

# Charitable giving and inheritance tax



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**From 6 April 2012, it became possible to reduce the rate of inheritance tax (“IHT”) from 40% to just 36% provided you leave 10% of your estate to charity.**

The charity must be a registered charity, either in the UK or EU. It sounds nice and straightforward, however sadly it is a complicated calculation. It is possible that only part of your estate will pay IHT at 36% and the rest at 40%.

## Break your estate down

To calculate whether your estate qualifies for the reduced rate, you need to break down the estate and its assets into three components.

### The survivorship component

This is the component for joint assets whereby upon your death, your share passes automatically by survivorship to the other owner. This is known as joint tenants. It does not include any assets that you own jointly as tenants in common, as these do not pass by survivorship.

For example, you and a sibling buy a house together which you own as joint tenants. You each paid half of the purchase price. On your death, the house would pass automatically to your sibling. For IHT purposes, half the house value would be included in your estate.

Assets in this category will not qualify for the 36% rate unless they are merged with another component.

### The settled property component

If you are a beneficiary of a trust that forms part of your estate for IHT purposes, those trust assets fall into this category.

If you are a beneficiary under more than one trust, to qualify the donation to charity has to be at least 10% of the combined total.

The trust deed governs what happens to the assets after your death and so it may not be possible to qualify under this component. It can, however, be merged with another component.

### The general component

This covers assets that you own outright or as tenants in common. Gifted property in which you have reserved a benefit (known as “gifts with reservation”) form part of your estate for IHT purposes. They will however not qualify for the reduced rate unless merged with one of the above components.

The 10% test is applied separately to each of the three components. The reduced rate is then applied to the assets within that component.

It is possible to elect for one or more components to be combined.

For a lot of people, their estate will fall into the general component, as the joint assets will often be exempt from IHT due to the spouse exemption (no IHT is payable between spouses or civil partners).



