



IHT Planning can be fun

Reduce your family's tax burden

In this issue, we highlight an important inheritance tax ("IHT") planning opportunity that is known as "Double-Dipping". It is a technique that is available to husband and wife couples who own certain types of asset. It will mostly be available to couples who own shares in their "family" companies, but also to couples who have made investments in AIM or OFFEX listed trading companies.

The technique exploits the IHT relief available for certain assets that is called Business Property Relief ("BPR"). Shares in unquoted trading companies (including AIM and OFFEX companies) qualify for BPR at the rate of 100% when they have been owned for two years. The reason for this generous relief is easy to understand: it is to facilitate the passing on of "family" companies without the family members having to worry about the impact of IHT. Similar rules apply to owners of agricultural property.

An example saving of £700,000

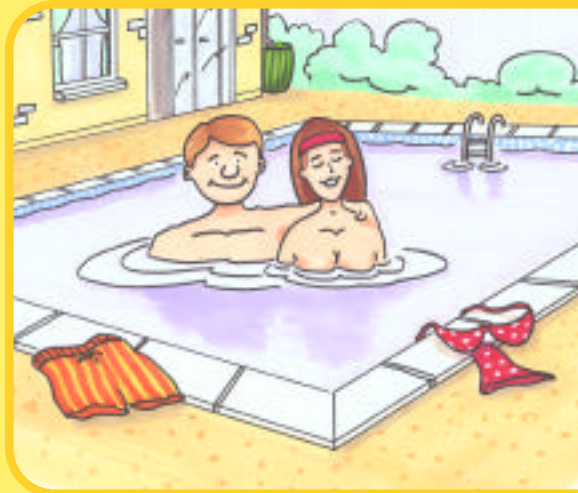
Let us assume that • a husband and wife couple own shares in their "family" company worth £1.5m each. • they also jointly own non-business assets (family home, investments, cash etc) worth £2m. • the husband dies first and leaves all his assets to his widow • on her death the whole estate is left to their children. In this situation there is no IHT liability on the husband's death (because an inter-spouse transfer is exempt from IHT), but on the death of the widow the non-business assets will attract an IHT liability of roughly £700,000.

There is a way to prevent this! If on the death of the husband his will specifies that the value of the IHT nil rate band (currently £242,000) and the shares in the "family" company are settled on a discretionary trust (of which the widow is a trustee and beneficiary) with the balance of his assets passing to his widow, then no IHT liability arises. This is because of the inter-spouse exemption, BPR and the utilisation of the husband's IHT nil rate band. If the widow buys the shares in the "family" company from the trustees by using available cash, or by borrowing the money (or by the trustees allowing the sale price to be left outstanding on loan account), then the value of the non-business assets owned by her reduces by £1.5m and the value of her business assets increases by the same figure. After she has owned the new shares for two years they will qualify for 100% BPR.

On the widow's death the IHT bill will be roughly zero because her free estate will be more or less wholly represented by assets that qualify for BPR. **An IHT saving of some £700,000 will have been achieved!** (Remember that the widow can benefit from the assets owned by the trust, so she need not worry about having insufficient cash to live on.)

The husband's BPR has been recycled so that it is taken into account not only on his death, but also on the death of his widow, hence the term "Double-Dipping"!

**THE JOYS OF
DOUBLE-DIPPING
...especially if
you're married**



Barnes Roffe Topical Tips

- This is a valuable IHT saving strategy for couples who own assets qualifying for BPR - generally owners of shares in unquoted trading companies.
- The implementation of the strategy is simply a matter of having appropriately drafted wills.

Consult your Barnes Roffe contact partner for detailed guidance in this important area.