kba

THE FINANCIAL PLANNING COMPANY

8 practical ways to ensure your family get more of your wealth than the taxman

Understandably, you want to pass as much of your wealth on to your children, grandchildren or other beneficiaries as possible when you pass away. After all, you'll have worked hard throughout your life building your wealth. You'd obviously rather it goes to your family rather than the taxman.

There are ways to help that happen, but it's important to plan ahead.

In 2020/21, more than £5.3 billion was paid in Inheritance Tax (IHT) to HMRC (Source: HMRC). With house prices continuing to increase, and after a long period of investment growth, it's likely that this figure will go up in future years. More and more people will likely find the value of their assets eaten away by tax.

Another contributory factor is the announcement by the chancellor in his 2021 Budget statement that the IHT threshold is to be frozen at £325,000 until at least 2026. This is estimated to impact 11,000 estates each year.

If you're looking for practical suggestions to protect your family's future, and ensure they don't pay more IHT than they need to when you pass on, then this guide is for you.

Here are eight steps you will likely want to consider to make sure your estate is set up as tax-efficiently as possible.

We would strongly recommend that you seek guidance from one of our experienced estate planners. Remember, all the steps we've listed here are generic, whereas we'll consider your financial position in detail and create a bespoke plan to suit your circumstances.

The amount of IHT paid has more than doubled since 2009/10

(Source – **statista.com**)

Ensuring your that you have taken the right steps during your life means that your family will inherit more of your wealth when you're no longer around.

To find out more about our services, and how we can help you, please get in contact.

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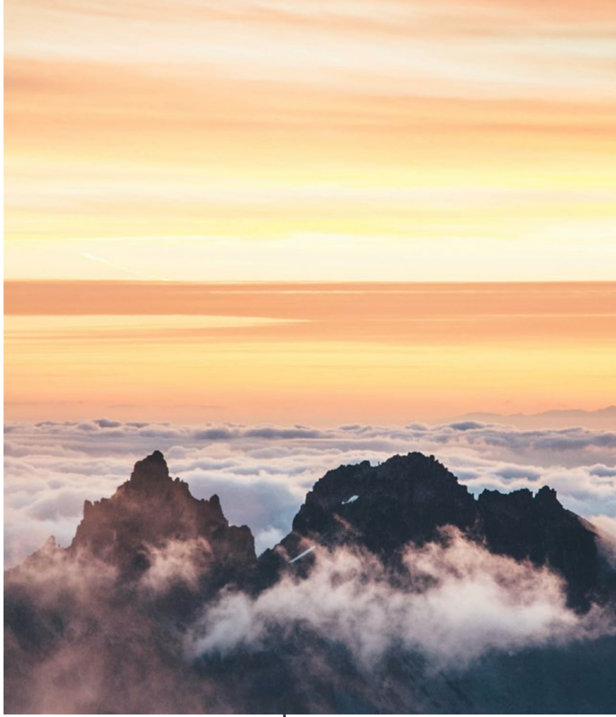

1. MAKE SURE YOU UNDERSTAND HOW IHT WORKS

Understanding how IHT works is an important first step when it comes to managing your financial affairs. After all, you can't start solving a problem until you know what the problem is!

In simple, general terms, IHT is chargeable at 40% on the total value of your estate, over the "nil-rate band" (NRB) – which is currently £325,000.

On top of the NRB, you also have a "residence nil-rate band" (RNRB) – currently up to £175,000. This applies to the value of your main residence, subject to it being passed to your children or grandchildren on your death.

If you are married, or in a civil partnership, the value of your estate on the death of either you or your spouse or partner will typically pass to your surviving partner with no IHT being payable. You can also generally use each other's unused allowance in the future.

Effectively, this means your children could currently inherit up to £1 million without paying IHT.

IHT receipts in the UK

2017/18 - £5.20 billion
2018/19 - £5.36 billion
2019/20 - £5.12 billion
2020/21 - £5.32 billion

Source – **statista.com**

Example 1 - A single person with no property

Total gross value of estate	£600,000
Less NRB	-£325,000
Value of estate above IHT nil-rate band	£275,000
IHT payable – 40% of £275,000	£110,000
Net value of estate after tax	**£490,000**

As you can see in this simple example, the total amount of IHT payable on death is £110,000.

Example 2 - A widow owning a property

In this second example, a widow has died, four years after the death of her husband. Her husband's nil-rate band has been passed to her. On her death, her property was worth £400,000.

