes to decide how to answer.

**Transfer of pension entitlement**

If the deceased had not taken their full retirement benefit from a pension scheme or personal pension policy, any changes to the benefits they were entitled to may have given rise to a transfer of assets. As such a transfer is not a 'specified transfer' you cannot use IHT Online and must fill out a paper form IHT400 instead. These notes only apply where any dealings with the pension benefits took place at a time when the deceased had been diagnosed with a terminal illness, or was in such poor health as to be uninsurable.

Where any dealings took place at a time when the deceased was in normal health for their age, then even if they have died shortly afterwards, you can answer 'No'.

**Disposing of pension benefits**

A person disposes of the benefits payable under a pension scheme or pension policy where, for example, they put the death benefits into trust, or allocate some of their pension to someone else. If this disposal took place when the deceased had been diagnosed with a terminal illness, or was in such poor health as to be uninsurable, you should answer 'Yes'.

A person can change the benefits to which they were entitled under a pension scheme or pension policy by:

- making additional contributions to the pension scheme or policy
- transferring their benefits from one pension scheme to another
- failing to take their pension on reaching pension age
- failing to request ill-health retirement where the deceased met the requirements for that form of retirement
- opting for income drawdown or making any changes to an income drawdown that has already been arranged
- opting for phased retirement or making changes to the number of segments taken where phased retirement has already been opted for

'Income drawdown' is a particular situation where the deceased has reached pension age but has chosen not to use their retirement benefits to buy an annuity. Instead, they decide to 'draw' a certain level of income from the pension funds with a view to buying an annuity at a later date.

'Phased retirement' is where the deceased has divided their pension entitlement into a series of segments and has agreed a plan with their pension provider to take so many segments each year on retirement.

If any such changes took place when the deceased had been diagnosed with a terminal illness, or was in such poor health as to be uninsurable, you should answer 'Yes'.

**If the answer to the Pensions question is 'Yes', stop filling in IHT Online – you will need to fill in paper form IHT400 instead.**

**Guaranteed pension payments**

If the deceased was receiving a pension from a pension scheme or pension policy, the payments may have been guaranteed for a certain period of time. If the guarantee period ends after the death, the payments will continue to be made to the estate, and the right to receive those payments is an asset of the estate. If this applies to the deceased's estate, include the value of the right to receive the payments in other assets.

You can download some software called 'Annuity Calculator' from our website that will work out the value of this right. Otherwise, add up all the payments that still have to be made and take off 25% to give an estimated figure.

You should ignore the (usually reduced/lower) pension that continues to be paid directly to the deceased's surviving spouse or civil partner.

### Lump sum payments

If the deceased dies before retirement or before taking their retirement benefits, a lump sum may be payable under the pension scheme or pension policy. A lump sum will be part of the deceased's estate if:

- it is payable to their personal representatives as of right or because no-one else qualifies for payment
- the deceased could direct who the lump sum was to be paid to by making a binding nomination/ instruction
- the deceased could manufacture a situation (for example, by revoking a nomination) so that the lump sum would be payable to the estate
- it is a refund of contributions

In each of these cases, the amount of the lump sum should be included in other assets.

A lump sum will not be part of the deceased's estate if the pension trustees are free to decide who it is payable to (even if they do decide to pay the lump sum to the personal representatives). Similarly, any 'ex gratia' payments (where the payer is not legally obliged to make the payment) paid to the estate are not part of the Inheritance Tax estate, as the deceased had no 'right' to them. You must take care to determine exactly how the lump sum is payable. If the deceased has completed a 'letter of wishes', the trustees may well pay the lump sum in accordance with the letter. But even if that means the lump sum is paid to the estate, it is not part of the deceased's estate for Inheritance Tax because the 'letter of wishes' did not bind the trustees.

Only if the lump sum was payable under a binding nomination should the lump sum be part of the estate, irrespective of who it is paid to.

If you decide that the lump sum is part of the estate, include its value in other assets.

## Assets – Stocks and shares

### Stocks and Shares quoted on the Stock Exchange

You should include:

- UK government securities such as treasury stock, exchequer stock, convertible stock and consolidated stock
- all stocks, shares, debentures and other securities listed on the Stock Exchange Official List
- unit trusts
- investment trusts
- open-ended investment companies
- shares in an ISA

You should also include any dividends that were due, but had not been paid before the death.

If the deceased was an underwriter at Lloyds, you should include their business portfolio of shares.

You do not have to get a professional valuation for listed stocks and shares. You can value shares quoted on the London Stock Exchange by finding the price of the shares in the financial pages of a newspaper or online.

First of all, make a list of all the shares, including the name, nominal value and type of shares – for example, 'A N Other Plc 10p ordinary shares'. Then, if you are using a newspaper, find the shareholding and write down the price given for each shareholding. To find out the value of the shares, multiply the number of shares by the price given.

So if the deceased held 1,250 shares and the price was 1,093.5p, the value for the holding is:

1,250 x 1,093.5p = **£13,668.75.**

Sometimes, for unit trusts, the newspaper may show 2 prices. Take the lower one.

