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Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>6297</b>	<b>29839</b>	<b>36066</b>
Total	<b>6297</b>	<b>29839</b>	<b>36066</b>

Answer-to-Question-\_\_1\_\_

## **Report**

**To:** The Trustees of the Colin Northwood Discretionary Trust

**From:** XYZ Tax Advisers

**Date:** 30 October 2025

**Subject:** Distribution of assets to beneficiaries of The Colin Northwood Discretionary Trust and general Inheritance Tax mitigation steps

### **Introduction**

This Report has been prepared for the Trustees ('the Trustees') of the Colin Northwood Discretionary trust ('the Trust').

We will accept no liability for any reliance on this report by third parties. This report is intended for sole use by the Trustees and by Margie Briggs ('Margie'). The engagement letter covering this report has been signed on 12 October 2025 (the Trust) and 1 October 2025 (Margie).

The Report is based on the information provided to us in Margie's email dated 27 October 2025, the valuations enclosed within that email and any additional valuations provided to us, the financial information provided for Beechcroft Ltd and any other information we have on file.

The Report assumes that current legislation remains in place going forward, and that any valuations remain constant unless otherwise stated.

The Report will focus on the tax implications of the transfer of £500,000 to Rose Briggs ('Rose') to fund her wine and confectionary company. In addition, the report reviews the tax consequences of transferring shares in either KA Motors Ltd or Beechcroft Ltd to Lily Briggs ('Lily').

The Report also reviews potential Inheritance Tax ('IHT') mitigation steps that can be taken by Margie based on her current Will structure, and by the Trust.

### **Executive Summary**

- We recommend distributing the cash to Rose prior to the Trust's 10-year anniversary. We have assumed the Trust will pay any IHT due. If the Trust distributes £500,000 to Rose, an exit charge of £26,720 will arise if this occurs before 15 November 2025. However, if the Trust holds the cash until 15 February 2026, the Trust will be subject to a principle charge on the £500,000, totalling £30,000. Therefore, distributing the cash prior to this would result in an IHT saving of £3,280.
  
- When gifting assets to Lily, we would recommend that the shares in KA Motors Ltd are gifted. This should be completed via a Deed of Variation to Owen Briggs' ('Owen') estate. Margie should make a s.142 and s.62 claim, which would result in no additional tax being due as Lily will be deemed to have received the shares directly from Owens estate at their probate value. No additional tax will be due on Owen's estate as these are covered by Business Property Relief ('BPR') relief. This will also have the affect of reducing Margie's estate. This must be completed within 2 years of Owen's death (by August 2026), which fits with Margie's timeline of June 2026.
  
- We would recommend Margie alters her Will to leave Orchard House to Rose and Lily

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as a specific gift, rather than through the Discretionary Will trust ('the Will Trust'). This will allow Margie to benefit from the full residence nil rate band ('RNRB') if her estate falls below £2,000,000.

- We would also recommend that Margie looks to transfer assets to her children, either directly or via a trust. A gift of the Quoted share portfolio to a trust would reduce the value of her estate to below the RNRB threshold, allowing her to benefit from this and Owen's RNRB. S.260 hold-over relief could be claimed to hold-over the gains on the portfolio. The gift of the shares can be completed through a direct gift, allowing Margie to 'cherry pick' the shares gifted based on ones which are not sitting at a gain. We would recommend completing this regularly as it will slowly reduce her estate over time. Careful consideration should be given however as if this is Margie's main source of income, this method is not feasible.

- Margie should also make use of further exemptions provided throughout her lifetime. She should gift £1,500 to each child (£3,000 total) per year to utilise her annual allowance. On bigger occasions, such as weddings, she should also utilise the wedding allowance of £5,000 per child. Margie can also offer to pay the wedding vendors directly. This will help to reduce her estate.

- Margie should also review gifting assets worth £350,000 into a trust for the benefit of her children or grandchildren every 7 years. This utilises her Nil rate band ('NRB') and allows her to reduce the value of her estate. The transfer would be covered by the nil rate band, so no tax would be due on entry.

