A GUIDE TO ESTATE PLANNING

2021

FINANCIAL ADVICE & WEALTH MANAGEMENT

ESTATE CAPITAL

Help your children inherit more and give them the best future possible.

- *Chartered Financial Advisers*
- *33 years professional experience*
- *Trusted, established and well resourced*

Inheritance Tax is potentially the largest tax demand your children will ever face.

Inheritance Tax is perhaps the most disliked of all taxes. The estate of people, who have worked hard, paid income tax and possibly capital gains tax throughout their lives, is then subjected to the heaviest tax of all upon their death.

No wonder many wish to reduce or even avoid paying 'death duties'. Inheritance Tax is considered a voluntary tax, because with the right planning the liability can be reduced or negated.

According to the UK law, Inheritance Tax (IHT) applies to an individual's worldwide assets upon their death. However, not all of the estate is taxed, only that above the prevailing Nil Rate Band Allowance and Main Residence Nil Rate Allowance (if applicable). The Nil Rate Band allowance is currently £325,000 per individual so a couple can benefit from £650,000 of joint exemptions. The Main Residence Nil Rate allowance is currently £175,000 per individual, subject to qualifying rules.

The cost of Inheritance Tax is 40% on all taxable assets above these thresholds making Inheritance Tax potentially the largest tax the beneficiaries of your estate will ever face.

Make better informed estate planning decisions that are right for you.

Estate Planning

You may wish to reduce an Inheritance Tax liability by considering gifting assets directly to family members, use one of a range of Inheritance Tax efficient trusts that are available or invest into assets that are exempt from Inheritance Tax.

You could also make provisions for your children to have the means to pay the eventual tax bill through a Whole of Life Assurance policy written in Trust.

There are also charities or political causes you could support through lifetime gifts or through your Will and take advantage of the exemptions that such donations have from Inheritance Tax, as well as a potential reduction to the rate of Inheritance Tax on the remainder of your estate.

Many options are available to reduce Inheritance Tax so careful consideration is needed in order to complement, not compromise, yours and your family's future.

Wills

The first step in estate planning is to write a Will. It is important to think about what you want to happen to the assets of your estate in the event of your death. You should consult with a solicitor who has will, trust and probate experience to discuss your requirements.

Failure to write a will means that on death your estate assets will be distributed in line with the rules of intestate. The government sets out these rules. This means that assets of your estate could potentially be inherited by people other than those you intended.

A Deed of Variation

In order to dilute the amount of IHT payable on a deceased's estate a Deed of Variation can be made that redirects the money to other beneficiaries or directly to a charity. Beneficiaries can choose to alter their inheritance to reduce or eliminate the amount of tax that would otherwise need to be paid – for example 'bypass' their estate and go directly to their children.

A deed of variation must be drafted and executed as a deed within 2 years of the death if it is be effective for tax purposes and applies to cases where the deceased's Nil Rate Band allowance (£325,000 currently) is available.

Have confidence in your future and peace-of-mind to enjoy life now.

We take responsibility for people's life savings. A responsibility we take very seriously.

Allowances

Every individual has a Nil Rate Band Allowance under which no Inheritance Tax applies. This threshold is currently £325,000. If a married couple had an estate valued in total at £650,000 on death, no Inheritance Tax would apply.

On top of this, Residential Nil Rate Band Allowance is available to parents or adopters who own property and intend to pass the family home to their children. This allowance is reduced at a rate of £2 for every £1 of the total estate value about a £2 million threshold. The Main Residence Nil Rate Band allowance currently comprises £175,000 per home owner (a maximum of £350,000 per couple). If the value of the family home is less than the allowance, only the property value applies.

Thus, if a couple's total assets, including a family home valued at £350,000, were valued at £1 million, there would be no Inheritance Tax due in the event of both of them dying in 2020/21, so long as the children inherit the home.

Small Allowances

There are several small gift allowances that are exempt from IHT.

You can gift £3,000 every year as an annual IHT exemption.

£5,000 can be gifted by each parent on the marriage of their son or daughter, £2,500 applies to each grandparent, and £1,000 per person as wedding/civil ceremony gifts.