You should take the value of the shares on the day the person died – remember that a newspaper printed on the day the deceased died will have share prices for the day before.

If the deceased died on a day when the Stock Exchange was closed, take the price for either the next or last day when the Stock Exchange was open, whichever is the lower. For example, if the person died on a Sunday you can take the price for either the Monday after or the Friday before.

Keep your list with the deceased's papers and other records.

### Stocks and shares not quoted on the Stock Exchange

You should include:

- shares in a private family company which are not listed on the Stock Exchange
- shares listed on the Alternative Investment Market (AIM), which may be part of an ISA
- shares traded on OFEX (an unregulated trading facility for dealing in unquoted shares)

You will be able to value shares on AIM or OFEX in the same way as quoted stocks and shares.

### Private company shares

For private company shares, you should give an estimate of the open market value of the shares. You may need to contact the company's secretary or accountant to get this value.

You should **not** include just the nominal value of such shares (for example the nominal value for 1,000 £1 ordinary shares is £1,000) unless that genuinely reflects your estimate of the open market value of the shares.

### Assets - Insurance premiums

If the deceased was paying insurance premiums on a policy that will pay out to someone else, you may need to take the premiums paid into account as gifts unless the policy was for the benefit of the deceased's spouse or civil partner.

Where the deceased was paying premiums on an insurance policy for the benefit of someone else, you can answer 'No' if:

- the insurance policy is **not** held in trust
- the premiums paid each year are covered by the exemption for regular gifts out of income (limited to £3,000 for each tax year)
- they did not buy an annuity at **any time**

If the insurance policy is **not** held in trust and the premiums are **not** covered by the exemption, then each premium is a gift of cash. You can answer 'No' but you must take the premiums into account as gifts made by the deceased.

You can also answer 'No' if:

- the insurance policy is held in trust (this will be the most common case)
- it was put into trust more than 7 years ago
- the premiums paid each year are covered by the exemption for regular gifts out of income
- they did not buy an annuity at **any time**

If the insurance policy **is** held in trust, and it was put into trust more than 7 years ago, but the premiums are **not** covered by the exemption, then each premium is a gift of cash. You may answer 'No' but you must take the premiums into account as gifts made by the deceased.

In any other case, for example, where the policy was put into trust within 7 years of the death, or if the deceased both paid premiums on a life insurance policy that was not for their own benefit or paid out to the estate and they bought an annuity at any time, **you must answer 'Yes' and stop filling in IHT Online now – you will need to fill in paper form IHT400 instead.**

### Assets – Insurance policies, including bonuses and mortgage protection policies

You should include:

- life insurance policies paying out to the estate, including any bonuses that are paid
- money paid under a mortgage protection policy (if the policy was in joint names, include the amount payable in joint assets instead)
- insurance policies held in ISAs
- payments received under investment schemes which pay 101% of the unit value on death
- payments received under investment or reinvestment plans, bonds or contracts with a financial services provider which pay out on death
- insurance policies on the life of another person but under which the deceased was to benefit

### Assets – Business and Partnership Interests

You should include the net value of all the deceased's business interests. Ideally, accounts for the business should be prepared at death and it will be the total of the deceased's capital and current accounts that will be the starting point. Remember, though, that the value for capital assets in accounts is usually the 'book' value, and this is often different from the open market value that is required for Inheritance Tax.

If the deceased was an underwriter at Lloyds, you should include their business portfolio of shares.

Where necessary, you should increase (or decrease) the value of the business interests that are shown in the accounts to reflect any adjustments that are necessary through replacing the ‘book’ value with the open market value.

### Assets – Nominated assets

If the deceased, during their lifetime, ‘nominated’ an asset to pass to a particular person after their death, enter the value of that in the nominated assets part of IHT Online.

The only assets that can be nominated in this way are deposits in friendly societies and industrial and provident societies or, before 1 March 1981, National Savings certificates and accounts.

Legacies in the will are not nominated assets.

This does not include nominated pension benefits.

### Assets – Held in Trust

A trust is an obligation binding a person who legally owns the assets (the ‘trustee’) to deal with the assets for the benefit of someone else. A trust might be in the form of a trust deed or set up by a Will.

### Interests in possession

We call assets that are held in trust ‘settled property’. We say that the deceased had an ‘interest in possession’ in settled property where they had a right to:

- the income from assets (for example, dividends from shares, interest from a bank account or rent from a let property)
- payments of a fixed amount each year, often in regular instalments
- live in a house or use the contents without paying any rent

When someone has a right to live in a house this can have the same effect as a trust for Inheritance Tax, even if the right to live in the house is not formally expressed as a trust for that person’s benefit. Often, this type of right arises under another person's Will and can apply whether or not the house is owned jointly.

If the deceased did not own their home and was not a tenant either, they may have been living there under this sort of arrangement.
If so, you may need to include the value of the deceased’s home in IHT Online.