- We would also recommend that the Trust utilises its cash reserves, and converts the investment portfolio into BPR qualifying assets. This will allow the principle charges to be reduced, and allow any future distributions from the trust to be transferred free of IHT

(subject to the minimum holding period and the type of asset purchased).

## **Section A: Overview of Trusts**

### **A(i) - The Colin Northwood Discretionary Trust**

The trust was established on 15 February 2016 and will be considered a relevant property trust for IHT purposes. This means that it will be subject to exit charges on any capital distributions made from the trust. In addition, it will be subject to principle charges on the trusts 10-year anniversary. The first principle charge will occur on 15 February 2026. Income tax will also be due at Trust rates on any income arising.

The Trust currently holds a 40% shareholding in Beechcroft Ltd, a company established by Margie's father. The company was a property development company, however it has recently slowed and is now more reliant on rental income. Sheila Northwood and John Northwood now run the company, and focus on the larger development projects. They employ a part-time manager to organise the contractors and the rental properties.

In addition, the Trust also holds an Investment Portfolio and Cash. The Trust utilises its Capital Gains Tax ('CGT') annual exempt amount each year. Any CGT which arises will be taxed at 20% and 24% for residential properties.

### **A(ii) - The Will Trust**

The Will Trust is a discretionary trust that will be created on Margie's passing. The Will Trust will only be developed on this date, so currently this trust does not operate/exist. Therefore, it is not subject to any IHT or CGT.

## **Section B: Transfer of £500,000 to Rose**

### **B(i) - Overview**

The Trustees would like to transfer £500,000 from the Trust to fund Rose's new company, an online wine and confectionary business. The cash is currently available within the trust, however Rose does not need the funds until March 2026.

### **B(ii) - Transfer immediately to Rose**

The Trust currently holds £660,000 in Cash. Therefore, a £500,000 distribution would result in only £160,000 remaining. It should be reviewed if the trust requires additional cash to operate.

### CGT

A transfer of cash to Rose from the Trust would not be subject to any CGT. Cash is not a chargeable asset, and therefore no CGT would arise.

### IHT

A distribution from the trust, assuming it occurs on 30 October 2025 or prior to 15 November 2025, would result in an exit charge for IHT. The exit charge is based on the value transferred, and the period in which the asset has been held within the Trust.

As the distribution occurs prior to the first principle charge, Business Property Relief ('BPR') and Agricultural Property Relief ('APR') would not be considered when calculating the initial value of the Trust. The exit charge would therefore be based on the effective rate and the actual rate at the time of the distribution. Colin's NRB at the time

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of creation would be utilised when creating the Trust. Based on the information provided, Colin made no other lifetime transfers in the 7 years prior to making the trust, so his full NRB is available. The NRB in 2016 was £325,000.

The number of complete quarters between 15 February 2016 and 30 October 2025 is 38. This is based on the assumption the transfer occurs before 15 November 2025.

In addition, we have assumed that as the amount Rose requires is £500,000, the Trustees will settle any IHT due on the transfer. Therefore, the actual rate of tax, being 5.073%, must be grossed up. This produces an actual rate of 5.344%. Please note that the exit charge and principle charges cannot exceed 6%.

The total exit charge due would be £26,720. This would be payable 6 months after the distribution is made.

The total cash amount remaining in the Trust would therefore be £133,280.

Once this amount has been received, Rose could use the cash free of IHT and CGT.

### **B(iii) - Wait until March 2026 to transfer to Rose**

Alternatively, the Trustees could distribute the £500,000 to Rose in March 2026. This is significant because the Trust's first principle charge would occur on its 10-year anniversary, being 15 February 2026.

### CGT

Similar to before, a transfer of cash will not result in any CGT. Therefore, the distribution

will not have any CGT or base cost implications.

