

Potentially Exempt Transfers (PETs)

Technical Flowchart

For professional advisers only and
not to be relied upon by individuals

The following flowchart provides information about how inheritance tax is charged on a potentially exempt transfer (PET).

This document is for guidance only. Law and HM Revenue & Customs practice may change at any time. This flowchart is based upon our understanding of both, as at 1st May 2007. Whilst every care has been taken to ensure the accuracy of this information, Friends Provident cannot accept any responsibility.



FRIENDS PROVIDENT

Potentially Exempt Transfers

A person makes an outright gift to either:

- another individual, or
- a bare trust, or
- a disabled person's trust, or
- an interest in possession trust made before 22/03/06, or
- an accumulation & maintenance trust made before 22/03/06.

Is gift fully covered by available exemptions?

Yes → Gift is exempt from IHT
 No →

The gift is a Potentially Exempt Transfer (PET). The value of the PET is typically the value of the gift that is not covered by any exemption*.

IHT position on death

Did individual survive for 7 years after the date of the gift?

Yes → Gift falls outside of donor's estate
 No →

PET becomes a 'chargeable' transfer

Does the value of the PETs, together with any other chargeable transfers, exceed the IHT nil-rate band current at the date of death?

↔ Multiple Gifts: Where a deceased person has made more than one non-exempt gift, in the 7 year period ending with his death, each transfer will be dealt with in strict chronological order. If a 'chargeable lifetime transfer' (e.g. a lifetime gift into a 'relevant property' trust) was made in the 7 year period before a PET and the donor also dies within 7 years after the PET, the value of the chargeable lifetime transfer must be taken into account when determining any IHT liability for the PET donee.

Yes → Recipient of gift is liable to pay IHT at 40% on the excess amount above the nil-rate band. For gifts made at least 3 years before the date of death, taper relief reduces the tax bill
 No → No IHT liability for recipient of gift. Value of PET will reduce the amount of nil-rate band available to deceased's personal representatives.

Exemptions
 Certain gifts are exempt from IHT. The available exemptions include:

- gifts between spouses or civil partners
- an annual exemption of £3000
- 'small' gifts not exceeding £250 per person
- regular gifts from surplus taxable income
- gifts in consideration of marriage or civil partnership
- gifts to charities

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Rates of Taper Relief

Number of years survived between gift and death	Percentage of full tax payable
less than 3	100%
3 to 4	80%
4 to 5	60%
5 to 6	40%
6 to 7	20%

*Note that for most Discounted Gift Trust arrangements only part of the amount invested counts as a gift