In some circumstances, where a person has an interest in possession in, or is treated as having an interest in possession in, settled property they are treated for Inheritance Tax as if they owned those assets personally. You may not be able to use IHT Online, if the deceased’s interest in possession is:

- a trust that was set up before 22 March 2006
- a trust that was set up on or after 22 March 2006 **and was**
  - – an immediate post-death interest
  - – a disabled person’s interest
  - – a transitional serial interest

### Immediate post-death interest

An immediate post-death interest is where the deceased was entitled to benefit from assets held in a trust that meets the following conditions.

- the trust was set up under a Will or intestacy
- the deceased became entitled to the interest in possession on the death of the person whose assets passed into the trust
- the trust was never for a bereaved minor or a disabled person

**Disabled person's interest**

A disabled person's interest is where:

- a trust was set up after 29 March 1981 and, during their life
  - a disabled person benefited from not less than half the assets applied and
  - nobody had a right to benefit from the trust
- a trust for the benefit of a disabled person (under which they have a right to benefit) is set up on or after 22 March 2006
- an individual who has a condition likely to lead to them becoming a disabled person sets up a trust, for their own benefit, on or after 22 March 2006

For these purposes the definition of a disabled person is a person who:

- is incapable, by reason of mental disorder (within the meaning of the Mental Health Act 1983), of administering their property or managing their affairs
- is in receipt of Attendance Allowance (under Section 64 of either the Social Security Contributions and Benefits Act 1992 or the Social Security Contributions and Benefits (Northern Ireland) Act 1992) or would be if they were not undergoing certain treatments or met the residence qualifications
- is in receipt of Disability Living Allowance, at the highest or middle rate (under Section 71 of either the Social Security Contributions and Benefits Act 1992 or the Social Security Contributions and Benefits (Northern Ireland) Act 1992) or would be if they were not provided with certain living accommodation or if they met the residence qualifications

The following new rules apply to trusts arising on or after 8 April 2013.

All (previously more than half) the assets including income must now be applied for the benefit of the disabled person except for an annual limit of up to £3,000 (or 3% of the assets if lower) which may be applied for the benefit of others.

A disabled person now includes a person who receives:

- a Personal Independence Allowance or would do so if it were not for exclusions for nursing home residents, those receiving in-patient care and for prisoners
- an increased Disablement Pension or would do so if it were not for the exclusions stated above in relation to Attendance Allowance
- constant Attendance Allowance or would do so but for maintenance in a hospital
- an Armed Forces Independence Payment or would do so but for admission to the Royal Hospital, Chelsea

For gifts made to trusts in existence before 8 April 2013 (or arising after that under a will in existence before that date) the trusts are not prevented from qualifying as a disabled person's interest by the new rules so long as those trusts or wills are not altered on or after 8 April 2013.

For more information on trusts for a disabled person, see the Inheritance Tax Manual at IHTM 42805. Go to:
www.hmrc.gov.uk/manuals/ihtmanual/IHTM42805.htm.

**Transitional serial interest**

There are 2 main types of transitional serial interest. The first is where:

- the deceased has an interest in possession in settled property (a trust)
- the assets comprising the current trust were previously subject to another interest in possession trust that was set up before
- 22 March 2006
- the deceased's interest arose between
- 22 March 2006 and 5 April 2008, inclusive

The second type arises where the deceased had an interest in possession which arose on the death, on or after 22 March 2006, of the holder of a previous interest in possession and the new holder is the spouse or civil partner of the previous holder.

**If the deceased had the right to benefit from more than one trust, or the value of the assets in a single trust was more than £150,000, stop filling in IHT Online now – you will need to fill in paper form IHT400 instead.**

Ouch!

### Assets - Foreign trusts

In deciding how to answer if the deceased had an interest in a trust, it does not matter whether the trustees are resident in the UK or abroad. You must take into account all the trusts treated as part of the deceased's estate, in which the deceased had a right to benefit.

### Assets – Foreign assets

Inheritance Tax is charged on the worldwide assets of someone who is domiciled (has their permanent home) in the UK so it includes any overseas assets that they owned.

The Isle of Man and the Channel Islands are not part of the UK.

**If the gross value of the overseas assets is more than £100,000, stop filling in IHT Online now – you will need to fill in paper form IHT400 instead.**

The £100,000 limit applies to the estate as a whole, so to be sure that the limit of £100,000 is not exceeded, you will need to add together:

- any foreign assets that the deceased owned in their own name
- their share of any jointly owned foreign assets
- any foreign assets held in a trust

Where the deceased owned foreign assets, you may also need to take out a separate grant in the country where the assets are, so that you can deal with them.

You should include the value of assets outside the UK, plus the deceased's share of any foreign assets that were owned jointly with someone else. You need to convert the value in the foreign currency to £ sterling. You can find conversion rates for the most common currencies in the daily newspapers and on the internet. Please make sure you use the conversion rate for the date of death.

Remember that the Channel Islands and the Isle of Man are outside the UK for Inheritance Tax purposes.

