Preserving Wealth for Future Generations

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TRULY INDEPENDENT
Financial Advice for Everyone

Whether you have earned your wealth, inherited it or made shrewd investments, you will want to ensure that as little of it as possible ends up in the hands of HM Revenue & Customs.

With careful planning and professional financial advice, it is possible to take preventative action to either reduce or mitigate a person's beneficiaries' Inheritance Tax bill – or mitigate it altogether.

These are some of the main areas to consider:

1. Make a Will

A vital element of effective estate preservation is to make a Will. Making a Will ensures an individual's assets are distributed in accordance with their wishes. This is particularly important if the person has a spouse or registered civil partner.

Even though there is no Inheritance Tax payable between both parties, there could be tax payable if one person dies intestate without a Will. Without a Will in place, an estate falls under the laws of intestacy – and this means the estate may not be divided up in the way the deceased person wanted it to be.

2. Make allowable gifts

A person can give cash or gifts worth up to £3,000 in total each tax year, and these will be exempt from Inheritance Tax when they die. They can carry forward any unused part of the £3,000 exemption to the following year, but they must use it or it will be lost.

Parents can give cash or gifts worth up to £5,000 when a child gets married, grandparents up to £2,500, and anyone else up to £1,000. Small gifts of up to £250 a year can also be made to as many people as an individual likes.

3. Give away assets

Parents are increasingly providing children with funds to help them buy their own home. This can be done through a gift, and provided the parents survive for seven years after making it, the money automatically moves outside of their estate for Inheritance Tax calculations, irrespective of size.

4. Make use of Trusts

Assets can be put in an appropriate Trust, thereby no longer forming part of the estate. There are many types of Trust available and they can be set up simply at little or no charge. They usually involve parents (settlors) investing a sum of money into a Trust. The Trust has to be set up with trustees – a suggested minimum of two – whose role is to ensure that on the death of the settlors, the investment is paid out according to the settlors' wishes. In most cases, this will be to children or grandchildren.

The most widely used Trust is a Discretionary Trust, which can be set up in a way that the settlors (parents) still have access to income or parts of the capital. It can seem daunting to put money away in a Trust, but they can be unwound in the event of a family crisis and monies returned to the settlors via the beneficiaries.

5. Normal expenditure out of income rule

As well as considering putting lump sums into an appropriate Trust, people can also make monthly contributions into certain savings or insurance policies and put them into an appropriate Trust. The monthly contributions are potentially subject to Inheritance Tax, but if the person can prove that these payments are not compromising their standard of living, they are exempt.

6. Provide for the tax

If a person is not in a position to take avoiding action, an alternative approach is to make provision for paying Inheritance Tax when it is due. The tax has to be paid within six months of death (interest is added after this time). Because probate must be granted before any money can be released from an estate, the executor may have to borrow money or use their own funds to pay the Inheritance Tax bill.

This is where life assurance policies written in an appropriate Trust come into their own. A life assurance policy is taken out on both a husband's and wife's life with the proceeds payable only on second death. The amount of cover should be equal to the expected Inheritance Tax liability. By putting the policy in an appropriate Trust, it means it does not form part of the estate.

The proceeds can then be used to pay any Inheritance Tax bill straight away without the need for the executors to borrow.

Seek Professional Advice

For more information speak to one of our Independent Financial Advisers.

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