

# COULD YOU BE MISSING AN INHERITANCE TAX RELIEF ON REGULAR GIFTS?

How this simple estate planning strategy could help  
you give more to the people who matter most



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How this simple estate planning strategy could help you give more to the people who matter most

Many people want to see the benefits of their wealth during their lifetime, rather than waiting until it passes to loved ones through their estate. Whether it is helping children buy their first home, supporting grandchildren through university, contributing towards childcare costs, or simply giving family members greater financial security, making gifts during your lifetime can be both rewarding and financially beneficial.

**H**owever, while giving money away may seem straightforward, the tax rules surrounding lifetime gifts are not always simple. Depending on how and when gifts are made, they could still form part of your estate for Inheritance Tax (IHT) purposes. Understanding the available exemptions can therefore make a significant difference to the amount ultimately passed on to your beneficiaries.

At DG Financial Services, we help clients look at gifting as part of a broader estate planning strategy rather than as a series of individual decisions. One of the most valuable, yet frequently overlooked, opportunities is the exemption for regular gifts made from surplus income. When used correctly, this relief can allow you to transfer wealth to your family on an

ongoing basis without reducing your own financial security or creating an unnecessary Inheritance Tax liability.

## UNDERSTANDING REGULAR GIFTS FROM INCOME

The exemption for regular gifts from income is one of the most generous Inheritance Tax reliefs available because, unlike many other gifts, qualifying payments are immediately outside your estate. There is no requirement to survive for seven years before the gift becomes exempt, provided all of the qualifying conditions are met.

### To qualify, three key requirements must generally be satisfied:

- The gifts must form part of your normal pattern of expenditure.

- They must be made from your income rather than your capital.
- They must leave you with sufficient income to maintain your usual standard of living.

These conditions are equally important. Simply making regular bank transfers does not automatically qualify if the money is coming from accumulated savings or investments rather than current income.

Income can include earnings from employment or self-employment, pension income, rental income, dividends, savings interest and other recurring income sources. The exemption is designed for people whose income consistently exceeds their day-to-day spending and who wish to pass some of that surplus to



family members instead of allowing it to accumulate within their estate.

There is no upper monetary limit on the amount that can qualify under this exemption. The limit is determined by the amount of genuine surplus income available after meeting your normal expenditure.

### HOW REGULAR GIFTS CAN WORK IN PRACTICE

Regular gifts from income can take many forms depending on your family's circumstances and financial objectives.

For example, grandparents may make monthly contributions into a grandchild's Junior ISA or investment account to help build a future education fund. Parents may assist adult children with mortgage repayments while they establish themselves financially. Others may make regular payments towards childcare costs, pension contributions or everyday living expenses for family members who need ongoing support.

Rather than waiting until wealth is inherited later in life, these gifts allow

recipients to benefit when financial assistance can have the greatest impact.

Over a number of years, relatively modest monthly gifts can accumulate into substantial sums while also reducing the value of the donor's taxable estate.

### WHY IS THIS RELIEF OFTEN OVERLOOKED?

Many people have heard of the seven-year rule for gifts, but far fewer are aware that some gifts can be exempt immediately without any seven-year waiting period.

One reason is that the exemption has stricter qualifying conditions than other gifting allowances. HM Revenue & Customs will expect evidence that the gifts formed part of a regular pattern, were genuinely made from income and did not require the donor to reduce their normal lifestyle or draw upon capital.

Another reason is that many retirees underestimate how much surplus income they actually receive. Defined benefit pensions, State Pension income, investment portfolios and rental properties

can together generate more income than is needed for everyday expenditure.

Without regular financial reviews, that surplus may simply accumulate in bank accounts and investments, potentially increasing the size of an estate that could later become subject to Inheritance Tax. Redirecting part of this surplus through planned gifting may therefore provide benefits for both the donor and future beneficiaries.

### CURRENT INHERITANCE TAX GIFTING EXEMPTIONS FOR 2026/27

The exemption for regular gifts from income sits alongside several other valuable gifting allowances. For the 2026/27 tax year, the principal exemptions remain unchanged.