### Assets – Money owed to the person who has died

You should include:

- money which the deceased had lent to someone else and which had not been repaid at the date of death

- money which the deceased had lent to trustees linked to a life insurance policy held in trust
- money for which the deceased held a promissory note or 'IOU'
- money which the deceased had lent to someone and which is secured by a mortgage over property
- money owing to the deceased from a director's loan account or current account with a company

You should include the face value of the loan, after taking off any repayments that had been made. You should also include any interest due up to the date of death.

### Assets – Any other assets

You should include any other assets owned by the deceased. Examples are:

- money owed in salary or wages
- arrears of pension or unclaimed benefits
- rents due for the period to death
- income due from a trust for the period to death
- refunds from private health schemes
- Income Tax or Capital Gains Tax repayments
- money or assets that are due to the deceased from the estate of someone else who died before them
- refunds from gas or electricity, insurances or licences

### Gifts

#### What makes a gift

For the purposes of this guidance gifts are transfers of money or other assets made by the deceased **during their lifetime**. Gifts do not include bequests and legacies made in the deceased's Will. So, if, while they were still alive, the deceased gave their son £8,000 to buy a car that would be a gift. If the deceased's Will says "I give £5,000 to my son" that would be a legacy under the will, not a gift. A gift or transfer will be relevant for Inheritance Tax if, having made the gift or transfer, the value of the deceased's estate has gone down. So this will include straightforward cash gifts or a gift of a particular asset. Other transactions such as the sale of a house for less than its full market value, or a gift of shares that results in the deceased losing control of a company will also be relevant. If you are not sure what the effect of a transaction is for Inheritance Tax purposes, please phone our helpline on 0300 123 1072 and ask their advice.

You can say that the deceased made no gifts if the only gifts the deceased made did not exceed £3,000 each year. You can ignore gifts in consideration of marriage or civil partnership within the limits shown in these notes.

#### Gifts made more than 7 years before the death

In most cases, you can ignore gifts and transfers that were made more than 7 years before the death. But you should not ignore gifts or transfers where:

- the deceased kept back some benefit or interest in the assets given away or was entitled to use the assets given away (read the notes about 'gifts with reservation' in the next section)

• the deceased had made a gift or transfer **within** 7 years of death, and **within** 7 years of that gift the deceased had transferred assets to a discretionary trust or to a company

In the second situation, you do not need to tell us about the gift or transfer made by the deceased more than 7 years ago. But the person who received the gift or transfer made within 7 years of the death may have a separate liability to Inheritance Tax. If you are aware that these circumstances apply we recommend that the person who received the gift or transfer should phone our helpline on 0300 123 1072 to discuss their circumstances.

**Gifts with reservation of benefit**

If the deceased has made a gift where they:

- have kept back a benefit of any kind in the assets given away
- are entitled to continue to use the assets given away or the person receiving the assets has not taken full and exclusive ownership of them

the gift is known as a 'gift with reservation of benefit'. A very simple and common example is when someone gives their house to someone else, often their child, but carries on living in the house.

If the asset given away was a house, and either the deceased or their spouse or civil partner continued to benefit from, or have use of, the property through a lease or trust or similar right or arrangement, the gift may be treated as a gift with reservation.

If anything like this applies to the deceased, and you are not sure whether the arrangements should be treated as a gift with reservation, you should phone our helpline. Depending on the complexity of the arrangements, we may not be able to give a definitive answer over the phone.

An Income Tax charge, on pre-owned assets, was introduced in the 2005 to 2006 tax year. This charge generally applies to assets that a person disposed of, but continued to get benefit or enjoyment from, in circumstances where the reservation of benefit provisions do not ordinarily apply. It can also apply when a person contributed to the purchase of an asset for another person that they subsequently obtained benefit or enjoyment from. The legislation gives the customer the option to elect to have the assets in question treated as part of their estate for Inheritance Tax purposes, under the reservation of benefit rules. So long as the election remained in place, the customer would not have to pay the Income Tax.

If the deceased received benefit from a pre-owned asset and elected to pay the Inheritance Tax charge, under the reservation of benefit rules, rather than pay the pre-owned assets Income Tax charge, the deceased must have submitted a form IHT500 to make the election. It is not possible for an election to be made on the deceased's behalf, after death.

If the deceased made any gifts with reservation of benefit stop filling in IHT Online – you must fill in paper form IHT400.

**Gifts of houses, land or buildings**

Gifts of houses, land or buildings only qualify as 'specified transfers' if they were outright gifts from one individual to another. If gifts of houses, land or buildings were to a trust, or the deceased kept back any kind of benefit from the property or was entitled to use the property, **stop filling in IHT Online – you will need to fill in paper form IHT400.**

If the assets given away were not of the type listed below, **stop filling in IHT Online now – you will need to fill in paper form IHT400 instead.**

Or, if the value of all the gifts and transfers, after deducting the allowable exemptions, is more than £150,000, **stop filling in IHT Online now – you will need to fill in paper form IHT400 instead.**

**Other gifts – Specified transfers**

If the deceased made gifts totalling more than £3,000 per year or gave up the right to benefit from any assets held in trust that were treated as part of their estate for Inheritance Tax purposes, the gifts and transfers must qualify as 'specified transfers'. To qualify as 'specified transfers' the assets given away can only be:

- cash
- listed stocks and shares
- household and personal goods
- houses, land and buildings

**and**

the total value of the gifts at the time the gifts were made, after taking away any exemptions that are allowable, must be less than or equal to £150,000.

