

## **Inheritance Tax – relief for loans**

Your business uses a property that you own. You've been told that when it comes to IHT you can leave the value of this out of the equation because it will be covered by Business Property Relief. But can you improve on this?

### **Not part of the equation**

If you own business or agricultural property, you may be entitled to claim some extremely valuable tax reliefs. Business Property Relief (BPR) can reduce the Inheritance Tax (IHT) on your property by up to 100%. You may think therefore that there isn't much tax planning to consider. After all, you can't do any better than zero tax. But that may not be the whole story.

### **Rate of relief**

BPR can apply to a range of assets, but we're concentrating on property, that is land and buildings used by a business. There are two rates of BPR: 100% and 50%. These apply as follows:

- 100% relief for the business of a sole trader, including land and buildings and other assets they own that are used in the business.
- 50% relief for land and buildings and other assets owned by an individual and used in the business of either an unquoted company, which they control, or by a partnership of which they are a partner.

### **Important – method of relief**

BPR cuts the IHT payable by reducing the value of the property to be taxed.

### **Example**

Jane Brown's estate has a net value of £500,000. This includes a property worth £150,000, which is used in her own self-employed business. The property is subject to an £80,000 mortgage. Her estate also includes her home, which is mortgage-free and valued at £200,000.

If Jane dies, or gives away all her business property, her estate for IHT purposes will be £430,000 with BPR of £70,000. That's the value of the business property (£150,000) less the loan secured on it of £80,000.

### **Mortgage trap**

Jane has fallen straight into the Taxman's trap. When it comes to working out the value of your estate for IHT purposes, loans are deducted from the asset on which they are secured. In our example that's the business property.

### **Remedial action**

If the loan were secured on Jane's home rather than the business property. BPR would be due on the full £150,000 value of her business. So her estate for IHT purposes would then be £350,000 (£500,000 less BPR of £150,000). Switching loans has potentially saved Jane £32,000 of IHT (£80,000 x 40%).

### **Tip**

If you have a mortgage secured on business property that qualifies for BPR, consider transferring it to other property, e.g. your home.

### **Trap**

Before mortgaging your home, think carefully. Failure to meet repayments could put it at risk of repossession.

### **Tip**

Income tax relief will not be lost on interest paid on the mortgage just because it has been switched from a business property to a non-business property.