

We are taxed throughout our lives, when we earn money, when we spend money and when our assets grow. After we have paid all this tax during our lifetime, we are taxed again when we die. This death tax is called Inheritance Tax and may significantly reduce the amount of inheritance your family and loved ones will receive.

In the United Kingdom each person is entitled to a tax allowance (currently £275,000.00) which can pass free of tax on death. This is calculated by adding up all of the things that someone owns, including their house, car and other personal possessions, their allowance is then deducted and what remains is taxed at 40%.

Inheritance tax used to be something that only affected the wealthy. However, since the early 1990s the tax allowance has only increased in line with the retail prices inflation and as such has not taken into account the huge rises in house prices. This has resulted in over one third of households in the UK being impacted by the effects.

But inheritance tax is not called the “voluntary tax” for nothing. There are ways that you can reduce the inheritance tax your estate will have to pay and in a lot of cases you can avoid paying it altogether! A recent survey has shown that most people either do not realise their tax position or, if they do, have done nothing about it. Don't be one of these people and give more money to the tax man than you have to.

We know that it is hard to think about lifetime preparation but it can be harder on those that you love if you don't. Through the use of various trusts we can help you plan for an uncertain future.

One of the most popular ways to do this between married couples or civil partners is through their Wills.

In the UK, assets passing on death to a surviving spouse or civil partner pass free of inheritance tax. Most couples instinctively leave everything to each other in their Wills. This means that when the first spouse or civil partner dies, everything passes to the survivor, tax free. When the second person dies everything they are entitled to in excess of their allowance at the date of their death will be taxed at 40%. Since every person is entitled to their own tax allowance, by giving everything straight to the surviving spouse or civil partner (which is tax free anyway), the tax allowance of the first spouse or civil partner has not been used.

To make use of the tax allowances every individual is entitled to, a discretionary trust is inserted into the Wills of the couple. This then only comes into action when the first person dies. The trust is drafted so widely that there is no need to physically put anything in the trust – a promise to repay is enough.

For example, Joan and Bernard are a married couple. Their estate is worth £600,000.00.

If they do not draw up Wills that include the discretionary trusts, when Bernard died leaving everything to Joan, there would be no tax to pay upon his death because they were married when he died. However, should Joan then die, leaving everything to her child (who will be liable to inheritance tax), the tax calculation (using the current tax allowance) would be as follows:

Total value of the estate:	600,000.00
Less Joan's personal tax allowance	(275,000.00)
= Taxable estate	325,000.00
Taxed at 40%	130,000.00

**Inheritance Tax due upon Joan's death £130,000.00**

This will need to be paid to the government before Joan's child could get their inheritance.

If Joan and Bernard drew up Wills which include discretionary trusts, when Bernard died he would put his tax allowance into a discretionary trust and the rest of the estate would pass to Joan free of inheritance tax because they are married at this time. Joan would be allowed to use what is in the discretionary trust during her lifetime, by promising to pay it back, but it would be a debt due from her estate upon her death. The tax calculation when Joan dies in this situation would therefore be as follows:

Total value of the estate:	600,000.00	
Less Joan's personal tax allowance	(275,000.00)	= 325,000.00
Less repayment of outstanding loan from Discretionary trust set up by Bernard's Will	(275,000.00)	= 50,000.00
= Taxable estate	50,000.00	
Taxed at 40%	20,000.00	

**Inheritance Tax due upon Joan's death £20,000.00**

Clearly then, by using the discretionary trust scheme married couples and civil partners can save up to £110,000.00 of inheritance tax. This is the equivalent of 40% of the tax allowance and as such the amount saved will increase as the tax allowance does in the future. If the value of Joan and Bernard's total estate had been below £550,000.00 their inheritance tax bill would be nil if they used the discretionary trusts.

How much inheritance tax would your estate lose? If you would like to know complete the following form for a current estimate:

<b><u>ASSETS</u></b>	<b><u>VALUE</u></b>
Family Home	
Second Home	
Other property	
Home contents	
Cars	
Jewellery	
Furniture, antiques etc	
Bank accounts	
Building Society accounts	
National Savings	
Premium Bonds	
Stocks, shares and investments	
PEPs	
ISAs	
Pension Plans (not in trust)	
Life Insurance Plans (not in trust)	
Debts owed to you (loans, rent etc)	
Income due to you	
Private health schemes	
Other personal assets	
Gifts made in the last seven years	
<b><u>TOTAL ASSETS</u></b>	<b><u>(A)</u></b>

<b><u>LIABILITIES</u></b>	<b><u>VALUE</u></b>
Mortgages outstanding	
Bank Loan	
Car Loan	
Overdraft	
Credit Card	
Other debts	
Funeral expenses	
<b><u>TOTAL LIABILITIES</u></b>	<b><u>(B)</u></b>

Using this information, now complete the following steps, referring to the above boxes.

**STEP ONE**

TOTAL ASSETS (BOX A)	LESS	TOTAL LIABILITIES (BOX B)
	-	
	=	VALUE OF NET ESTATE (C)

**STEP TWO**

VALUE OF NET ESTATE (C)	LESS	PERSONAL ALLOWANCE (£275,000.00 until April 2006)
	-	
	=	TOTAL TAXABLE ESTATE (D)

**STEP THREE**

TOTAL TAXABLE ESTATE (D)	AT	40%
	x	40%
	=	<b>TOTAL AMOUNT OF INHERITANCE TAX CURRENTLY DUE UPON YOUR DEATH</b>

This may not necessarily be the amount of inheritance tax you would have to pay. We could help you. Discretionary trusts are just one aspect of inheritance tax planning. As specialists in Wills, Trusts and Inheritance Tax planning Aston Bond can offer you one-to-one advice to protect your money .