### IHT

As the distribution is occurring after the first quarter of the 10-year anniversary, the trust's initial value, which is used to calculate the effective rate and therefore the actual rate, will be net of any BPR and Agricultural Property Relief ('APR').

However, if the distribution occurs in March 2026, the Trust would be making a distribution within the first quarter after its principle charge, which occurs on 15 February 2026. No exit charge will apply as the calculation for actual rate would be 0/40, which is not possible.

Whilst this would save money on an exit charge, it does not consider the cost of the principle charge. If the cash is held within the Trust on its 10-year anniversary, the assets will be subject to an IHT charge at 6%. This means the additional principle charge cost of having the £500,000 in the Trust at its 10-year anniversary would be £30,000.

### **B(iiii) - Recommendation**

Based on the above information, we would recommend distributing the cash of £500,000 to Rose as soon as possible. If this occurs before 15 November 2025, the exit charge would be calculated based on 38 completed quarters, totalling a tax of £26,720. However, if the trust holds on to the cash and distributes in March 2026, the cash would be subject to the principle charge at 6%, and IHT of £30,000 would be due. Therefore, the Trust would save £3,280 by distributing the cash earlier.

### **B(iiiii) - Investing directly from the Trust**

One alternative solution would be to invest in the business directly from the Trust. This would not be beneficial for the principle charge as the assets would not have been held for 2 years, so they will not qualify for BPR. However, if the Trustees wanted to assist Rose and keep the assets within the Trust, they could wait until March 2026 and invest in Rose's company. For this to occur, they must be purchasing shares in Rose's company. Assuming this is an unlisted trading company, these will likely qualify for BPR relief at 100%.

Please note that the principle charge of £30,000 would still arise on the cash as it would not be invested in time to qualify for this relief. Therefore, from a IHT perspective this is not recommended. However, if you wanted to maintain assets within the trust, this can be considered further.

### **Section C: Transfer assets to Lily**

#### **C(i) - Overview**

Margie is considering transferring assets to Lily to ensure that there is an even distribution between her children. Rose would be receiving £500,000 to start her business. Therefore, Margie would like Lily to receive approximately the same amount.

Margie has proposed two methods. She could transfer her shareholding in KA Motors Ltd, which was received as part of Owen's estate, or the Trustees could transfer an 8% shareholding in Beechcroft Ltd from the Trust.

The gift will not occur until Lily turns 30, so the transfer would occur in June 2026.

We understand that Margie and her children utilise their CGT annual exempt amount

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each year, so we have assumed this is not available when calculating any gains below.

### **C(ii) - Transfer shareholding in KA Motors Ltd**

The first method proposed would be to transfer Margie's entire shareholding in KA Motors Ltd to Lily, which she received from Owen's estate. Owen died on 2 August 2024.

A transfer of Margie's entire shareholding would be valued at £520,000.

#### Outright Gift from Margie

If Margie were to make an outright gift of the shareholding, this would be a deemed disposal for CGT purposes. The disposal would occur at market value, being £520,000. Margie's base cost would be equal to the probate value of the shares on Owen's death, being £480,000. A gain of £40,000 would arise, which would be taxed at 20%. Therefore, CGT would arise of £8,000 and would need to be reported on Margie's 2026/27 tax return (assuming the gift occurs in the 2026/27 tax year). Any tax due would therefore be due by 31 January 2028.

The gift would also be a potentially exempt transfer ('PET') for IHT purposes. Therefore, if Margie dies within 7 years of making the gift, IHT will be due on the transfer.

The gift of unquoted shares is likely to qualify for BPR relief if the unlisted company is trading. BPR relief can be given on any number of unlisted trading company shares, and there is no minimum holding. In addition, the information provided informs us that the company does not hold any investment or non-trading assets, so no restriction is needed. The minimum holding period will not apply as it will be aggregated with Owen's period.

This can only occur between spouses. As Owen held the shares since 2013, BPR will apply even if Margie does not meet the 2 year holding period before transfer.