You can transfer any number of £250 gifts but limited to £250 per recipient. You can also gift money from your regular income so long as it does not impact or reduce your standards of living.

Charities

Charities often encourage supporters to bequeath assets in their Will. Charity donations and gifting is exempt from IHT. There is no limit to the amount of gift. We hear of stately homes being gifted to The National Trust in order to avoid the family paying IHT.

You can also cut the Inheritance Tax rate on the rest of your estate from 40% to 36%, if you leave at least 10% of your 'net estate' to a charity.

The same exemptions apply to political parties.

Large Gifts

Gifts in excess of £3,000 are classed as Potentially Exempt Transfers (PETs) meaning the gift is subject to a seven-year qualifying rule. A gift made today is still liable to IHT for the first three years, then the level of exemption rises by 20% each year until the end of the 7th year, when the entire value of the gift becomes exempt.

A gift has to be permanent in nature and the donor cannot reserve any benefits from the gifted asset. For example, parents could not gift their home to their children and continue to live in it as if nothing has changed. The parents would have to pay a market rent to their children for living in the property in order for it to be classed as an IHT valid gift.

Trusts

Often people like the idea of gifting money or property to their children in order to avoid IHT but still wish to have some control or benefit from the asset in some way. This is where trusts have a role.

A Trust allows the person setting it up to have ongoing control over its underlying assets, for example, the way in which they are managed, invested, distributed or who and when gets to benefit. A trust allows gifted assets to be managed by appointed trustees on behalf of the trust's beneficiaries.

For example, grandparents can gift money into a trust for the benefit of their grandchildren and appoint the grandchildren's parents as its trustees, who have to ensure they look after this money in the best interest of the beneficiaries (the grandchildren).

Discretionary Trusts

A discretionary trust is used when the people setting up the trust and gifting the capital (the settlors) wish to exercise flexibility over who may benefit from the trust income or assets and when. The appointed trustees have discretion over making these decisions. The range of possible beneficiaries often includes a spouse, children, siblings, grandchildren or named individuals.

It is a responsibility of the trustees to fulfil their role in line with the settlor's intentions for the trust.

Any gifts made to a discretionary trust valued over the prevailing nil rate band allowance is subject to a one-off lifetime transfer charge. The charge applies only to the value of the gift over the Nil Rate Band allowance and is currently charged at 20%. Every ten years a periodic charge also applies of up to 6% of assets above the prevailing Nil Rate Band allowance.

Bare Trusts

A Bare trust offers no discretion over the beneficiaries as they are clearly named as such. The role of a trustee is to look after the trust assets in the best interest of the named beneficiaries and distribute trust income or assets to them. As the trust is certain there is no lifetime transfer charge applied to gifts made into bare trusts. Bare trusts are commonly used as designation trust for children's or grandchildren's investments.

Will Trusts

Not all trusts come into force during a person's lifetime. Often a Will contains a discretionary trust. These trusts are then set up upon the settlor's death and are called Will Trusts.

Different forms of trust have different uses. There are some specific trusts aimed at reducing inheritance tax which also offer the settlor some control, ongoing benefit or access to the trust assets. These trusts are attractive to people wishing to reduce IHT but still benefit from the money gifted if needed.

Discounted Gift Trust

A Discounted Gift Trust (DGT) is a discretionary or bare trust which can immediately reduce the potential IHT liability and provides the settlor(s) with set, lifetime income. The immediate reduction (or 'discount') is decided on by underwriters and is dependent on the Settlor's age and health.

The trust is notionally split into the Settlor's Fund and the Residual fund. The settlor retains the absolute entitlement to the Settlor's Fund, by way of receiving regular payments which cannot be changed. The Settlors Fund which represents the cost to the trust of this lifelong income is discounted from IHT on death, creating an immediate reduction in the taxable value of the trust for IHT purposes from day one. The Residual fund is classed as a Chargeable Lifetime Transfer and remains liable to IHT until 7 years have passed. The full value of the discounted gift trust will be exempt from IHT in part straight away and in full after 7 years.