**Gifts - Allowable exemptions**

If the deceased did make gifts (or other transfers) that exceeded £3,000 in any one year, you can take away certain allowable exemptions from the gifts. The only exemptions that you can take away to find out whether you can fill in IHT Online for the estate are:

- small gift exemption
- annual exemption
- exemption on gifts made in consideration of marriage or civil partnership
- exemption for gifts made as normal expenditure out of income – provided the total value of gifts out of income is under £3,000 for each tax year.

You can still say the deceased did not make any gifts if the **only** gifts the deceased made:

- were all made to individuals more than 7 years before the death and not a 'gift with reservation'
- were fully covered by the allowable exemptions

**Gifts - Small gift exemption**

Gifts to any one person which do not exceed £250 in any one tax year to 5 April are exempt. This exemption covers gifts at birthdays and other festive occasions. You cannot use small gift exemption in conjunction with any other exemption. This exemption can **only** be used if **all** the gifts made to the same person in one tax year do not exceed £250 in total.

**Gifts – Out of income**

Gifts that are made as part of the deceased's normal expenditure are exempt from Inheritance Tax, provided you can show that they:

- formed part of the deceased's normal expenditure
- were made out of income
- left the deceased with sufficient income to maintain their normal standard of living

‘Normal expenditure’ means that the payments were a regular part of the deceased’s expenditure. An example would be where the deceased was making a monthly or other regular payment to someone else. A one-off payment, even if it was out of income, will not be exempt.

If the deceased made any gifts out of income, they meet these conditions and do not exceed £3,000 in total each year, you can say that the deceased did not make any gifts.

**If the gifts made out of income are more than £3,000 per year, you should enter details of the gifts in IHT Online.**

Where the deceased made gifts out of income that exceed £3,000 per year, you must not deduct the exemption for the years concerned. The full value of the gift must be added to all the other gifts to arrive at the total value for gifts.

If this means that:

- the total for gifts exceeds £150,000
- the gross estate is more than the Inheritance Tax nil rate band (or twice the Inheritance Tax nil rate band where you are claiming a transfer of unused nil rate band) and no assets pass to the deceased's spouse or civil partner or to a qualifying charity.

**Do not fill in any more of IHT Online – you will need to fill in paper form IHT400 instead.**

### Gifts – on marriage or civil partnership

If the gift was made:

- on or shortly before the marriage or civil partnership ceremony
- to one or both parties to the marriage or civil partnership
- to become fully effective on the marriage or civil partnership taking place it will be exempt up to the following limits
- £5,000 if the deceased was a parent or step-parent of one of the parties to the marriage or civil partnership
- £2,500 if the deceased was a grandparent or more remote relative of one of the parties to the marriage or civil partnership
- £1,000 in any other case

### Gifts - Annual exemption

Gifts not exceeding £3,000 in any one tax year to 5 April are exempt. This can apply to one gift or the total of a number of gifts to which the small gift exemption does not apply. If the gifts made in one year fall short of £3,000, any surplus can be carried forward to the next year (but no further) and can be used once the exemption for that year has been used up in full. But the exemption cannot be carried back to earlier years. So, if no gifts were given away in one year then the annual exemption for the next year becomes £6,000 due to the rollover.

### Debts – General

You should only include in this box debts which the deceased actually owed when they died.

For example, household bills, uncleared cheques for goods and services provided before the death and credit card debts. Do not include fees for professional services carried out after the death, such as solicitors' or estate agents' fees and valuation fees.

If the person who has died had written a cheque to make a gift before they died and the cheque had not cleared by the death, you must not treat the cheque as a deduction.

You must include the value for the deceased's bank account without deducting the cheque. You should not show the intended gift as a gift.

If the gross value of the estate is less than £1million and there is no tax to pay because part of the estate passes to the deceased's spouse or civil partner, you can only include debts that you expect to repay from the estate.

Do not include debts that you know are not going to be repaid from the estate. Nor should you include any debts where the borrowed money has been used to acquire excluded property (usually an interest in a trust where the trustees are abroad), or property that has become excluded property.

**Debts – Mortgages**

You should include any mortgage secured on property. If the deceased only owned a share of the property concerned, you should only include the same share of the mortgage.

For example, the deceased owned a half share of a house valued at £200,000. The property had a mortgage of £50,000 secured on it. The value of the deceased's share of the property is £100,000 and the value of the deceased's share of the mortgage is £25,000.

If the deceased had a mortgage protection policy, you should include the mortgage in this box and the money that the policy paid out in other assets.

**Debts – Funeral expenses**

You may deduct funeral expenses and reasonable mourning costs. You may also deduct the cost of a headstone or plaque marking the site of the deceased's grave.

