How to Transfer Wealth to Family Without Unnecessary Tax

Passing money or assets to your children or other relatives can be a satisfying step in your financial life. But if you do not plan the timing and method carefully, you or your beneficiaries could end up paying more tax than the law requires. This article walks through the main steps for making family transfers that keep more of your wealth where you want it - with your family.

Know the Basic Tax Rules for Gifts

Before you give anything away, it helps to understand how the tax system treats gifts. In the UK, most gifts you make while you are alive are not subject to inheritance tax immediately. Instead, they become what is called a potentially exempt transfer. If you survive for seven years after making the gift, it falls out of your estate for inheritance tax purposes. If you die within that seven-year window, the gift may be taxed, though with a sliding scale of relief known as taper relief.



The key point is that a straightforward cash gift to a family member does not trigger an immediate tax charge. The risk is that if you die sooner than expected, the tax can still apply. So the first thing to watch is your own health and life expectancy, and to keep a clear record of every gift you make. A simple spreadsheet with the date, amount and recipient is enough to start with.

Use Your Annual Exemptions First

Everyone has an annual inheritance tax exemption of a certain amount that resets each tax year. You can give away that sum every year without it ever counting toward your estate, and it does not affect your seven-year clock on larger gifts. Many people forget to use this allowance, which is a straightforward way to reduce the taxable value of their estate over time.

There is also a separate allowance for small gifts, up to a lower amount per person per year. If you have several grandchildren or other family members you want to help, you can give each of them a small gift under this exemption without any tax consequences. The main thing to watch is that you do not exceed the annual exemption in total across all recipients, and that you do not give a small gift to someone who is also receiving a larger gift from you in the same year - the small gift exemption cannot be combined with the annual exemption for the same person.

Make Regular Gifts from Surplus Income

If you have enough income to cover your living costs and still have money left over, you can make regular gifts out of that surplus income without them being counted as part of your estate at all. This is called the normal expenditure out of income exemption. It is one of the most effective ways to transfer wealth tax-free, but it requires careful record-keeping.

To qualify, the gifts must be part of a regular pattern, they must come from income rather than capital, and they must not reduce your standard of living. For example, if you pay a grandchild's school fees each term from your monthly salary, that could count. A one-off birthday cheque from savings would not. The thing to watch here is that HMRC may ask for evidence that the gifts are genuinely from income, so keeping bank statements and a note of the arrangement is wise.

Think About the Recipient's Tax Position

When you give an asset such as shares or property, the person receiving it takes on your original cost basis for capital gains tax purposes. If they later sell the asset, they may owe capital gains tax on the gain from when you originally bought it, not from when you gave it. This can produce a bigger tax bill than if they had inherited the asset at its value on your death, when a new base cost is set.

So if you are considering a gift of an asset that has gone up in value a lot since you bought it, the capital gains tax cost to the recipient might outweigh the inheritance tax saving. A conversation with a tax adviser before making such a gift can help you decide whether it is still worthwhile, or whether a different approach - such as holding the asset until death - would be better for the family overall.

Another point to consider is the recipient's income tax band. If you give them an income-producing asset, the income will be taxed at their marginal rate, which could be higher than yours. That might eat into the benefit of the gift. It is worth checking their circumstances before transferring an asset that generates rent, dividends or interest.

Consider Trusts for Control and Flexibility

If you want to give assets to family members but are not ready to hand over full control, a trust can be a useful tool. You transfer the assets into a trust, and the trustees manage them for the benefit of the beneficiaries according to the terms you set. Trusts have their own tax rules, including entry charges, periodic charges and exit charges, so they are not a simple solution for everyone.

For many families, a bare trust is the simplest form: the assets belong to the beneficiary from the start, but you manage them until they reach a certain age. This can work well for children or grandchildren, but there is no flexibility to change your mind once the trust is set up. A discretionary trust gives you more control but has more complex tax treatment. The thing to watch is that setting up a trust without professional advice can lead to unexpected tax bills, so it pays to get guidance early.

Keep a Gift Record and a Letter of Wishes

A gift record is a simple document listing every gift you make, with the date, value and recipient. This helps your executors prove to HMRC which gifts are exempt and which fall within the seven-year rule. Without it, your family may struggle to piece together the details after your death, and the estate could end up paying more tax than necessary.

A letter of wishes is a separate document that explains the reasoning behind your gifts and any trusts. It is not legally binding, but it guides your trustees or executors in carrying out your intentions. For example, if you have given money to one child for a house deposit and plan to balance that with a gift to another child later, a letter of wishes can explain that so no one misunderstands. The thing to watch is that a letter of wishes is not a substitute for a will; it works alongside your will and your trust documents.

Review Your Plan Regularly

Tax rules change, and your family circumstances change too. A gift that made sense five years ago might no longer be the best approach. Perhaps a child's marriage has ended, or a grandchild has special needs. Reviewing your plan every few years ensures that your wealth is still going where you intend, and that you are not missing new exemptions or reliefs that have been introduced.

Many people set up a plan and then forget about it, which can lead to problems later. For example, if you have been making regular gifts out of income but your income drops, you might inadvertently be giving from capital without realising it. A regular review catches these changes early.

Where to Get Help

Putting all these steps together into a coherent plan is not something most people do alone. A specialist in inheritance tax planning can look at your whole financial picture and suggest the most efficient order for your gifts. You might start with a conversation about your estate exposure and the options for reducing avoidable tax. Firms such as Jones & Co offer personalised inheritance tax planning that can help families pass on wealth clearly and efficiently. They can assess your estate, identify the areas where tax is most likely to bite, and recommend a sequence of family transfers that matches your goals.

The key is to start early. The seven-year rule means that the most effective gifts are the ones you make sooner rather than later. Even if you are not ready to give away large sums, using your annual exemptions and making regular gifts from income can make a significant difference over time. And as with any tax planning, the advice you get should be tailored to your own situation. A plan that works for one family may not work for another, so take the time to find someone who understands your priorities.

Jones & Co can help you assess your estate exposure and reduce avoidable tax, but the final decisions about what to give and when are yours. The best approach is to combine professional guidance with a clear personal record of what you have done, so that your family knows exactly what to expect and can benefit from your generosity without unnecessary tax deductions.