

Inheritance Tax Planning

Inheritance tax (IHT) is paid on the value of an estate over the Nil Rate Band (NRB), £300,000 for tax year 2007/08, at a standard rate of 40%. An estate valued at £600,000 would therefore pay £120,000 in inheritance tax (£600,000 - £300,000 = £300,000 x 40% = £120,000). Importantly, any tax due must be paid BEFORE the estate is distributed to the beneficiaries.

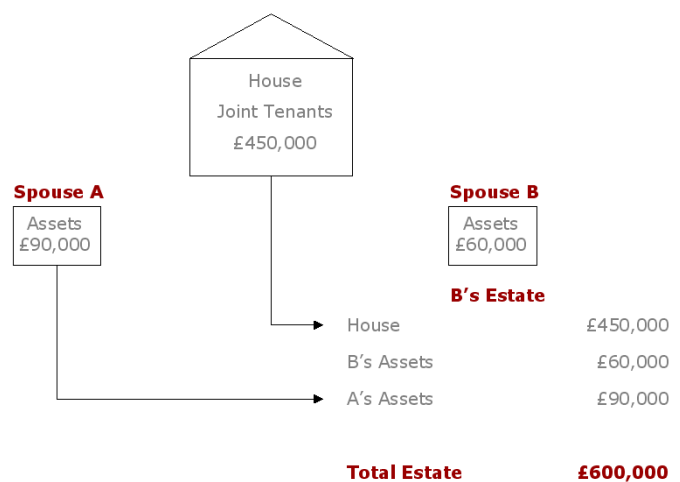
However, for many people it is possible to reduce or even avoid IHT with just a few simple steps, the first of which is to create a NRB Discretionary Trust within your Will.

Before IHT Planning

- ❑ Joint ownership of house passes to B by right on A's death
- ❑ A's assets pass to B free of IHT
- ❑ IHT payable on B's death

Total estate	£600,000
Less NRB	<u>£300,000</u>
Taxable Estate	£300,000

Tax Payable @ 40% £120,000

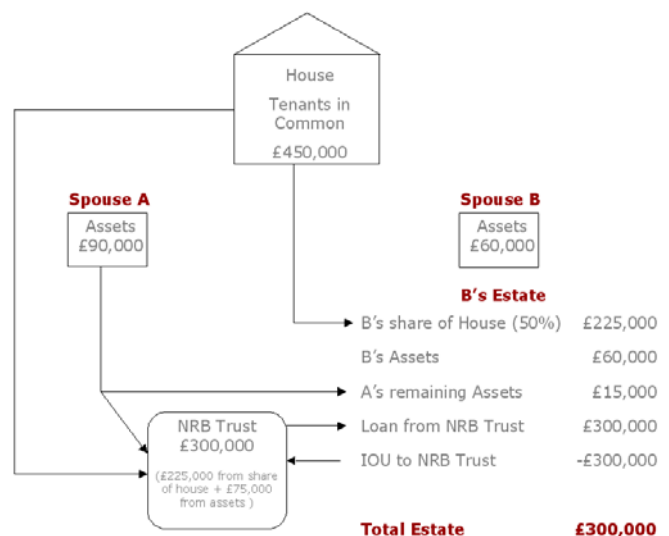


After IHT Planning

- ❑ Property changes to Tenants in Common, each owning 50%
- ❑ NRB Trust set up with assets of £300,000
- ❑ Trustees agree to loan B the trust assets in form of a IOU
- ❑ IOU debt repaid from B's estate on death
- ❑ IHT payable on B's death

Total estate	£300,000
Less NRB	<u>£300,000</u>
Taxable Estate	£ 0.00

Tax Payable @ 40% £ NIL



By creating a NRB Discretionary Trust within the Will, taking advantage of Spouse A's NRB allowance, the total Tax saved on B's death is £120,000