ZENZIC CAPITAL

CASE STUDY

BR Restoring Residence Nil-Rate Band

Where the Residence Nil-Rate Band is lost to taper, Business Relief can help restore it while preserving Nil-Rate Bands.

THE PLANNING CHALLENGE

One of the most effective ways to mitigate Inheritance Tax (IHT) is to ensure both nil-rate bands are fully available. However, **once an estate exceeds £2 million, the Residence Nil-Rate Band (RNRB) begins to taper at £1 for every £2 above that threshold and can be lost entirely.**

For many estates, **restoring the RNRB becomes a central planning objective.**

CLIENT PROFILE

Peter (72) and Margaret (69) are retired and in good health. They have spent decades building and preserving their wealth.

Their combined estate is approximately **£2.65 million**, comprising:

- **Main residence:** £1.0 million
- **Mainstream investments:** £1.65 million.

Their intention is to pass their estate to their two children on second death.

APPROXIMATE CURRENT IHT EXPOSURE

Available Allowances

- **Nil-Rate Bands (NRBs):** £325,000 each
- **Combined NRBs:** £650,000
- **Residence Nil-Rate Band (RNRB):** £175,000 each
- **Potential combined RNRB:** £350,000

However, their estate **exceeds the £2 million** taper threshold.

Taper Calculation

- **Adjusted Net Estate:** £2.65m
- **Excess over £2m:** £650,000
- **RNRB taper reduction:** £650,000 ÷ 2 = £325,000
- The **combined RNRB** reduces from £350,000 to £25,000

IHT Position

- **Estate:** £2,650,000
- **Less total allowances** (£650,000 + £25,000): £675,000
- **Taxable estate:** £1,975,000
- **IHT at 40%:** £790,000

Without planning, the estate could face an IHT liability of approximately £790,000, potentially requiring the sale of the family home.

Note: This example is for illustrative purposes only and should not be read as advice. Any decision in respect of suitability should be based on a holistic review of client objectives, needs and risk profile. No investment growth or losses have been assumed.

STANDARD TRUST PLANNING

Discretionary Trust: Their adviser suggests transferring **£650,000** into a discretionary trust for the benefit of their children, with Peter and Margaret acting as trustees. This should:

- ✓ **Reduce the value of the estate** to approximately **£2 million**
- ✓ **Restore the full £350,000** RNRB
- ✓ **Reduce projected IHT** to approximately **£400,000**.

Technical Position (If Peter and Margaret transfer in £325,000 each)

- The transfers are Chargeable Lifetime Transfers (CLTs)
- They fall within each individual's available Nil-Rate Band
- No 20% lifetime charge arises.

However:

- Both Nil-Rate Bands are consumed for seven years
- If death occurs within seven years, the transfers are aggregated
- The NRBs are no longer available against the deceased's estate.

For Peter and Margaret, this creates unease. They are effectively using up valuable allowances in exchange for an IHT benefit contingent on survival.

A MORE STRUCTURED ALTERNATIVE

Preserving the Nil-Rate Bands

Rather than funding the trust immediately with cash or mainstream investments, their planner proposes a staged approach.

Peter and Margaret encash **£650,000** of their mainstream investments (which might give rise to a chargeable gain) and invest into assets expected to qualify for 100% Business Relief (BR), such as the Zenzic Estate Planning Service (ZEPS).

After holding the investment for at least two years, they transfer the BR-qualifying shares into the discretionary trust. After two years the investment qualifies for Business Relief, which provides some tax advantages described below.

HOW THE STRUCTURE WORKS

The transfer into the trust remains a Chargeable Lifetime Transfer. However:

- The shares should qualify for 100% Business Relief at transfer
- The transfer value is fully relieved for lifetime IHT purposes
- No 20% lifetime charge arises
- The Nil-Rate Bands remain unused.

The estate reduces to approximately **£2 million** because the assets are genuinely removed via the lifetime transfer.

Business Relief itself does not reduce the estate for taper purposes at death: it is the transfer into trust that restores the RNRB.

If death occurs within seven years:

- The CLT is reassessed at death rates
- Business Relief must still qualify at death for relief to apply.

OUTCOME COMPARISON

POSITION	NO PLANNING	STANDARD TRUST	BR-FUNDED TRUST
Estate	£2.65m	£2.0m	£2.0m
RNRB	£25k	£350k	£350k
NRBs Remaining	£650k	£0	£650k
Projected IHT	£790k	£400k	£400k

Both trust approaches restore the RNRB and reduce projected IHT by approximately **£390,000**. However, the BR-funded approach preserves the Nil-Rate Bands, providing:

- ✓ Greater **future planning flexibility**
- ✓ Capacity to **shelter future growth**
- ✓ **Avoidance of lifetime entry charges** without consuming allowances.

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CONSIDERATIONS AND RISKS

A discretionary trust remains within the relevant property regime and may be subject to:

- Ten-year periodic charges
- Exit charges
- Ongoing trustee obligations
- Legislative risk.

Where BR assets are used, additional risks apply:

- Business Relief qualification risk
- Investment and liquidity risk
- Dependence on survival and continued BR qualification.

Suitability, risk tolerance, liquidity needs and health must be carefully assessed.

Note: From 6 April 2026 the first £2.5 million of Business Relief qualifying assets and agricultural Property Relief qualifying assets per individual, that are held for at least two years (and at the point of death), will continue to attract full IHT relief. The excess over £2.5 million will attract a reduced rate of relief of 50% (ie, an effective IHT rate of 20%).

CONCLUSION

For estates above the £2 million taper threshold, restoring the Residence Nil-Rate Band can materially reduce IHT exposure.

While a standard discretionary trust achieves this by consuming the Nil-Rate Bands, a staged Business Relief approach can restore the RNRB while preserving valuable allowances for future planning.

For clients like Peter and Margaret, healthy, control-conscious and seeking structural efficiency, this approach may provide a more balanced solution.

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FIND OUT MORE

For further information on how ZEPS can be used for estate planning, please email:

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