However, as Lucy is going to sell the shares within 5 years, if she does not hold the shares at Margie's death, or the business is no longer a trading business, no BPR will be available. Lucy informed Margie that she would like to sell the shares in 5 years time, so from the date of sale the gift will not qualify for BPR if it becomes taxable on Margie's death (a failed PET).

Taper relief would be available after 3 years of making the gift to reduce the value chargeable on death. Taper relief reduces the rate of IHT by 20% each year, and comes in to effect 3 years after making the gift. Therefore, if the gift was made in June 2026, taper relief would apply from June 2029.

### Deed of Variation

Alternatively, Margie could make a Deed of Variation. Margie has not received any dividend from the shares, and these were received less than 2 years ago. Therefore, it may be possible to complete a Deed of Variation for Owen's Will.

The Deed of Variation must be completed in writing, and must be completed within 2 years of Owen's passing, being 2 August 2026. As no additional IHT is due as a result on the deed, it is not compulsory for the Trustees of Owen's estate to accept this. However, as everything passes to Margie, this is unlikely going to be an issue.

### Deed of Variation - CGT

A Deed of Variation would mean that Margie is giving up her entitlement to the shares in

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KA Motors Ltd, and instead is gifting these to Lily. The transfer would therefore be a deemed disposal for CGT purposes, and as mentioned above, CGT of £8,000 would arise. However, Margie could make a s.62 claim which would result in Lily being deemed as receiving the asset at Owen's probate value. Therefore, no gain would arise on Margie.

However, when Lily later sells the shares, these would have a base cost of £480,000, which is lower than Margie's base cost. The claim would still be beneficial as Margie would not have any proceeds to pay any CGT due, whereas Lily would.

#### Deed of Variation - IHT

Margie would be gifting part of her estate, KA Motors Ltd, to Lily. Therefore, a PET will arise. If Margie were to die within 7 years, this PET would be chargeable to IHT. Whilst this may be covered by BPR relief, this will be removed by Lily selling the shares as she would have to hold the shares at the date of Margie's death, or have re-invested the proceeds into BPR qualifying assets. If she does, Margie will qualify for BPR on the shares irrespective of her owning the shares for less than 2 years as her period of ownership would be aggregated with Owen's.

Taper relief may apply as per before on any PET after 3 years.

Margie should therefore make a S.142 election. The effect of this election is to have the assets, being shares in KA Motors Ltd, being deemed to be transferred as part of Owen's Will. BPR will apply on the shares as Owen has held the shares for over 2 years, and they are shares in an unlisted trading company. Spreading provisions will also not apply because it is a gift of a specific asset and there are no further BPR shares within Owen's estate. As the shares are fully covered by BPR at the date of Owen's death and at the date of potential transfer, no additional IHT will be due.

A s.142 claim would also mean that Margie has not made a PET, and instead the assets come directly from Owen's Will. Therefore, there will be no additional tax due if Margie dies within 7 years, or if Lily sells the shares.

If a Deed of Variation is completed, we would recommend making both a CGT and IHT claim.

### **C(iii) - Transfer 8% interest in Beechcroft Ltd from the Trust**

Margie and the Trustees have also proposed distributing an 8% shareholding in Beechcroft Ltd. An 8% shareholding has been valued at £500,000.

The distribution would occur in June 2026, so it would be within the second quarter after the Trusts principle charge.

### CGT

A distribution by the Trust would result in a deemed disposal and therefore potential CGT implications.

The Trust holds a 40% shareholding in Beechcroft Ltd, which is acquired for £1,700,000 in 15 February 2016.

Colin paid IHT on entry. This is an allowable cost for CGT purposes and can be taken into account when calculating any CGT. In addition, assuming the trustees pay any IHT due, this can be a further allowable expense. However, as the asset would be covered by BPR, no IHT would have been paid on the settlement of Beechcroft Ltd. Therefore, the

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base cost would equal £1,700,000. This is based on a £42,500 valuation per share with the discount applying for minority holdings. Therefore, we have assumed the same discount would apply for the 8% shareholding being proposed.

