

How to pay inheritance tax (IHT)

How quickly do you need to pay inheritance tax when someone dies? And can you pay it from the deceased's accounts? Zeen Al Atroshi of Duncan Lewis Solicitors explains how to pay inheritance tax.

When do you need to pay inheritance tax on a deceased's estate?

Inheritance tax (IHT) must be paid no later than **6 months** from the end of the month in which the deceased died. For example:

- if the person died in January, you must pay inheritance tax by 31 July

This is to ensure that statutory interest does not accrue on the amount of IHT due. Statutory interest is currently calculated at 2.60% and 0.5% on repayments.

When someone leaves a will, they will usually name a **personal representative** (PR) who is responsible for managing the deceased's estate (money, property and possessions), including paying any IHT tax owed. The PR is responsible for ensuring funds are available to settle any outstanding liabilities. Therefore, selling assets or raising funds using other means may be necessary.

The IHT threshold is currently **£325,000** for individuals and **£650,000** for married couples. Usually, anything above the thresholds will be taxed at 40 per cent. However, certain exemptions and reliefs may be available on an estate, lowering the IHT due. For example, if 10 per cent or more of the estate is given to charity, then the tax rate is reduced to 36 per cent.

If you own a residential property which you have lived in and this is left to children, there is an additional residence nil rate band, currently **£175,000** (£350,000 for married couples) providing the individual estate is below £2 million.

Which assets need to be valued for inheritance tax?

Many assets in the deceased's estate need to be valued for IHT, including (but not limited to):

- bank accounts
- pensions
- properties
- jewellery
- vehicles
- shares
- jointly-owned assets
- pay-outs from insurance policies

Essentially, all money, property and personal belongings of the deceased must be valued. The likes of property should be professionally valued, but generally you do not need to get a professional valuation for assets if there is publicly available data. For example, you can value a second-hand car by looking at a used car price guide. All professional valuations should be submitted to HMRC with the relevant tax form as evidence.

Estates will also require foreign assets to be declared and any relevant gifts made by the deceased within the last 7 years must be included.

The values of the assets should either be declared on either:

- [form IHT205](#) (no IHT is payable)
- [form IHT400](#) (IHT is payable)

If an asset is discovered after forms have been submitted, meaning more IHT is payable than initially declared, HMRC must be immediately notified at least within 6 months from the date the forms are submitted.

How much inheritance tax do you pay on gifts?

An individual has an annual exemption of £3,000, each tax year. You can carry any unused annual exemption forward to the next year (but only for one year), meaning you may have a £6,000 allowance to gift over two years.

Gifts use the nil rate band allowance before any balance is applied to the estate.

Gifts made 3 to 7 years prior to one's death above the nil rate band available are taxed using the following 'taper relief' scale:

Years between gift and death	Tax paid
less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

There are also certain exempt gifts you can make in a tax year, such as:

- wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great-grandchild, £5,000 for a child)
- Christmas or birthday presents made out of your normal income
- payments to help an elderly relative or a minor with living costs
- gifts to charities and political parties

How do you pay inheritance from accounts owned by the deceased?

When IHT is due, many people use funds from the accounts of the deceased to pay some or all the IHT. This is called the [Direct Payment Scheme](#). To use this, you must complete form [IHT423](#) and state the following:

- Inheritance Tax reference number
- the deceased's account details
- the amount to be transferred

Once the form is signed by the PR of the estate, it must then be sent to the bank, building society or National Savings & Investments. They will then make the payment directly to HMRC.

How do you pay inheritance from your own bank account?

You can pay IHT from your own bank account using the IHT reference number online or by telephone banking, CHAPS or BACS and/or at your bank. You can also make payment from any joint accounts held with the deceased. However, due to COVID-19, HMRC are currently not accepting cheques for IHT payment.

Any amount paid can be later reclaimed from the deceased's estate once probate has been issued. Any bank statements or correspondence received from HMRC should be kept.

Can you pay inheritance tax before valuing the estate to avoid paying interest?

It is possible to pay IHT before submitting a value of the estate. This will involve applying for an IHT reference number 3 weeks before the PR intends to make a payment. This can be applied for online (except for trusts) or by post using form [IHT422](#).

Subsequently, if the exact amount due is not known within the timeframe, payment can be made on account known as 'payment on account'. As a result, HMRC may reduce the interest on early payments. Where an overpayment is made, HMRC will issue a refund including any interest accrued after probate has been granted.

If money is tied up in properties, PRs can opt to pay by annual instalments over a period of 10 years. However, interest will be applied.

Should you use a professional when paying inheritance tax?

While all specific forms and information needed to pay IHT can be found on GOV.UK website, using an agent such as a specialist probate lawyer is advised when filling out IHT forms. Estates can be complex and specialist advice can ease the burden.

About the author

Zeen Al Atroshi is a trainee solicitor in the Wills and Probate team at [Duncan Lewis Solicitors](#).