These expenses may also include a reasonable amount to cover the cost of:

- flowers
- refreshments provided for mourners after the service
- necessary expenses incurred by the executor or administrator in arranging the funeral

Write the total of these costs in this box. Allowable funeral costs do not include travelling or accommodation costs for the mourners. If the deceased had paid for a funeral plan that covered all the funeral costs then you should not include anything.

**Estate report - Estate exemptions**

**Why it matters whether the estate passes to the spouse or civil partner or to a qualifying charity**

Broadly, assets that pass to the deceased's spouse or civil partner or to a qualifying charity are exempt from Inheritance Tax. So, if most of the assets pass to the deceased's spouse or civil partner, or to a qualifying charity, it is likely that there will be no tax to pay. If there is no tax to pay because of these exemptions, and the estate meets the other conditions that apply, mainly that the gross value is £1million or less, you will not have to fill in an IHT400. **But there are some restrictions to these exemptions.**

### What is meant by qualifying charity

By qualifying charity, we mean a charity established in the European Union (or other specified country) which:

- would qualify as a charity under the law of England and Wales
- is regulated as a charity in the country of establishment (if appropriate)
- has managers who are fit and proper persons to be managers of the charity

### Other qualifying bodies

Other qualifying bodies include UK national organisations such as the National Trust and National Gallery.

If you are not sure if an organisation is a qualifying charity or UK national body you should phone our helpline on **0300 123 1072**.

#### Assets which pass to a qualifying charity

Assets that pass to a qualifying charity are exempt from Inheritance Tax. The legacy must pass directly and unconditionally to the organisation. It must not pass into a trust for the benefit of the organisation concerned.

#### Assets which pass to the spouse or civil partner

Where assets pass to the deceased's spouse or civil partner, both the deceased and their spouse or civil partner must have been domiciled (had their permanent home) in the UK throughout their lives.

**If either of them did not and the gross estate is likely to be more than the excepted estate limit, do not fill in IHT Online – you will need to fill in paper form IHT400 instead.**

It does not matter whether the assets pass directly to the spouse or civil partner, or whether they pass to a trust from which the spouse or civil partner is entitled to benefit.

### Estate report – Increased threshold

### Transfer of unused nil rate band

Since 9 October 2007, it has been possible for spouses and civil partners to transfer their unused nil rate band. This means that any part of the nil rate band that was not used when the first spouse or civil partner died can be transferred to the surviving spouse or civil partner for use by their estate on their death.

New rules mean that if the whole of the nil rate band is available to transfer to the estate of the second spouse or civil partner to die and you need to claim the transferred nil rate band, you may still use IHT Online if certain rules apply. These rules are that:

- the person who has died now, died on or after 6 April 2010
- their spouse or civil partner who died before them died on or after 13 November 1974
- when the spouse or civil partner died their estate did not use up any of the nil rate band available to it, so the whole of the nil rate band is available to transfer

- the estate of the person who has died now is valued at less than twice the Inheritance Tax nil rate band and IHT Online is being completed.

### An example of when the whole of the nil rate band is available to transfer

Ralph died leaving a widow, Rita. All of Ralph's estate valued at £300,000 passed to Rita under the terms of Ralph's will. As everything that passes to a surviving spouse or civil partner is exempt from Inheritance Tax, all of the nil rate band is available to transfer to Rita's estate when she dies.

If the whole of the nil rate band is available to transfer, that means that the estate of the spouse or civil partner who dies second has double the nil rate band before any Inheritance Tax becomes payable.

#### What this means for IHT Online

It also means that the limit for the estates that can use IHT Online is effectively doubled. For the tax year 2015 to 2016 this is £650,000.

If this applies to the estate you are dealing with you should fill in IHT Online.

### An example of when the whole of the nil rate band is not available to transfer

Morag died on 1 May 2008 (when the nil rate band was £312,000) leaving a surviving civil partner, Alison. Morag's estate was valued at £400,000. In her will Morag left £100,000 to her daughter Gemma and the rest of her estate to Alison. Alison has now died leaving her estate valued at £500,000 to Gemma. As the £100,000 that passed to Gemma on Morag's death was not exempt from Inheritance Tax, £100,000 of the Inheritance Tax nil rate band (£325,000 in 2015 to 2016) was used up.

You will need to fill in paper forms IHT400 and IHT402 'Claim to transfer unused nil rate band' instead of IHT Online if you want to transfer the unused nil rate band and the whole of the nil rate band is not available.

For copies of the forms IHT400 and IHT402:

- go to https://www.gov.uk/government/collections/inheritance-tax-forms.
- phone our helpline on **0300 123 1072**

#### Estate report – Increasing threshold

#### When you can claim this in IHT online

You can do this for estates if:

- the figure in IHT Online is above the Inheritance Tax nil rate band (£325,000), but below or equal to twice the nil rate band (£650,000)

**and**

- you are claiming a transfer of unused nil rate band from the estate of a spouse or civil partner who died before

#### Not all estates can make this claim

If the estate of the spouse or civil partner who died first used up any part of the nil rate band so that 100% of the nil rate band is not available to transfer, then you should claim the transfer by filling in paper form IHT400 'Inheritance tax account' and claim form IHT402 instead of making the claim in IHT Online.

