

Taper Relief

Briefing Note

Taper relief causes a lot of confusion over when it applies and how it works.

To start with, although it is called taper 'relief', it is not strictly a relief as defined elsewhere in the Inheritance Tax Act 1984 (IHTA). It is actually a percentage reduction in the tax payable. It does not reduce the capital value of the gift – it only reduces the actual tax payable. Therefore, if there is no tax payable on death on a specific gift, you cannot claim taper relief to reduce the value of that gift.

Consequently, any gift which sits inside the available nil rate band (NRB) – currently up to £325,000 or up to £650,000 if a transferable nil rate band is available – cannot benefit from taper relief.

Taper relief (under IHTA/S7(4)) applies where:

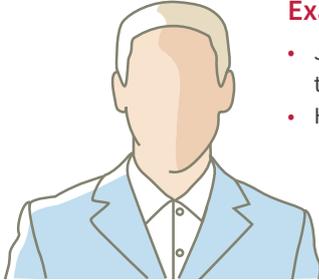
- 1) the gift was made more than three years but less than seven years before the transferor's death, and
- 2) tax is due on the gift in its own right.

Time between date of gift and date of donor's death	Percentage taper relief applied to tax due	Effective rate of tax on gift
0 to 3 years	0%	40%
3 to 4 years	20%	32%
4 to 5 years	40%	24%
5 to 6 years	60%	16%
6 to 7 years	80%	8%

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Examples

Here are some examples, all of which assume that lifetime exemptions have already been used elsewhere and no other gifts have been made:



Example 1:

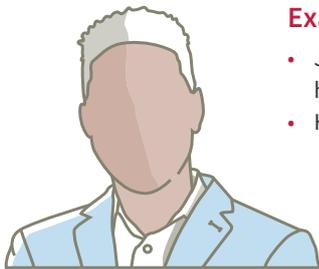
- Jack made a gift of £360,000 in total to his four sons.
- He died 16 months later.

The gift was made within two years of Jack's death and it is above the available NRB at the date of death. Therefore, there is IHT to pay by the recipients of the gift.

IHT: The IHT calculation is: £360,000 (value of gift) – £325,000 (NRB) = £35,000 x 40% (rate of IHT on death) = £14,000 tax payable.

Taper relief: Unfortunately, as Jack died within two years of making the gifts there is no taper relief available.

Type	Available NRB	Value of gift	Complete years since gift	Tax due	Taper Relief	Tax after taper relief
PET	£325,000	£360,000	1	£360,000 - £325,000 = £35,000 @ 40% = £14,000	n/a	£14,000



Example 2:

- Jon made a gift of £300,000 to his son.
- He died just under 4 years later.

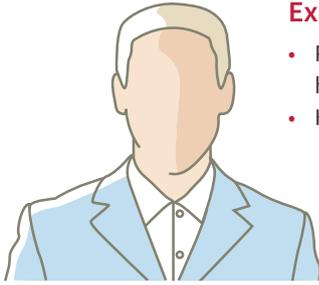
Therefore the value is below the available NRB at the date of death and there is no tax to pay on this gift.

IHT: Remember that gifts made in the seven years prior to death are offset against the NRB in chronological order and, once the NRB has been fully used up, any excess gift(s) will potentially be subject to IHT.

Taper relief: As there is no tax directly attributable to the gift there is no taper relief available.

Type	Available NRB	Value of gift	Complete years since gift	Tax due	Taper Relief	Tax after taper relief
PET	£325,000	£300,000	3	n/a	n/a	n/a

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Example 3:

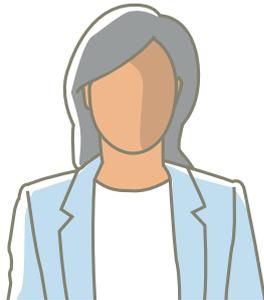
- Peter made a gift of £350,000 to his son.
- He died just under four years later.

The gift was made over three years before death and the value is above the available NRB at date of death. Therefore, IHT is due.

IHT: The calculation is: £350,000 (value of gift) - £325,000 (NRB) = £25,000 x 40% = £10,000.

Taper relief: As the gift was made between three and four years before the date of death, taper relief applies to the tax payable.

Type	Available NRB	Value of gift	Complete years since gift	Tax due	Taper Relief n/a	Tax after taper relief
PET	£325,000	£350,000	3	£350,000 - £325,000 = £25,000 @ 40% = £10,000	£10,000 @20% = £2,000	£10,000 - £2,000 = £8,000 payable by Peter's son



Example 4:

- Emily made a gift of £200,000 into a discretionary trust on 10 June 2016.
- She had also given her daughter £200,000 in November 2014.
- Emily died on 24 February 2021.

The gift into the trust was made over four years before death and its value, when added to the failed gift made in November 2014 of £200,000, is over the available NRB at the date of death (£325,000). Therefore, IHT is due.

