IQ

INVESTMENT QUORUM

UNIQUE, BOUTIQUE WEALTH MANAGEMENT

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FACTSHEET

Estate protection

Preserving your wealth and transferring it effectively

Estate planning is an important part of wealth management, no matter how much wealth you have built up. It's the process of making a plan for how your assets will be distributed upon your death or incapacitation.

As a nation, we are reluctant to talk about inheritance. Through estate planning, however, you can ensure your assets are given to the people and organisations you care about, and you can also take steps to minimise the impact of taxes and other costs on your estate.

In order to establish the value of your estate, it is first necessary to calculate the total worth of all your assets. No matter how large or how modest, your estate is comprised of everything you own, including your home, cars, other properties, savings and investments, life insurance (if not written in an appropriate trust), furniture, jewellery, works of art and any other personal possessions.

Having an effective estate plan in place will not only help to ensure that those you care about the most will be taken care of when you're no longer around, but it can also help minimise Inheritance Tax (IHT) liabilities and ensure that assets are transferred in an orderly manner.

WRITE A WILL

The reason to make a Will is to control how your estate is divided – but it isn't just about money. Your Will is also the document in which you appoint guardians to look after your children or your dependents. Almost half (44%) of over-55s have not made a Will[1], and as such, they will not have any say in what happens to their assets when they die.

Should you die without a valid Will, you will have died intestate. In these cases, your assets are distributed according to the Intestacy Rules in a set order laid down by law. This order may not reflect your wishes.

Even for those who are married or in a registered civil partnership, dying without leaving a Will may mean that your spouse or registered civil partner does not inherit the whole of your estate. Remember: life and circumstances change over time, and your Will should reflect those changes – so keep it updated.

MAKE A LASTING POWER OF ATTORNEY

Increasingly, more people in the UK are using legal instruments that ensure their affairs are looked after when they become incapable of looking after their finances or making decisions about their health and welfare.

By arranging a Lasting Power of Attorney, you are officially naming someone to have the power to take care of your property, your financial affairs, and your health and welfare if you suffer an incapacitating illness or injury.

PLAN FOR INHERITANCE TAX

IHT is calculated based on the value of the property, money and possessions of someone who has died if the total value of their assets exceeds £325,000, or £650,000 if they're married or widowed. If you plan ahead, it is usually possible to pass on more of your wealth to your chosen beneficiaries and to pay less IHT.

Since April 2017, an additional main residence nil-rate band allowance was phased in. It is currently worth £150,000, but it will rise to £175,000 per person by April this year. However, not everyone will be able to benefit from the new allowance, as you can only use it if you are passing your home to your children, grandchildren or any other lineal descendant. If you don't have any direct descendants, you won't qualify for the allowance.

The headline rate of IHT is 40%, though there are various exemptions, allowances and reliefs that mean that the effective rate paid on estates is usually lower. Those leaving some of their estate to registered charities can qualify for a reduced headline rate of 36% on the part of the estate they leave to family and friends.

GIFT ASSETS WHILE YOU'RE ALIVE

One thing that's important to remember when developing an estate plan is that the process isn't just about passing on your assets when you die. It's also about analysing your finances now and potentially making the most of your assets while you are still alive. By gifting assets to younger generations while you're still around, you could enjoy seeing the assets put to good use, while simultaneously reducing your IHT bill.

MAKE USE OF GIFT ALLOWANCES

One way to pass on wealth tax-efficiently is to take advantage of gift allowances that are in place. Every person is allowed to make an IHT-free gift of up to £3,000 in any tax year, and this allowance can be carried forward one year if you don't use up all your allowance.

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This means you and your partner could gift your children or grandchildren £6,000 this year (or £12,000 if your previous year's allowances weren't used up) and that gift won't incur IHT. You can continue to make this gift annually.

You are able to make small gifts of up to £250 per year to anyone you like. There is no limit to the number of recipients in one tax year, and these small gifts will also be IHT-free provided you have made no other gifts to that person during the tax year

A Potentially Exempt Transfer (PET) enables you to make gifts of unlimited value which will become exempt from inheritance tax if you survive for a period of seven years.

Gifts that are made out of surplus income can also be free of IHT, as long as detailed records are maintained.

IHT-EXEMPT ASSETS

There are a number of specialist asset classes that are exempt to IHT. Several of these exemptions stem from government efforts over the years to protect farms and businesses from large inheritance tax bills that could result in assets having to be sold off when they were passed down to the next generation.

Business relief (BR) acts to protect business owners from IHT on their business assets. It extends to include the ownership of shares in any unlisted company. It also offers partial relief for those who own majority rights in listed companies, land, buildings or business machinery, or have such assets held in a trust.

LIFE INSURANCE WITHIN A TRUST

A life insurance policy in trust is a legal arrangement that keeps a life insurance pay-out separate from the valuation of your estate after you die. By ring-fencing the proceeds from a life insurance policy by putting it in an appropriate trust, you could protect it from IHT.

The proceeds of a trust are typically overseen by a trustee(s) whom you appoint. These proceeds go to the people you've chosen, known as your 'beneficiaries'. It's the responsibility of the trustee(s) to make sure the money you've set aside goes to whom you want it to after you pass away.

KEEP WEALTH WITHIN A PENSION

When you die, your pension funds may be inherited by your loved ones. But who inherits, and how much, is governed by complex rules. Money left in your pensions can be passed on to anyone you choose more tax-efficiently than ever, depending on the type of pension you have, by you nominating to whom you would like to leave your pension savings (your Will won't do this for you) and your age when you die, before or after the age of 75.

Your pension is normally free of IHT, unlike many other investments. It is not part of your taxable estate. Keeping your pension wealth within your pension fund and passing it down to future generations can be very tax-efficient estate planning.

It combines IHT-free investment returns and potentially, for some beneficiaries, tax-free withdrawals. Remember that any money you take out of your pension becomes part of your estate and could be subject to IHT. This includes any of your tax-free cash allowance which you might not have spent. Also, older style pensions may be inside your estate for IHT. ■

Source data:

[1] Brewin Dolphin research: Opinium surveyed 5,000 UK adults online between 30 August and 5 September 2018.

MAKE SURE WEALTH STAYS IN THE RIGHT HANDS

Estate planning is a complex area that is subject to regular regulatory change. Whatever you wish for your wealth, we can tailor a plan that reflects your priorities and particular circumstances. To find out more, or if you have any questions relating to estate planning, don't hesitate to contact us.