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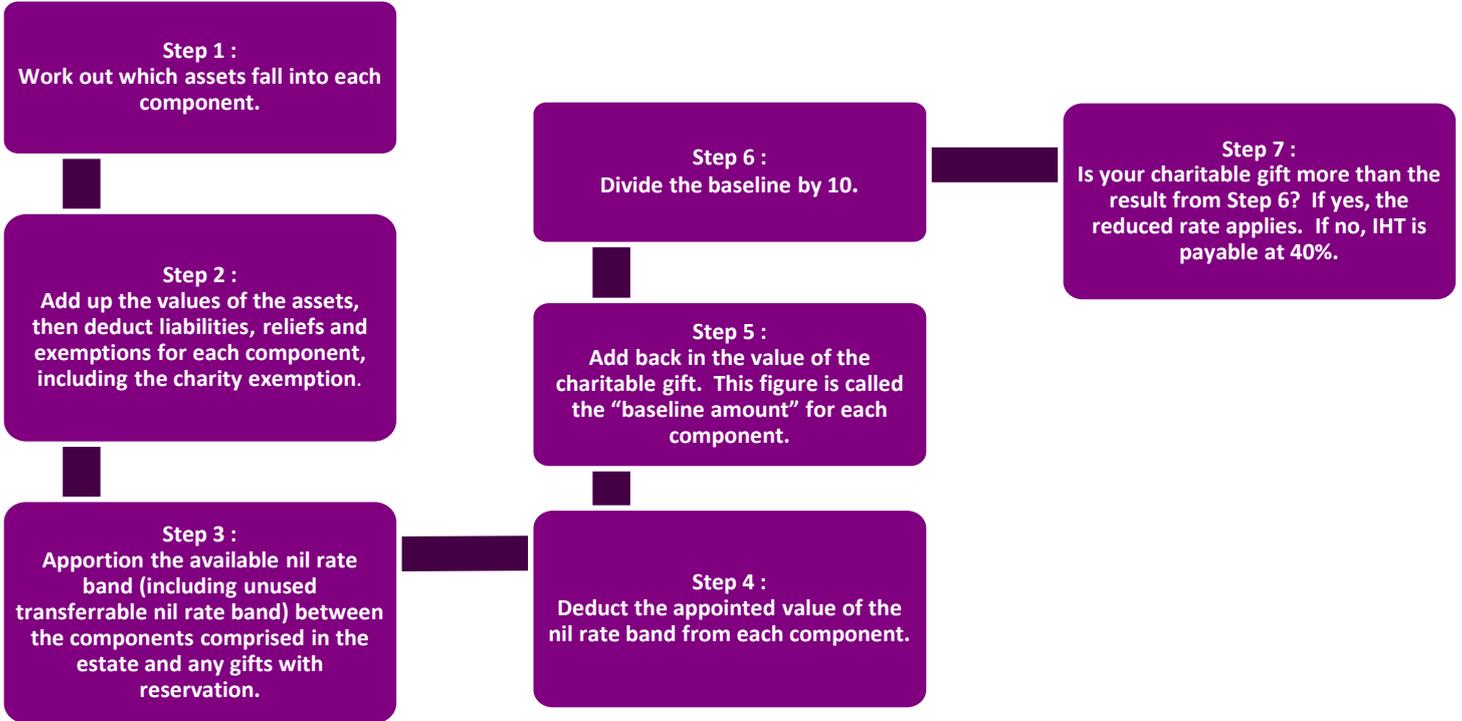
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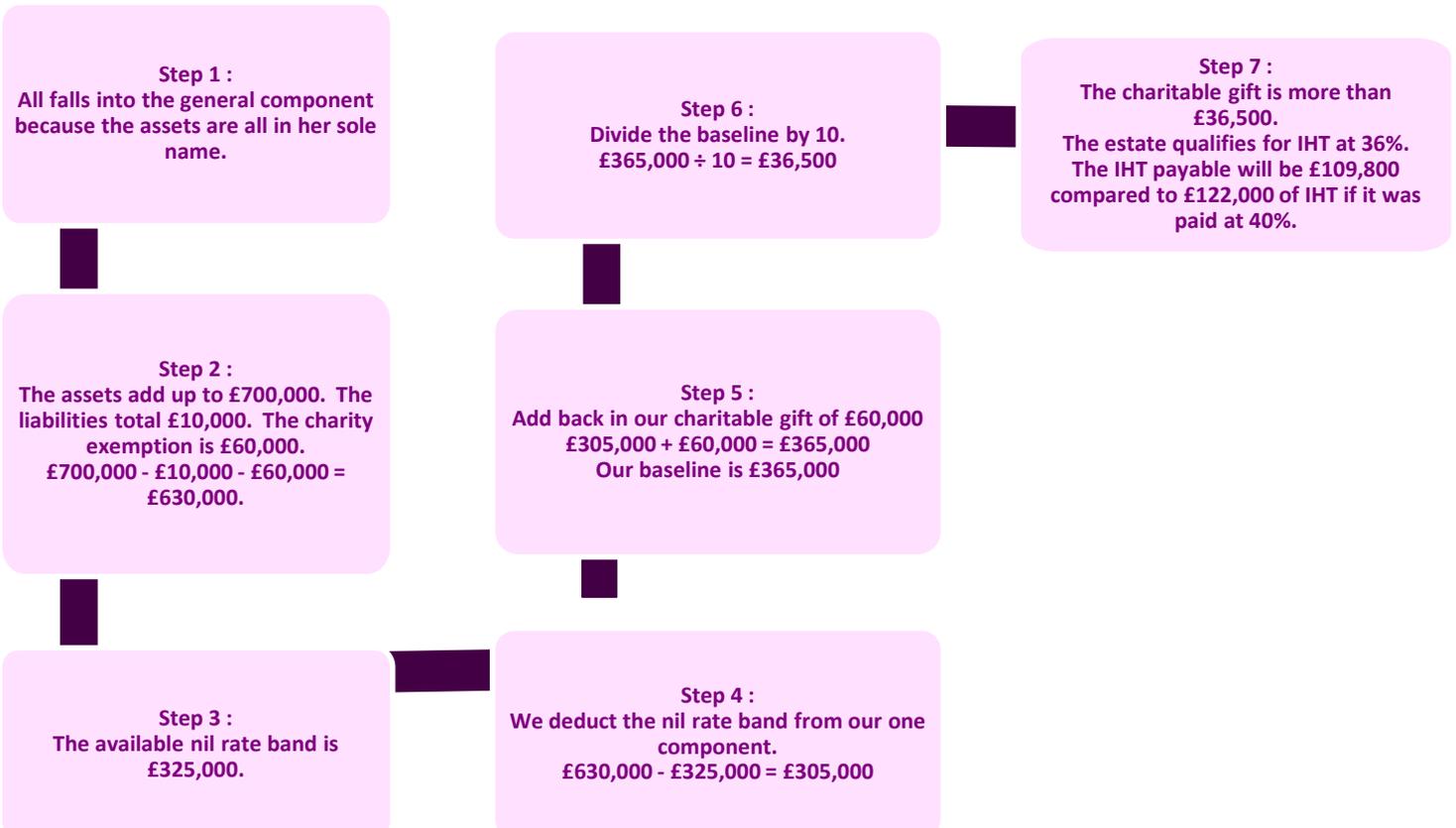
## The Calculation



## A few examples

### Example 1 - Estate comprising of the general component only

Jill died leaving an estate with a value of £700,000. Under her Will she leaves £60,000 to a charity.