There are also other rules about the estate of the spouse or civil partner who died first which mean that you should fill in paper forms IHT400 and IHT402 instead. These are where any of the following apply to the spouse or civil partner who died first, or their estate:

- they died before 13 November 1974
- they were domiciled outside the UK at the date of death
- the estate was not wholly exempt from Inheritance Tax
- they had jointly owned assets that passed to someone other than the spouse or civil partner who has died now
- they had made gifts to chargeable (non-exempt) beneficiaries in the 7 years before they died
- agricultural or business relief applied to assets in the estate
- they made any gifts with reservation of benefit
- they benefited from a trust during their lifetime

**Estate report submitted**

**Keeping a copy of the estate report**

We recommend that you keep a copy of the online estate report for your own records and because you will need it should the value of the estate change after the grant such that tax becomes payable. You may be asked to provide a copy of your application or you may need details of the estate for the Department for Work and Pensions.

**What to do with the papers and records you have used to fill in IHT Online**

You do not need to send in copies of any of the other papers you have used to fill in IHT Online. But you should keep the papers and records safe in case we ask you for them. If you print a copy of the estate report out then keep this for your personal records – do not send a copy in.

**When you will hear from us if we want to see the papers and records**

Provided you have used IHT Online correctly, it is unlikely you will hear from us. We have 35 calendar days after the issue of the grant to write to you about the information you have given in IHT Online. If we do not write to you in that time, we will not need to see the papers and records and you will not have to pay any Inheritance Tax.

**However, this does not apply if there is anything about the estate you have not told us.**

**What to do now**

Read the booklet PA2 and follow the instructions to fill in form PA1. When you have gathered together all the papers needed to apply for probate or letters of administration, send all those papers to the relevant probate registry as explained in booklets PA2 and PA4.

**What will happen then**

Booklet PA2 tells you what will happen in detail. Briefly, anybody applying for the grant of representation will attend an appointment to swear (or affirm) an oath. Provided everything is satisfactory, the probate registry will send you the grant.

**What happens after you get the grant**

You can begin to deal with the estate by collecting in the assets and paying the debts and legacies.

**Estate report submitted – What to do if the value of the estate changes**

If, after you have got the grant of representation, you find some more assets, or you discover that the value of an asset has changed – for example, the house or some personal goods have been sold for a different figure, or it turns out that a debt you have deducted is not going to be repaid, you should keep a note of the changes. If, having made these changes, the value of the estate is more than the Inheritance Tax nil rate band, you will need to tell us about the changes and pay the tax (see below) or claim a transfer of unused nil rate band.

**How to tell us about changes**

You should fill in a paper form IHT400 'Inheritance Tax account' to tell us about the estate if any changes bring the estate over the Inheritance Tax nil rate band.

You must send form IHT400 to us within 6 months of finding out about the change to the estate. If you are late in sending the form to us, you may make yourself liable to financial penalties.

**How to work out Inheritance Tax**

You can work out the tax that is payable by deducting the Inheritance Tax nil rate band from the revised value of the estate and taking 40% of that amount. You might need to add some interest to the tax that is due. Interest runs from 6 months after the end of the month in which the death occurred. Our helpline can tell you what the rate of interest or alternatively the information is available online at: https://www.gov.uk/government/publications/rates-and-allowances-inheritance-tax-interest-rates.

**Inheritance Tax reference number**

If you calculate that there is tax to pay, you will need to apply for an Inheritance Tax reference number and payslip so that you can make the payment.

You can apply for a reference:

- online, go to: www.gov.uk/government/collections/inheritance-tax-forms.
- on form IHT422 available online or from our helpline on **0300 123 1072**

If you do not want to work out the tax yourself, just send form IHT400 to us. We will then send you a calculation of the tax and any interest that you owe.

If you calculate that there is still no tax to pay, but the changes mean that the estate no longer qualifies for IHT Online, keep a list of the changes. This is so that you can include them in an Inheritance Tax account if further changes come to light later which mean that there is Inheritance Tax to pay. There is no need to tell us about changes if there is no Inheritance Tax due.

**What to do if the exemptions change**

The exemptions may change if those who inherit the estate change after the date of death. The beneficiaries of an estate can alter those who inherit an estate by executing a deed of variation. If the people who inherit the estate change so that the net qualifying value of the estate is above the Inheritance Tax nil rate band, meaning there is tax to pay, you will need to fill in paper form IHT400.

To work out the tax and get a reference number, go to **www.gov.uk/inheritance-tax**

For example, if all the assets originally passed to the surviving spouse and then execute a deed of variation to give £100,000 to their children, the spouse exemption will be reduced by that amount. If the estate value still does not exceed the Inheritance Tax nil rate band there is no need to tell us about the change.

