Inheritance Tax Laws for England & Wales – 2013/14

Not everyone pays Inheritance Tax (IHT) on death. It only applies if the taxable value of your estate - including any assets held in trust and gifts made within seven years of death - is above the Inheritance Tax Threshold, also known as the Nil-Rate Band. Your estate includes the combined value of all the assets you own - such as your home, your possessions, cash and investments - from which any debts you still owe and funeral expenses are deducted. Also included are your share of any jointly owned assets and assets held in some types of trusts.

Currently the first £325,000 of an estate is not subject to IHT. The value of an estate above the Nil-Rate Band will be taxed at 40%, unless an exemption applies. So if an estate is valued at £450,000, the first £325,000 is free from IHT but the remaining £125,000 could be taxed at 40%.

If your estate passes to your husband, wife or civil partner and you are both domiciled (have your permanent homes) in the UK, there is no IHT to pay even if it is above the £325,000 Nil Rate Band. However, if you are domiciled in the UK when you die but your spouse or civil partner is not, you can only leave them £55,000 tax-free.

You can leave up to £325,000 tax-free to anyone in your will, not just your spouse or civil partner, so you could; for example, give some of your estate to another family member or friend or a family trust. IHT is then payable at 40% on any amount you leave above this, to any person other than your spouse or civil partner.

If you leave everything you own to your surviving spouse or civil partner, it's not only exempt from Inheritance Tax but it also means you won't have used any of your own Nil-Rate Band. It is