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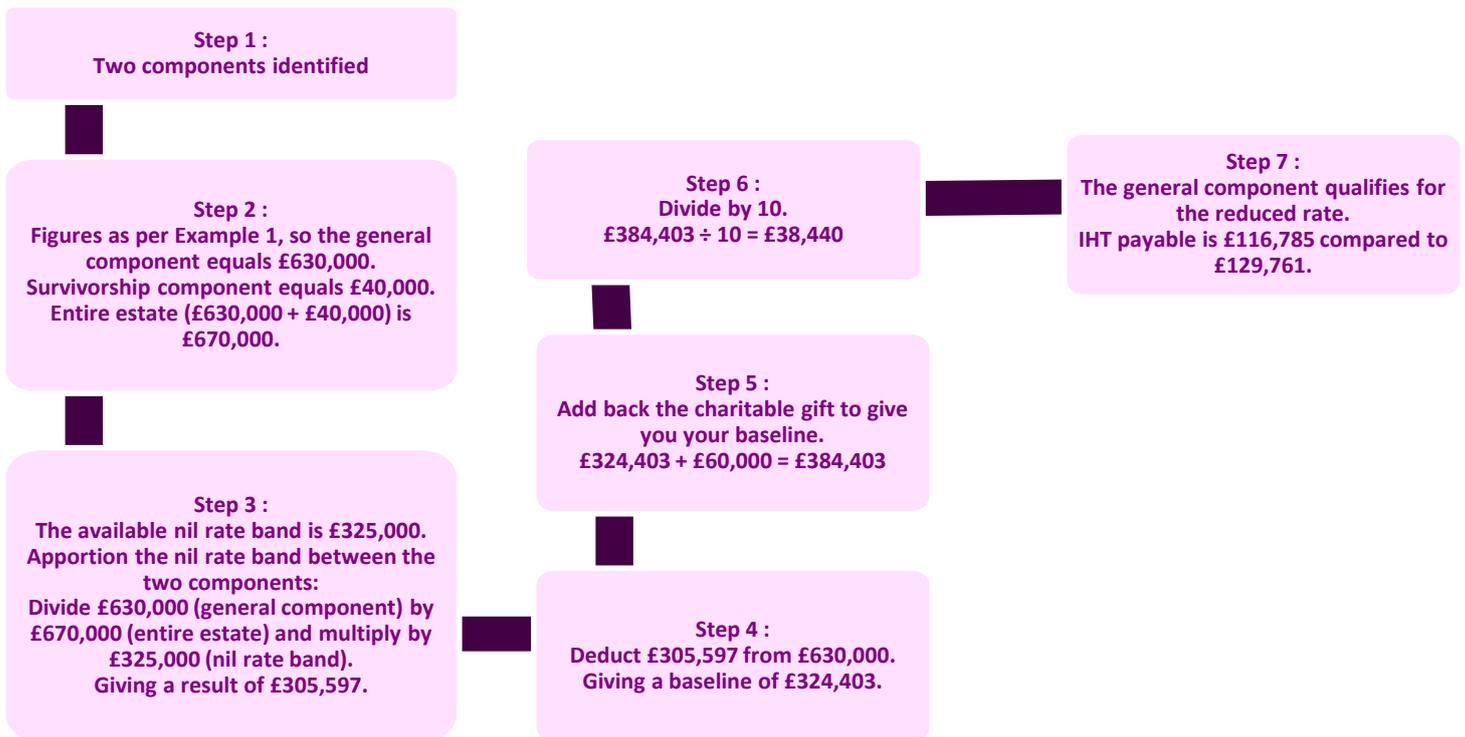
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## A few examples

### Example 2 - general and survivorship components

At the date of Jill's death she also had a joint bank account with her son James with a balance of £80,000. Both contributed equally and £40,000 is attributed to her estate for IHT purposes.