But if, in the same example, the spouse redirected £400,000 to the children, the value of the estate would exceed the nil rate band and there would be tax to pay. So you would then need to fill in paper form IHT400. To work out the tax and get a reference number, go to **www.gov.uk/inheritance-tax**

### What to do if the changes are covered by other exemptions or reliefs

This can happen when, for example, all the assets are left to the spouse, but they include a farm that the spouse redirects (by a deed of variation) to the children. You should reduce the value of the spouse or civil partner exemption by the value of the farm. If this value still does not exceed the nil rate band there is no need to tell us about the change, but if it is more than the nil rate band, you must fill in paper form IHT400.

If you consider the farm qualifies for agricultural relief, this may mean that there is still no tax to pay, but you should also include the relief in Schedule IHT414 'Agricultural relief'. You should send a copy of the deceased's will and a copy of the deed of variation with the forms.

### What to do if the value of the estate changes and you need to claim a transfer of unused nil rate band after the grant

If the value of the estate changes so that it is now over the Inheritance Tax nil rate band, but you can claim a transfer of unused nil rate band which would mean that there is still no tax to pay, you should send:

- a copy of your IHT Online estate report
- a completed C4 'Corrective Account' showing the amendments to the estate
- a completed form IHT217 'Claim to transfer unused nil rate band for excepted estates'

  to:
  HMRC Trusts and Estates
  Ferrers House
  PO Box 38
  Castle Meadow Road
  NOTTINGHAM
  NG2 1BB

### Declaration - Penalties

The UK has introduced a new system of penalties for inaccuracies in tax returns and other documents given to us; this includes information given in your IHT Online application. Under the new system, if you take reasonable care when filling in your IHT Online application, we will not charge you a penalty, even if you make a mistake.

### Why we need penalties

Most people take care to fill in their application correctly. We want to encourage that and help them to get it right. We use penalties to stop people who do not take care from gaining an unfair advantage.

### When penalties are charged

You should only use the IHT Online estate report if the estate qualifies under the 'excepted estate' rules and there is no Inheritance Tax to pay on the estate.

We may charge financial penalties if you include an inaccuracy in the online report which, when corrected later, means that there is some Inheritance Tax to pay after all.

### How to avoid a penalty

If you take reasonable care to get it right, we will not charge a penalty if you make a mistake.
We will normally accept you have taken reasonable care if you have followed the guidance and have:

- made a thorough search of the deceased's papers and documents to trace the assets, investments and other financial interests the deceased had when they died
- contacted others, such as family, friends, accountants etc who may have known about the deceased's affairs
- included details of all the deceased's assets, liabilities, other financial transactions and interests that are subject to Inheritance Tax on the online report
- taken reasonable steps to arrive at the 'open market' value of those assets

If you don't take reasonable care, we can penalise any inaccuracies. The penalties will be higher if the inaccuracies are deliberate.

### What to do if you discover an inaccuracy

If, after you have applied for a grant, you discover an inaccuracy which, when corrected, means that Inheritance Tax is payable by the estate, you should tell us about it as soon as possible.

But there is no need to tell us about inaccuracies that do not mean there is tax to pay. Instead, make a note of them in case anything else comes to light later on which means that tax is payable when all the inaccuracies are corrected.

### How to reduce a penalty

Telling us about an inaccuracy does not mean you will automatically be subject to a penalty. Depending on the circumstances, we often view that as taking reasonable care to get your tax right. We can substantially reduce any penalty if you:

- tell us about any inaccuracies before we ask you about them
- help us work out the correct amount of tax
- answer any questions we ask you fully, promptly and honestly

### What to do if the inaccuracy arises from information provided by someone else

If another person has provided you with information about the deceased's affairs, for example, a member of the family has told you about a gift they received, and that person deliberately gave you the wrong information, or kept back some information, we can charge them a penalty.

We expect you to have checked that information against the other information you have discovered about the deceased and to have questioned any inconsistencies. If you can show you have done so, we will normally accept that you have taken reasonable care and we will not charge you a penalty because of the inaccuracy.

**What the penalties are**

The penalty is a percentage of the amount of tax that has not been paid. The penalty rate depends on why you made the inaccuracy. The less serious the reason, the smaller the penalty will be.

| |
|---|
| Maximum penalty 100%<br>**Deliberate & concealed**<br>Minimum penalty 30% |
| Maximum penalty 70%<br>**Deliberate**<br>Minimum penalty 20% |
| Maximum penalty 30%<br>**Careless**<br>Minimum penalty 0% |
| No penalty<br>**Reasonable care** |

**How you will know if you have to pay a penalty**

We will discuss the estate with you to work out the correct amount of tax that is payable and any penalty that may be due, before we send a penalty notice. That way you can understand what has happened and why we are doing this.

If you don’t agree, you can appeal against the penalty to an independent tribunal, usually the First-tier Tribunal of the Tax Chamber. You can also opt for an internal review by an independent HMRC officer, which is a quick and inexpensive way to resolve disputes.

To get our factsheet HMRC 1, go to: **www.gov.uk/factsheets/hmrc1.pdf**

To get more information about Inheritance Tax and tax on the estates of deceased people, go to: **www.gov.uk/inheritance-tax**