The gain arising on the deemed disposal of Beechcroft Ltd would be £160,000, resulting in CGT of £32,000. This would be reported on the Trustees 2026/27 tax return and would be due on 31 January 2028.

business Asset Disposal Relief ('BADR'), is available to reduce the gain to 10% on sales of businesses or business assets. To review if BADR is available, HMRC will review if the business is wholly or mainly trading. This differs from tests completed for the purposes of BPR. Instead, BADR will apply if 80% of the business is deemed to be trading.

Looking at Beechcroft Ltd, £645,075 of its turnover is from the sales of development property. This makes up 76.5%, so this does not meet the 80% threshold. In addition, HMRC will look at other aspects, such as the allocation of employees. There are only 3 employees, being Sheila, John and the part-time manager. As the manager is focused on the rental properties, it is unlikely the time would reach the 80% threshold for BADR.

HMRC will also review the allocation of resources. Here, most of the assets held within the company are from Stock and Work in progress. Therefore, most of the assets relate to the development business. However, £3,125,000 are still held for the rental side of the business, making up 41.7% of the assets.

Finally, HMRC will review the overall business and its strategy. It is clear that whilst the business does develop properties, it is now mostly reliant on rental income. Therefore, BADR will be denied. If Beechcroft goes back to being a trading company and reduces

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its investment activity prior to the disposal, it may apply for BADR.

The distribution from the Trust could be held-over. A holdover relief claim could be made within 4 years of the distribution (however this would normally occur in the tax year in which the distribution occurs, being the 2026/27 tax year). A s.260 holdover relief claim would be available as the transfer would be subject to IHT on the distribution out of the Trust. The effect of this claim is for Lily to inherit the Trustees base cost for the shares. This will increase Lily's CGT liability when she later sells the shares, however it would prevent a dry tax charge for the trustees (a tax charge which occurs when no proceeds are received). If a hold-over relief claim is made, no CGT would arise as a result of the distribution.

Please note that the Trustees can only make a hold-over relief claim if the distribution is subject to IHT. Therefore, if the distribution is made within the first quarter after the principle charge (15 February 2026 - 15 May 2026), no hold-over relief claim can be made under s.260. Therefore, the distribution should be made after 15 May 2026.

### IHT

As exit charge will arise on the distribution of Beechcroft Ltd shares to Lily. As the distribution is occurring shortly after the previous principle charge, the exit charge is will be minimal. Furthermore, the shares may qualify for BPR relief.

For the shares to qualify for BPR relief they must be shares in a trading company, and have been owned by the trust for 2 years prior. The shares have been held since 15 February 2016, so the trust will meet the minimum holding period. In addition, the company must not be going into liquidation, or there be a binding contract for sale arranged. We understand this is not the case for Beechcroft Ltd.

Companies which deal in land and buildings will not normally qualify for BPR relief. However, HMRC make an exception where the business is a property development company, such as Beechcroft Ltd.

However, as previously mentioned, Beechcroft has been reliant on investment activity, being rental profits, in previous years. Therefore, BPR may be denied or restricted if the company is not wholly or mainly trading. Unlike BADR relief, HMRC would expect the trading activity for BPR purposes to be 50%.

HMRC will review the use of assets within the business. As discussed, the assets relating to the rental side of the business equal 41.7% of the total assets in the year ended 31 August 2025. Therefore, the investment side makes up less than 50% of the assets. Please note that in the year ended 31 August 2025, the rental profits made up a total of 68.4% of the assets. Therefore, if these continue to rise above 50%, this may mean BPR is denied.

Furthermore, all of the employees do assist with the property development business. Eventhough the part-time manager assists with the rental business, the time is unlikely going to be enough to reach 50%.

Finally, HMRC will review the amount of profit recieved and the percentage of turnover generated from each side of the business. In the year ending 31 August 2025, the turnover for the rental side of the business totalled 23.5% of turnover. In the previous year however this constituted 100% of the turnover. Given the nature of the business, being a proeprty development business, there coul dbe justified reasons for this such as delays in project. This will all be reviewd by HMRC.