Wealth Preservation Accounts

Wealth Preservation Accounts are discretionary trusts that split the money gifted into a series of maturing investments. The number of separate investments is set by the settlor but is commonly 10. The first maturity occurs after 1 year and allows the settlor access to 1/10th of the trust assets if required. If not, the option is offered again in 10 years' time, at year 11. The offer of 1/10th of the trust assets is made every year, from each subsequently maturing segment, and can be accepted or declined. The money retained in the trust falls out of the settlor's estate after 7 years. Any return of capital falls back into the settlor's estate.

A Wealth preservation Account is popular with parents who do not need income but may wish to call upon the gifted capital in the future.

Help your children inherit more and give them the best future possible.

Business Relief

Business relief is an IHT exemption applied to the assets of a private trading business when they pass from one generation to the next. Most shares in private trading companies, or interests in unincorporated businesses such as a sole proprietor, or partner, will receive 100% business relief from Inheritance Tax after 2 years of ownership. This is conditional on the owner surviving for the full two years. Other assets can be subject to 50% business relief.

A good example would be the shares in a family business when inherited by the children of the business owner.

The company or partnership must be actively trading to qualify for IHT exemption. If a business builds up cash reserves in excess of half its value then the exemption is lost as the business will be classed as an investment business and not a trading business.

Likewise, if shares are sold and converted to cash, the exemption will no longer apply, and the value of the shares will increase the size of the estate for IHT purposes.

Agricultural Relief

Agricultural relief is the farming equivalent of business relief. Again, the farm must be trading and producing farm accounts to be exempt. Agricultural land, together with farm houses, cottages and other farm buildings may receive Agricultural relief either at 100% or at 50% if the farm is rented to a tenant farmer prior to the 1st September, 1995. The full exemption from IHT applies after 2 years of farm ownership. The farm could produce many forms of crop including woodland.

This exemption that allows family farms to pass down the generations without the liability of IHT.

Business Relief Portfolios

Several Investment management firms use the exemption provided by business relief on the shares of private trading companies to build bespoke IHT exempt investment portfolios.

There are currently a number of investment products offered on the market, which qualify for Business relief. They offer a short-term (2 years) IHT saving option where the 7-year qualifying term is too lengthy (for instance, on the grounds of old age or ill health).

Investors can buy into a portfolio of private company shares that fulfil the BPR exemption criteria. These investments will be made into small non-listed companies usually trading in asset-backed business such as bridging finance, solar panel farms, wind farms, property development, car parks, or storage units.

A portfolio of BPR-qualifying companies is usually spread over many sectors and different companies. Asset-backed company investment can give investors some added comfort in the underlying security of the company. Once owned for two years the shares qualify for BPR and are exempt from IHT.

Alternative Investment Market

The Alternative Investment Market (AIM) is a stock exchange listing for smaller companies which have often just obtained their first stock market listing. Shares that are listed and traded on the Alternative Investment Market (AIM) have the added attraction of being exempt from Inheritance Tax after 2 years of ownership under Business Relief rules.

Not all shares listed on AIM qualify for IHT exemption through Business Relief. If a stock is registered on more than one stock exchange or invested in land, property or financial assets such as an Investment Trust or Real Estate Investment Trust (REIT), the exemption does not apply.

Enterprise Investment Schemes

There are incentives to private investors who are considering supporting a business with start-up capital. New businesses that qualify for Enterprise Investment Scheme (EIS) benefit from several tax reliefs. The nature of the investment is speculative due to the stage in life of the company.

Investors that subscribe to shares in an EIS qualifying business can recover income tax on up to 30% of the cost of the shares. The income tax relief is offset against the investor's income tax in the year of subscription. There is no capital gains tax charged on any gains made on the disposal of shares. Both the income tax relief and capital gains tax relief are conditional on the shares being retained for a minimum of three years.

Shares in EIS companies also qualify for Inheritance Tax exemption after 2 years of ownership.

