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MONEY

Three ways to reduce your inheritance tax bill

PLANNING

BY PAUL GIBSON

Inheritance tax is catching more and more people and many are looking for ways to reduce their potential bill.

Here I look at three of the more popular methods which are not deemed contentious by the tax authorities.

● Loan trusts

Someone makes a gift to establish a trust. They then make a loan to the trustees, who invest the sum – typically into an insurance bond.

The individual retains the right to have the loan repaid on demand and, therefore, the value of any outstanding repayments remain within their estate.

Inheritance tax savings relate to the growth in the value of investments held within the bond.

This type of arrangement works for clients who wish to freeze the value of part of their taxable estate, while retaining access to an income stream and/or the capital loaned.

This may be more suitable for younger clients and those of more modest means.

● Discounted gift trusts

This type of arrangement is ideal for people who require an income.

Here, the individual makes a larger gift for inheritance tax purposes and relinquishes control of the capital.

The trust is split into two parts, the first is treated as a gift and it falls out of the estate after seven years. The second part, the discount, is used to provide an income to the investor for life.

The value of the gift and discount depend on the individual's age and health, and will be subject to medical underwriting.

● Business property relief (BPR) schemes

These schemes invest in a portfolio of shares that qualify for BPR, meaning that after two years the shares are free from inheritance tax.

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