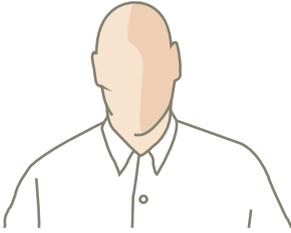
IHT: The calculation is: £325,000 (NRB) - £200,000 (failed PET) = £125,000 (available NRB). £200,000 (gift to trust) - £125,000 (available NRB) = £75,000. IHT @ 40% x £75,000 = £30,000 tax.

Taper Relief: Taper relief applies against the £30,000 tax payable and, as the gift was made between four and five years before the date of death, the percentage relief is 40%.

Taper relief and relevant property trusts. If you are recalculating the tax due on discretionary trusts on death, where there was a lifetime tax charge at inception, you do get credit for the lifetime tax paid. This may mean that no further tax is payable – but no refund of tax paid at inception is available if the tax due on death is a lower amount.

Date of gift	Type	Available NRB	Value of gift	Complete years since gift	Tax due	Taper Relief	Tax after taper relief
01/11/2014	PET	£325,000	£200,000	6	n/a	n/a	n/a
10/06/2016	CLT	£125,000	£200,000	4	£200,000 - £125,000 = £75,000@ 40% = £30,000	£30,000 @ 40% = £12,000	£30,000 - £12,000 = £18,000 payable by the trustees of the discretionary trust

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Example 5:

- Michael created a discretionary trust in March 2013 for £312,000.
- He then created a further discretionary trust in September 2017 for £325,000. At this point, the trustees paid a lifetime tax charge (20%) on the excess over the cumulative seven year total.
- Michael died on 13 December 2020.

The first discretionary trust (£312,000) had run more than seven years and is therefore not included in Michael's death calculation for IHT payable on his estate. However, when we look at the calculation for the second discretionary trust (£325,000), we have to look back seven years from inception of this trust and the first discretionary trust has to be included as it was created in the seven years prior to this one.

IHT: Therefore the calculation on death is:

£637,000 (total of all CLTs within seven years of inception of second trust) minus £325,000 (NRB) = £312,000 x 40% (IHT rate on death) = £124,800.

Taper Relief: Michael died between four and five years from inception, therefore taper relief applies at 20%

Date of gift	Type	Available NRB	Value of gift	Complete years since gift	Tax due	Taper Relief	Tax after taper relief
01/03/2013	CLT	£325,000	£312,000	7+	n/a	n/a	n/a
01/09/2017	CLT	£13,000	£325,000 IHT on gift: £325,000 - £13,000 = £312,000 @ 20% = £62,400	3	£312,000 + £325,000 = £637,000 - £325,000 = £312,000 @ 40% = £124,800	£124,800 @ 20% = £24,960	£124,800 - £24,960 = £99,840 payable by the trustees of the discretionary trust

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Planning points

- 1) Where multiple lifetime gifts have been made, you must work out the amount of NRB available to each gift separately and then apply taper relief to each gift separately where applicable.
- 2) The application of taper relief to the tax payable on individual gifts does not reduce the value of those gifts when looking at subsequent gifts or the estate on death.
- 3) Taper relief only applies to gifts made more than three years but less than seven years before death.
- 4) It is the value of the gift at the date the gift was made that is used in the calculation – not the value of the gifted property at the date of death.
- 5) Every individual has an NRB (currently £325,000) on which IHT is payable at 0%. This NRB can be increased by any transferable NRB available from a deceased spouse or civil partner and so could add up to £650,000. Therefore, IHT only applies to gifts when the cumulative value of chargeable gifts made within the seven years prior to death exceeds the available NRB.
- 6) Gifts made within the seven years prior to death will use the available NRB in chronological order before it can apply to any other assets or property that the deceased leaves on death.
- 7) Certain chargeable transfers made up to 14 years before death could be included when calculating tax due on gifts within seven years of death (but not the tax due on the death estate), as any chargeable transfers made in the seven-year period prior to a PET, made within seven years of death, will be included.
- 8) For CLTs, the IHT liability on death is first calculated at the full death rate (40%) then any applicable taper relief is deducted and finally any lifetime IHT (20%) paid at inception is deducted. If this produces a negative amount, no refund is due.
- 9) If the settlor paid the lifetime tax on a gift then you must include the tax paid when calculating the value of the gift at inception. For example: settlor gifts £350,000 to a discretionary trust (assume all exemptions have been used) and the settlor then pays the £6,250 lifetime tax charge. ($£350,000 - £325,000 = £25,000 \times 20\% = £5,000$; plus grossed-up $£6,250 \times 20\% = £1,250$; $£5,000 + £1,250 = £6,250$). Value of gift for IHT purposes is grossed up to £356,250. (Lifetime tax = $£356,250 - £325,000 \times 20\% = £6,250$).
- 10) Individual gifts are removed from the IHT death calculation on the estate seven years from the date they were made.

This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice, as at March 2021 and could be subject to change in the future. It is provided for professional advisers only. Any recommendations are the adviser's sole responsibility.



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