Based on the above, we believe that BPR would be available on the shares in Beechcroft

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Ltd. However, in the year ended 31 August 2024, BPR would likely be denied. Therefore, if the business continues to fluctuate, there is a greater risk that it would not be considered a trading business for IHT purposes at the date of the gift. The business must be considered a trading business, and HMRC can review the previous 2 years from the date of the distribution. Therefore, if Beechcroft Ltd were to move towards rental profits, for example by selling their current property developments and not replacing them or investing in future developments, the rental profit business is likely going to make up more than 50%.

After reviewing if BPR is available, we must now review if there are any assets not used in the business, as this will restrict the rate of BPR available. BPR is available at 1005 on shares in unlisted trading companies. Assets not used in the business do not have to specifically relate to the investment side.

HMRC will consider any excess cash held to be an excepted asset. Here, the cash value of £178,655 seems reasonable given the size of the business. In addition, no assets are held for personal use, or for any other reason other than to generate profit. There will therefore be no restriction to BPR.

Consequently, there will be no IHT exit charge on the distribution of Beechcroft Ltd shares in Lily.

### **C(iiii) - Recommendation**

The distribution of Beechcroft shares would not result in any CGT or IHT due, providing Beechcroft Ltd moves towards the trading aspect of its business, and a hold-over relief claim is made. However, we would not recommend gifting Beechcroft Ltd shares at this time to Lily as if the company continues to trade and move back towards property

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development, the shares will continue to be eligible for BPR within the trust and will not result in any future IHT charge. By keeping these within the trust, the Trustees are likely going to maximise the chance of receiving future BPR relief. In addition, when Lily sells the shares in 5 years time, this may be sold to a third party, whereas maintaining them within the Trust maintains control within the family which may be beneficial.

Therefore, we would recommend Margie transfers shares in KA motors Ltd to Lily through a Deed of Variation for Owen's Will. This will also result in no additional tax being due, providing Margie makes a CGT and IHT (s.142) election. Lily will be deemed to have received the shares directly from Owen at the probate cost. No additional IHT would be due on Owen's estate as the shares are covered by BPR relief.

Furthermore, completing a Deed of Variation would also remove the value of KA Motors Ltd from Margie's estate, and this would not be considered a PET for IHT purposes. This reduces the risk of IHT being charged after Lily sells the shares. The deed of Variation must be completed within 2 years of Owen's death.

## **Section D: Margie's current Will format**

### **D(i) - Overview**

Margie is currently leaving her assets under a Discretionary Will trust to her children. The Will Trust will include all of her assets. We have prepared this on the basis that KA Motors Ltd will be gifted to Lily through a Deed of Variation, as mentioned on 'Section C' above. Based on this, the total assets within Margie's estate that are being left to the Will trust are £4,420,000.

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Margie will be able to utilise her NRB, and Owen's NRB as this was not utilised on his death (the transfer to his spouse is exempt for IHT purposes), totalling £750,000. The transfer of KA Motors Ltd in the Deed of Variation will be covered by BPR relief, so no NRB is being utilised. As her estate exceeds £2,350,000, there will be no RNRB or brought forward nil rate band from Owen's estate.

The total IHT due on Margie's estate would therefore be £1,468,000.

#### **D(ii) - RNRB**

The RNRB is available when someone leaves an residence in their estate to a direct decendant. The RNRB is £175,000 for estates below £2,000,000, and is reduced by £1 for every £2 the estate exceeds £2,000,000. As Margie's estate is above this threshold, her RNRB will be tapered to £0. In addition, Margie will also benefit from Owen's RNRB as this was not utilised on his death. She will receive a 100% increase in the value of her RNRB, however as this was £0 this will not result in any additional savings.

Furthermore, if Margie's estate was below £2,000,000, but all of her estate passed to the Will trust, no RNRB would be available as the Will Trust is not a direct decendant, regardless of if Rose and Lily are the beneficiaries.