#### These include:

- **Annual exemption:** You can give away up to £3,000 each tax year without it counting towards your estate for Inheritance Tax purposes. If you did not use the exemption in the previous

tax year, it can normally be carried forward for one year only.

- **Small gifts exemption:** You may give up to £250 to any number of individuals each tax year, provided the recipient has not also benefited from your annual exemption.
- **Wedding and registered civil partnership gifts:** You may give up to £5,000 to a child, £2,500 to a grandchild or great-grandchild, and £1,000 to any other individual, provided the gift is made in connection with a wedding or registered civil partnership ceremony.
- **Gifts to spouses or registered civil partners:** Gifts between spouses or registered civil partners who are both UK domiciled are generally exempt from Inheritance Tax.
- **Charitable gifts:** Gifts made to qualifying UK charities are normally exempt from Inheritance Tax. In some circumstances, leaving at least 10% of your estate to charity can also reduce the rate of Inheritance Tax payable on the remainder of your estate.

Each exemption has its own qualifying rules, and careful planning may allow several exemptions to be used together.

**OTHER IMPORTANT RULE:  
THE SEVEN-YEAR RULE**

Most lifetime gifts that do not qualify for one of the available exemptions

are treated as Potentially Exempt Transfers (PETs).

If you survive for seven years after making the gift, it will usually fall outside your estate for Inheritance Tax purposes.

However, if you die within seven years, some or all of the gift may become chargeable depending on the value of your estate, previous gifts and the available nil-rate band. Where gifts become chargeable between three and seven years before death, taper relief may reduce the amount of tax payable, although it does not reduce the value of the gift itself.

Because several rules can interact, obtaining advice before making substantial gifts is often worthwhile.

**USING REGULAR GIFTS AS PART OF A WIDER ESTATE PLANNING STRATEGY**

Regular gifting can achieve more than simply reducing a future tax bill.

It enables you to see the positive impact your wealth is having during your lifetime. You may be able to help family members at key stages of life when financial support is most valuable, whether that is buying a home, starting a family, paying university fees or building long-term savings.

The exemption can also complement other estate planning strategies.

Depending on your circumstances, it may sit alongside annual gifting

allowances, pension planning, trust arrangements, charitable giving and investments held outside your estate.

Every family's situation is different, which is why gifting should be considered within the context of your wider financial plan rather than in isolation.

**KEEPING RECORDS IS ESSENTIAL**

One of the most important aspects of using the regular gifts from income exemption is maintaining clear and comprehensive records.

Following your death, your executors may need to demonstrate to HM Revenue & Customs that each of the qualifying conditions was met. Without sufficient evidence, there is a risk that the exemption could be challenged.

**It is therefore sensible to keep records showing:**

- the amount and date of each gift;
- the recipient;
- the source of the income used to make the gift;
- your annual income and expenditure;
- and a note confirming that the gifts form part of your ongoing financial planning.

Typically, you should review this information annually, particularly if your income or expenditure changes significantly.



## REVIEWING AFFORDABILITY OVER TIME

Although the exemption is designed for ongoing gifting, affordability should not be viewed as a one-off calculation.

Retirement income can fluctuate, investment returns may vary, inflation can increase household costs, and later-life care expenses may arise unexpectedly. A gifting programme that is entirely affordable today may need to be adjusted if your financial circumstances change.

Regular reviews help ensure your gifting strategy remains sustainable while continuing to meet the conditions for the exemption. They also provide an opportunity to consider whether other estate planning measures could improve the overall efficiency of passing wealth to future generations.

## HOW WE CAN HELP

Estate planning is about more than reducing tax. It is about making informed

decisions that allow you to provide for the people who matter most while retaining confidence in your own long-term financial security.

If you have surplus income and would like to assess whether regular gifting could form part of your estate planning strategy, speaking to us will help you evaluate your options. At DG Financial Services, we work with clients to develop personalised plans that balance tax efficiency with your broader financial goals, helping you make the most of opportunities under current Inheritance Tax rules. ■

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## Time to review your gifting strategy?

Regular gifts from income may offer a useful way to support loved ones while planning for Inheritance Tax. Contact DG Financial Services to review your estate planning options, assess your surplus income and explore whether this relief could be suitable for your circumstances.



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