

# Pre-Budget Report 2008

## Inheritance Tax

Inheritance Tax Threshold doubled as from 9 October 2007.

The nil rate band is effectively increased from £300,000 to £600,000 from 9 October 2007 for married couples and civil partners. This will take many estates out of inheritance tax completely. The threshold will be increased to £700,000 from 2010.

Alistair Darling has now presented his first Pre-Budget report. Pundits were speculating that he would be easing the impact of inheritance tax - we have not been disappointed! Although we cannot present all the tax ramifications of the Pre-Budget Report yesterday we have summarised below the significant changes to inheritance tax and capital gains tax. We also point out the Revenue's intention to deal with income splitting and covered a number of other tax changes.

Transfer of unused nil-rate band allowance.

The second surprising relaxation in the impact of IHT on the estates of married couples and civil partners came in the form of a transfer of unused nil-rate band on the first death. This provision combined with the announced increase mentioned above will likely have a very beneficial effect on assets passing on the second death to surviving children or other beneficiaries.

Please note this change will only apply to married couples and civil partners.

Prior to 9 October 2007 if a spouse or civil partner died with chargeable assets lower than the nil rate band any balance of allowance was lost. As from 9 October 2007 this unused allowance can be transferred to the surviving spouse/partner. The operative date of 9 October 2007 applies to the second death. (The date of death of the first partner before this date is irrelevant.)

As usual there are a number of provisions to combat misuse of this new facility - particularly the amount of any uplift on the second death will be restricted to the amount of the nil-rate band at that time.

The amount of the nil-rate band transferable will be based on the proportion unused when the first partner died. If on the first death all assets were left to the surviving spouse/partner all of the deceased partners nil-rate band would be unused. On the death of the surviving spouse the nil-rate band applied at the later death will be increased by 100%.

Claims for the transfer will be made by the personal representatives on the second death when they submit an IHT return.

This transfer of unused nil-rate band will also be applied to any inheritance tax charge which may arise once a dependent's interest in an alternately secured pension ceases.

