

Inheritance Tax spouse relief – lastingpost.com

Introduction

The Inheritance Tax spouse relief was introduced with immediate effect on 9th October 2007. The relief relaxed the usage of the nil rate band for Inheritance Tax between spouses (and same sex couples who have registered their civil partnership).

How it works

Previously, when a surviving spouse died only their own nil rate band of £325,000 was available. A couple now shares a joint nil-rate band of £650,000 so that any relief not used when the first spouse dies is available to the surviving spouse. The new relief will enable a married couple with a combined estate of £650,000 to potentially reduce their overall Inheritance Tax liability by £130,000. It is estimated that the change will benefit 12 million couples.

A basic example

The effect of the change on a married couple with a combined estate of £800,000 who have agreed to leave all their assets to the other is as follows:

1. Before 9th October 2007

	Husband	Wife
Estate	£400,000	£400,000
Husband dies	(£400,000)	<u>£400,000</u>
		£800,000
Nil Rate Band		£325,000
Taxable estate		£475,000
Inheritance Tax at 40%		£190,000

2. 9th October 2007 onwards

Lasting Post provides advice on all aspects of a death including the funeral, probate, bereavement and planning ahead

www.lastingpost.com

LASTING POST

	Husband	Wife
Estate	£400,000	£400,000
Husband dies	(£400,000)	<u>£400,000</u>
		£800,000
Nil Rate Band		£650,000
Taxable estate		£150,000
Inheritance Tax at 40%		£60,000

Change backdated

The change is backdated indefinitely. This means that all surviving spouses will now be able to make use of any allowance left unused by their spouse no matter when they died. The government has indicated that by backdating the change 3 million widows and widowers will potentially benefit.

Calculated on threshold at time of the second death

The size of the unused allowance will be based on the nil-rate band threshold at the time of the second death not the lower threshold when the first spouse died.

Existing wills

The legislation will in most cases negate the need for nil rate band discretionary trusts in spouses' Wills. This should however not constitute a problem for couples who currently have Wills that include such trusts. If a person dies with a nil rate band discretionary trust in their Will and it is concluded that there is no benefit to keeping the trust in place it can simply be wound up in favour of the surviving spouse.

Please note

Please note that information we provide through Lasting Post is in outline for information or educational purposes only. The information is not a substitute for the professional judgement of a Solicitor, Accountant or other professional adviser. We cannot guarantee that information provided by Lasting Post will meet your individual needs, as this will very much depend on your individual circumstances. You should therefore use the information only as a starting point for your enquiries.

END

Last updated: 5th April, 2010

Lasting Post provides advice on all aspects of a death including the funeral, probate, bereavement and planning ahead

www.lastingpost.com