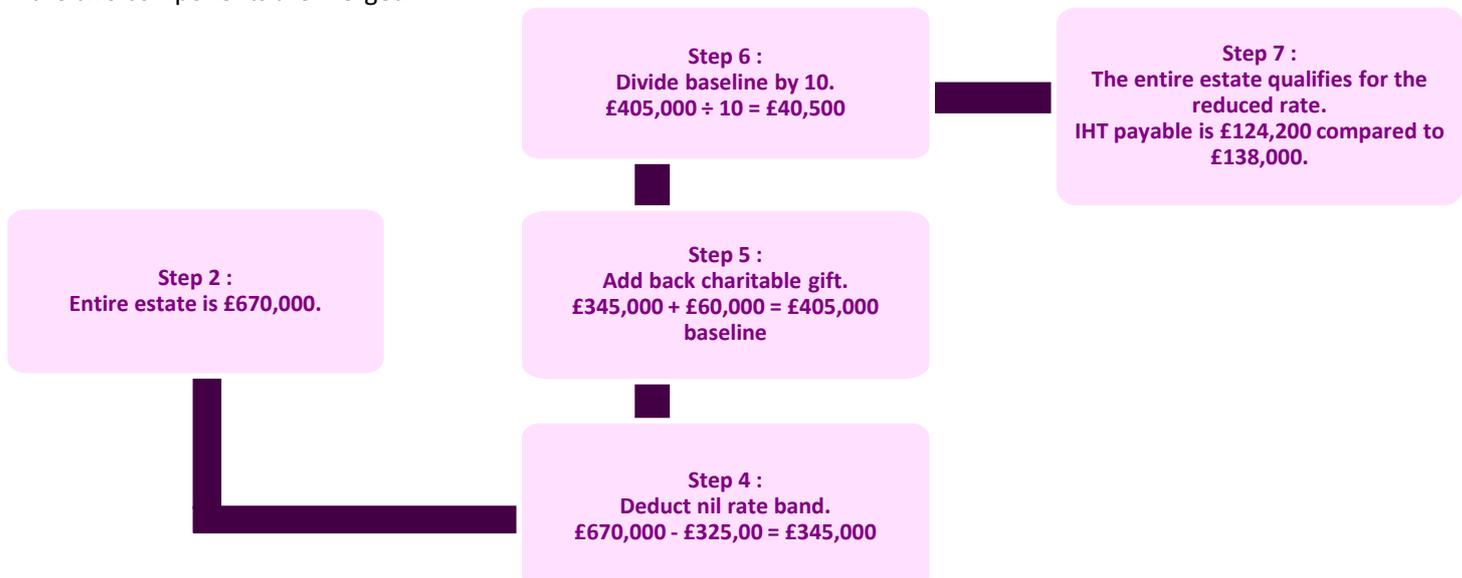
### General component



### Survivorship component

Where the amount qualifying for charity exemption exceeds the 10% test, the beneficiaries may choose to merge with other components. Step 6 above shows us that 10% of the baseline is £38,440 and the gift to charity is £60,000, which clearly exceeds the 10% needed to qualify for the reduced rate.

If the two components are merged:



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## The reduced rate

The reduced rate will apply automatically including if the legacy to the charity is done by deed of variation.

It is possible to opt out and pay the full 40% rate. Personal representatives and beneficiaries may decide to opt out in order to make dealing with the estate simpler and to reduce administration expenses.

## The election

All elections to merge components or to opt out must be made in writing and sent to H M Revenue & Customs within two years of the date of death.

Only certain individuals can make the election, depending on the component.

### Survivorship component:

- Those individuals to whom the property passes by survivorship or their personal representatives if they have died before the election was made.

### Settled property component:

- All of the trustees for each trust making up this component.

### General component:

- The deceased's personal representatives.

### Property subject to a reservation of benefit:

- The owner of the property.

Considering gifting money to a charity in your will may be part of the general discussion when making your will. Other points to consider are:

- Is your Will up to date and drafted correctly to benefit from the reduced rate?
- Should you increase any legacies left to charity in your Will?
- How are your assets owned?
- Do you wish to leave any money to charity, if you have not already done so in your Will?
- Should you change your executors?
- If you are inheriting from an estate - is a deed of variation worth considering?

## How can Greenwoods GRM help?

**Our team can provide you with further information and advice on this area, suited to your personal circumstance. Contact +44 (0)1733 887665 and ask to speak to a member of our Private Client Team.**

Whilst Greenwoods GRM LLP stands by the views and advice given in this document, the fact that two situations are rarely the same means that you should seek legal advice before relying on its contents.

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