

Nil-Rate Band Discretionary Trust: Example for unmarried couples



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Nil-Rate Band Discretionary Trust: Example for unmarried couples

Unmarried couples do not benefit from any spousal exemption or transferable inheritance tax allowances. Depending on the size of the estates, the risk of paying inheritance tax on both first and second death increases.

The example below shows how inheritance tax can be reduced with the right planning and use of a Nil-Rate Band Discretionary Trust (NRBDT).

Example: Tom and Jill are not married. Tom has two children from a former partner. They have estates of £400,000 each and have full NRB's each of £325,000.



No NRBDT

Tom and Jill make basic wills leaving 'everything to each other'

Tom dies first

£400,000 – 325,000 NRB =
£75,000 taxable

£75,000 @ 40% = £30,000 IHT

£370,000 received by Jill from Tom's estate

Jill dies

£400,000 + £370,000 =
£770,000 Jill's estate

£770,000 - £325,000 =
£445,000 taxable

£445,000 @ 40% = £178,000
IHT

Total IHT paid on both deaths:
£208,000

NRBDT

Tom and Jill's will include an NRBDT on first death, residue to surviving partner.

Tom dies first

£325,000 passes tax-free to an NRBDT £75,000 is liable for tax

£75,000 @ 40% = £30,000 IHT
Jill receives the remaining
£45,000

Jill and Tom's children are named as beneficiaries of the trust. If the trustees lend money or assets to Jill, her estate will repay this as a debt on Jill's death. This means Jill can benefit from the assets in Tom's NRBDT without increasing the size of her estate.

Jill dies

Tom's NRBDT is not part of Jill's estate

£400,000 + £45,000 from Tom
= £445,000 estate

£445,000 - £325,000 = £120,000
taxable

£120,000 @ 40% = £48,000 IHT
to be paid

Total IHT paid on both deaths:
£208,000

Including an NRBDT in the first will reduced the combined inheritance tax by £130,000 for this couple.

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