

INHERITANCE TAX FOR SPOUSES

The basic Inheritance Tax position for married couples and civil partners before October 2007 was relatively straightforward. If you left everything to each other then, on the first death, no tax was payable. However, on the second death, the survivor's estate only had one exemption or "nil rate band" (NRB) and everything above that figure was subject to tax at 40%.

The Chancellor's pre-Budget report on the 9th October 2007 made a significant change to the Inheritance Tax rules. To put this as simply as possible, when a married person or civil partner does not make full use of their NRB on death, the unused proportion of it can now be carried forward to be used when their spouse passes away.

The current level of the NRB is £325,000 which means that a married couple whose combined assets are worth less than £650,000 no longer need to be concerned about any Inheritance Tax consequences of leaving their estates to each other. For example, if a husband dies leaving £50,000 to his children and the rest of his estate to his widow, then the unused proportion of his NRB is carried forward. When the widow dies this balance can be claimed in addition to her own NRB and, if the figure is still at the same level, then the first £600,000 of her estate would be free from Inheritance Tax.

The new relief is quite a simple one, but it is worth noting the following points :-

- The relief is only available between spouses or civil partners and does not help other couples, or siblings who live together.
- It does not matter if the first spouse to die left little or nothing in their estate - the full NRB can still be claimed.
- Although the relief only applies to any second death as from October 2007, it is back-dated regarding the first. This means that an unused NRB can be claimed in respect of a deceased spouse from many years ago.
- An unused NRB can be carried forward to a second marriage, provided that no one person can be entitled to more than two NRBs.

This is a summary of the main Inheritance Tax rules affecting spouses. We would be happy to provide more detailed advice if you require it.