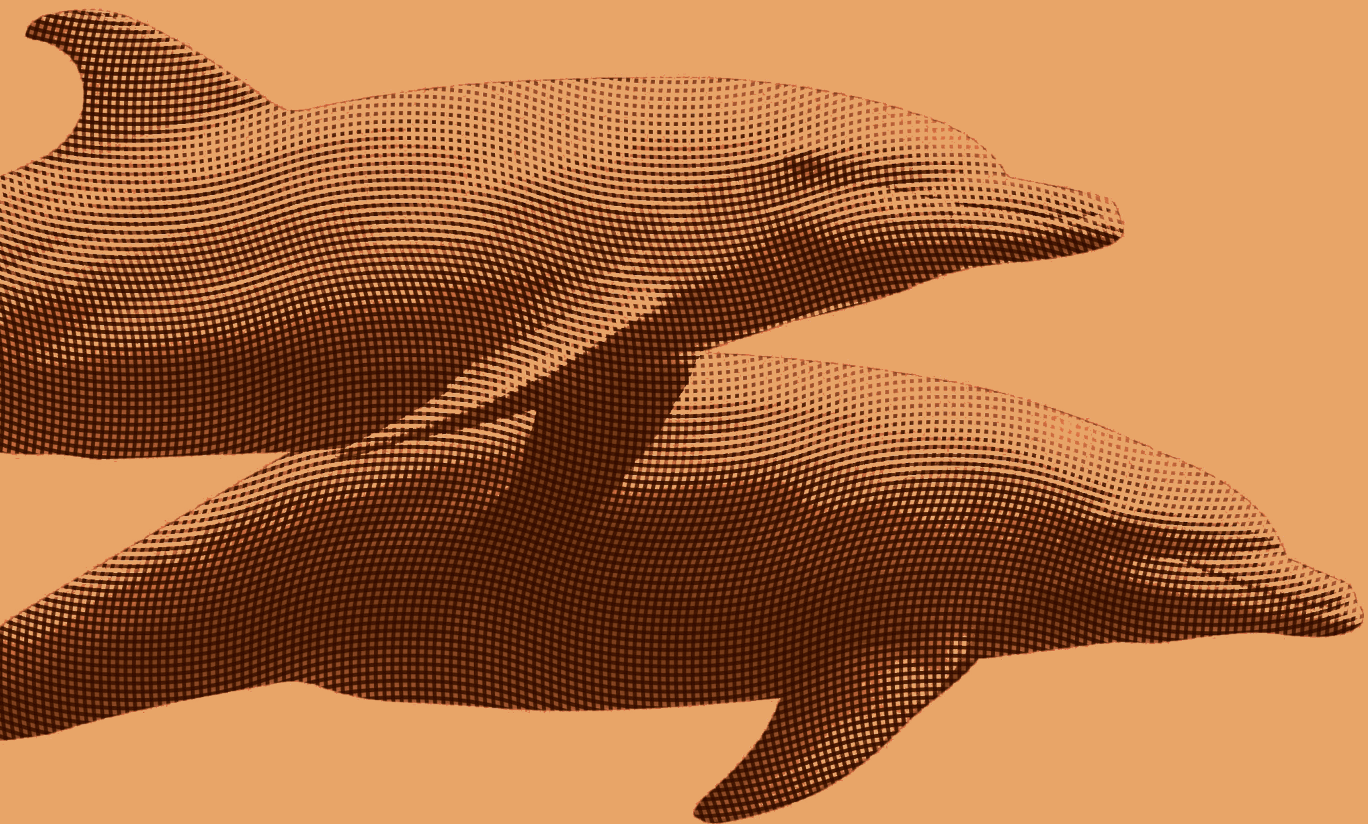
Flexible Life Annuity

An alternative type of plan that also uses Business Relief is an off-shore purchased life annuity. These plans normally provide a fixed income for life. However, the flexible kind not only offers the benefit of varying the level of income, but also offers an advantage of inheritance tax exemption. The annuity capital is invested in a 'protected cell' of the issuing life insurance company, which safeguards the underlying assets. The cell can have at least one preference share issued, which is purchased by the annuitant at the point of application. At a future point in time this enables the assets of that cell to be passed to the beneficiaries chosen by the policyholder. The preference share is redeemed by the annuitant's executors and the value passes onto the annuitant's chosen beneficiaries as directed by the annuitant's Will.

The preference share can qualify for UK Business Relief and therefore the assets of the cell company can after 2 years of ownership be paid to beneficiaries exempt of Inheritance Tax.

Make better informed estate planning decisions that are right for you.