We would therefore recommend that the property, being Orchard House, is left as a specific gift to Rose and Lily in equal parts. This will achieve the same result as the Will Trust, but it would enable Margie to benefit from the RNRB providing her estate decreases below £2,000,000.

#### **D(iii) - Reducing Margie's Estate**

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Margie currently holds £4,420,000 (excluding KA Motors Ltd). Therefore, she would be required for gift £2,420,000 of assets before she can benefit from the full RNRB and b/f RNRb from Owen's estate.

### Quoted share portfolio

For RNRB purposes, PET's are not included in this value, regardless of when they are made. Therefore, if Margie were to gift her quoted share portfolio, and this later became chargeable to IHT as a failed PET, this would still allow her to utilise her RNRB.

However, gifting assets to connector persons such as her children would result in a dry CGt charge. This can be 'cherry picked' however, and Margie could review her quoted share portfolio to select shares which are not sitting at any gain. This would allow her to gift her shares free of CGT, and if she survives 7 years from the date of gift these would not be chargeable to IHT.

Alternatively, Margie could gift the shares into a trust. This would result in a 20% tax charge on the creation of the trust as a chargeable lifetime transfer. However, Margie would be able to claim her NRb against this. In addition, she could claim hold-over relief under s.260 as there would be an IHT charge. Therefore, she would not have any CGT liability and her gains would be held-over to reduce the trusts base cost. Whilst this would result in a lifetime IHT charge, it would remove the value from her estate, allowing her to fully utilise her RNRB and Owen's RNRB. This would result in a saving of 40% of £350,000, being £140,000. This must be completed in conjunction with her leaving the property to her children.

This should be carefully reviewed as this could be a source of income for Margie. If this is the case, Margie may need to hold on to these assets.

Where possible, we would recommend picking shares which are at little to no gain and gift these within Margie's lifetime. these would be PET's, and would result in IHT being due if Margie were to pass away within 7 years. However, it would fix the value of the shares to the value at the date gifted. Furthermore, it would allow Margie to reduce the value of her estate for RNRB purposes.

### Cash and ISA's

Alternatively, Margie could gift some of her cash of ISA's. She currently holds £320,000 in saving accounts. Gains can be realised free of CGT within ISA's, so no income or CGT would arise. Please note that when ISA's are gifted, they lose their tax free status.

In addition, this would be a PET for IHT purposes. Where a PET arises, this will not be chargeable to IHT if Margie were to survive 7 years.

As the size of the savings would not be large enough to un-restrict the RNRB, we would not recommend this and instead we would recommend Margie holds on to these assets to generate wealth tax free.

### Owen's Estate

As previously mentioned, a Deed of Variation is possible within Owen's estate. We have recommended using a Deed of Variation for his shares in KA Motors Ltd, however it is also possible to transfer the other assets within his estate.

This may give rise to a tax charge, however if a Deed of Variation was completed and IHT and CGT relief were claimed on Orchard House, Owen's NRB and RNRB would be

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available to offset against this, providing his share of the property was left to Rose and Lily. This would generate IHT due of £100,000, however it would allow Owen's RNRB to be utilised regardless of Margie's estate. The cash within Owen's estate does not cover the IHT due however so this may not be possible unless the additional IHT is settled by Margie.

## **Section E: General IHT Mitigation Steps**

### Annual Allowance

Margie is able to utilise a £3,000 annual allowance. We would recommend that she gifts £1,500 to each child per year to ensure this is utilised. This allows her to reduce the value of her estate and will not be considered a PET if Margie were to die within 7 years. These can therefore be gifted free of IHT. If Margie gifts shares, these may be taxable to CGT if they are currently sitting at a gain.