Have confidence in your future and peace-of-mind to enjoy life now.



Pensions

The new pension freedoms introduced in April 2015 have made pension funds even more attractive. Private pension funds can now be passed in full on the plan holder's death via a nomination of beneficiaries to a spouse, child or grandchild. A transfer of a pension fund from one generation to the next is not usually liable to Inheritance Tax, although there are exceptions.

Private pensions can now be seen as a family asset that can pass down the generations. Wealthy individuals are now considering not taking a retirement income from their pension fund, but instead from their estate assets, as these assets are liable to Inheritance Tax.

The initial attraction of a pension is a secure income in retirement supported through tax relief on contributions and tax-free growth. The additional benefit of passing the full fund to one's spouse and then children exempt of Inheritance Tax adds greatly to the appeal.

Life Insurance

All the previous means to reduce or avoid Inheritance Tax involved individuals making investments into IHT exempt assets, trust funds or absolute gifts. Some people want to keep their money and hold on to their estate as it is. They may be wary of heavy gifting or using trusts and give up some control. They may wish to retain control of the capital, should access be required to it in the future.

As an alternative to avoidance strategies, one could simply plan to provide your children with the means to pay the eventual Inheritance Tax liability. A simple and relatively low-cost option is to use a Whole of Life assurance plan written in trust for your children with the sum assured set to the expected IHT liability. The monthly premiums would be paid out of income and the death benefits being held in trust outside the estate are passed directly to the beneficiaries upon death who then have the means to pay the 'death duties' and obtain probate.

As there is no IHT liability between married couples, a whole of life assurance is usually set up on a joint life basis. The sum assured is paid out on the second death, which is when any Inheritance Tax due arises.

With all life insurance, premiums are age- and health-sensitive so planning early is beneficial.

What is Inheritance Tax?

Inheritance Tax is a tax on death. The tax is applied to your estate if its taxable value exceeds the individual exemption allowance of £325,000. Not all assets held within an estate are taxable as some assets are exempt from inheritance tax.

What assets are liable to Inheritance Tax?

Assets that are subject to inheritance tax typically include your home, other property, land, deposit accounts, shares, investment funds, insurance bonds, jewellery, art and antiques. Any assets of a similar nature held abroad are also included in your taxable estate.

What are the main exemptions from Inheritance Tax?

There is no inheritance tax charged upon transfers on death between married couples or civil partners. Each individual benefits from a current nil rate allowance of £325,000 and therefore couples have a joint allowance of £650,000. Any unused allowance can be transferred to the surviving spouse.

On top of the Nil Rate Band allowance, homeowners who plan to betroth their home to their children (including step-, adopted and foster children) can benefit from the Main Residence Nil Rate Band. It is currently £175,000 in 2020/21 tax year per home owner. It will then increase with Consumer Price Index in subsequent years.

This also applies to homeowners who, on or after 8 July 2015, have downsized or no longer own a residence.

Other exemptions are given to privately owned businesses and farms, which, subject to their trading status, are exempt from Inheritance Tax.

What is the cost of Inheritance Tax?

The value of the taxable estate above the Nil Rate Band and Main Residence Nil Rate Band allowances is subject to a 40% tax charge. If a net taxable estate is worth £2 million after all allowances have been deducted, the Inheritance Tax bill is likely to be £800,000.

Who pays the Inheritance Tax?

The estate is liable to pay the Inheritance Tax, which is normally settled by the Executors of the Estate. The liability must be settled or agreed to be settled with HMRC prior to the granting of probate and the estate distribution.

If there are insufficient disposable assets in the estate then other assets will need to be sold to raise the capital.

When is Inheritance Tax paid?

The estate is required to pay Inheritance Taxes prior to the grant of probate and the distribution of estate assets to the beneficiaries of the Will. Depending upon the nature of the assets, payment can be spread over a period of time.

Should I write a will?

If you wish to ensure that in the event of your death your assets are distributed in line with your wishes to beneficiaries of your choice, you should ensure you have a Will and that it is up-to-date. A Will avoids the need for intestate and gives clarity to your family over your wishes. Wills can always be changed, re-written or updated.

We take responsibility for people's life savings. A responsibility we take very seriously.

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