### Other IHT Free Gifts

Furthermore, Margie is able to gift £5,000 for each wedding. We understand that both of her children are currently unmarried, so this could be a step to consider in the future. In addition, if Margie were to pay for parts of the wedding directly, no PET would arise as Margie is paying for a service. This is not the case if Margie provides funds to her children to pay for the wedding (this would be a PET). Therefore, this is a potential step to reduce Margie's estate in the future.

### Nil Rate Band Trust

We have previously discussed the possibility of putting Margie's quoted share portfolio

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into a trusts. Holdover relief can be claimed to reduce hold over any gains on this. However, an IHT charge at 20% would still apply on entry, and the trust would be subject to principle and exit charges. To remove this charge, Margie could gift £325,000 worth of shares to the Trust for the benefit of her children and future grand-children.

This would be fully covered by Margie's NRB, and would therefore not result in the 20% charge. The holdover relief will mean the trust inherits Margie's base cost, however the shares will be able to generate income and gains within the trust, therefore falling outside of Margie's estate.

Furthermore, the nil rate band on entry will reset after 7 years, so after 7 years Margie would be able to settle another trust with £325,000 worth of shares or assets and repeat this every 7 years to benefit from the nil rate band. This would reduce her estate over time, and could reduce her estate to below £2,000,000 which would allow her to receive the RNRB.

### **Section E: The Colin Northwood Discretionary Trust Mitigation Steps**

The Trust currently holds investments in Beechcroft Ltd, an Investment Portfolio and Cash. These assets, after BPR and APR relief, will be taxed on exit or every 10 years. We would therefore recommend that some of the cash be invested in BPR qualifying assets, such as shares in unlisted trading companies. APR may also apply, however it is unlikely the trustees will be able to utilise this unless they would like to move to those sectors or rent farmland, in which case the minimum holding period is 7 years.

Therefore, we would recommend the trust converts funds to BPR qualifying assets to reduce the future principle charges. Please note that if this is done prior to the principle charge on 15 February 2026, no BPR will be available as the minimum holding period will

not be met.

Moreover, the investment portfolio could be sold and re-invested into BPR qualifying investments. Holdover relief may be able to be claimed, but the asset purchased and the level of gain would have to be reviewed. if this is completed, BPR will be available on the next principle charge which will reduce any IHT due (subject to the minimum holding period). In addition, if the assets are distributed and 100% BPR is available, no exit charge will arise. This can be an effective planning method if it is likely future assets will leave the trust.

XYZ Tax Advisors - Chartered Tax Advisors

30 October 2025

## Appendices

### Appendix 1 - Exit Charge on Distribution from the trust of £500,000 to Rose on 30 October 2025

	£	£		
Initial value of trust before APR/BPR		2,955,000		
Less Nil Rate Band	325,000			
Plus transfers in last 7 years prior to creation	Nil			

NRB remaining		(325,000)		
		2,630,000		
Notional Tax @20%		526,000		
Effective rate		17.8%	526,000/2,955,000	
Actual rate		5.073%	17.8 x 30% x 38/40	
Grossed up rate		5.344%	5.073/ (100-5.073)	
Exit charge		26,720	5.344% x 500,000	

**Appendix 2: Gain on gift of KA motors outright**

	£	£		
Proceeds (deemed)		520,000		
Less base cost (probate value)		(480,000)		
Gain		40,000		
CGT @ 20%		8,000		

**Appendix 3: Gain on Beechcroft Ltd**

	£ - Workings	£	
8% value - proceeds		500,000	
Less cost - value on entry	(1,700,000) x 8/40	(340,000)	
Gain		160,000	
CGT @ 20%		32,000	


**Appendix 4: Margies IHT after Deed of Variation**

	£	£	
Value of estate		4,420,000	
Less NRB + NRb b/f		(750,000)	
		3,670,000	
IHT @ 40%		1,468,000	

**Appendix 5: Deed of Variation for Property**

	£	£	
Value		750,000	
less NRB	(325,000)		
Plus transfers in last 7 years	0		
NRB remaining		(325,000)	
RNRB		(175,000)	
Total		250,000	
IHT @ 40%		100,000	