Total gross value of estate	£1,200,000
Less NRB (£325,000 x2)	-£650,000
Less RNRB (£175,000 x2)	-£350,000
Value of estate above IHT nil-rate band	£200,000
IHT payable – 40% of £200,000	£80,000
Net value of estate after tax	£1,120,000

BUSINESS RELIEF CAN REDUCE YOUR IHT BILL

Business Relief can reduce the value of a business or its assets when working out how much IHT must be paid.

Any ownership of a business, or share of a business, is included in the estate for Inheritance Tax purposes.

You can get Business Relief of either 50% or 100% on some of an estate's business assets, which can be passed on either while the owner is still alive, or as part of the will.

Key point – Knowing how IHT is calculated will help you realise how it could impact on the value of your estate that passes to your beneficiaries on death.

2. MAKE A WILL AND KEEP IT UP TO DATE

Making a will is one of the simplest financial actions anyone can complete. Despite this, **nearly 60%** of people in the UK currently don't have a will set up.

This means they will die intestate, and their family may have no say over how, and when, their assets are distributed.

Given how straightforward it is to set one up, and the potential problems a will can help avoid, there's really no excuse for not having one.

By making a valid will, you can ensure that your wealth passes to the people you want it to. It also means that your executors – the people you name in your will to carry out your wishes – can distribute your assets in clear accordance with your instructions, and in a timely manner.

If you are married or in a civil partnership, your spouse or partner should make a will too.

When a person dies without leaving a valid will, their property (the estate) must be shared out according to certain rules. These are called the **rules of intestacy.**

Only married or civil partners and some other close relatives can inherit under the rules of intestacy.

Key point – Making a valid will ensures your assets are distributed in the way you want them to be. Making a valid will is a key financial planning process.

4 KEY REASONS WHY YOU SHOULD HAVE A WILL:

1. A valid will ensures that your assets are distributed in the way you wish.
2. Your death is likely to be a stressful and emotional time for your loved ones. Having a valid will in place gives them one less thing to have to worry about.
3. Even the closest-knit families can argue when it comes to financial issues. A detailed will helps ensure that there are no disputes regarding how your wealth is distributed.
4. Having a valid will in place can potentially reduce the amount of IHT payable by your heirs on your death.

3. SET UP A LASTING POWER OF ATTORNEY

A valid will guarantees that your assets will be managed in accordance with your wishes after your death. But what happens if, before your death, you are incapacitated and unable to make financial decisions yourself?

The answer is that you set up a Lasting Power of Attorney (LPA). This means that you can appoint someone, or a group of people, to manage your financial affairs if you lose the mental capacity to make decisions.

They will then make decisions on your behalf. This will cover how your finances are managed, including your investments, pensions, and property.

An experienced estate planner will be able to advise you on how to set up an LPA, who you may wish to nominate to act on your behalf, as well as any key stipulations you'd like included within the legal document.

Key point – A Lasting Power of Attorney gives you the comfort of knowing that someone you trust will manage your financial affairs if you are no longer able to.

4 KEY REASONS TO SET UP A LASTING POWER OF ATTORNEY:

1. ,You get to choose who acts on your behalf if you're no longer able to.
2. You can set specific instructions in the LPA document that have to be followed.
3. You can separate different assets. For example, if you own a business, you can have an LPA set up specifically for the running of your company.
4. You will have the comfort of knowing your financial affairs will be managed by someone you know and trust.

4. CONSIDER USING TRUSTS

The popular image of trusts is that they are only used by the very rich. In truth, anyone can set one up – you don't have to be wealthy.

They can be used to pass property or other assets from yourself to a trustee. The trustee then manages the assets on behalf of whoever you determine is the beneficiary.

It's no more complicated than that.

The beauty of trusts from an IHT point of view is that once an asset is held in trust, it may no longer be included in the value of your estate for IHT purposes.

They can therefore be an effective way to distribute wealth to your chosen recipients and help reduce the value of your estate that will be liable for IHT.

When setting up the trust at the outset, you will be able to set out the details of how the trustees should manage the assets.

For example, setting up a trust can be a sensible way of passing on money to your children or grandchildren. This is especially true if they are not old enough to make financial decisions on their own.

You can then specify in the trust how you want the assets to be granted – may be at a certain age when they can make better decisions over how to use the money.

A **trust** is a legal arrangement where one or more people or a company (called the trustees) controls money or assets (called the trust property) which they must use for the benefit of one or more people (the beneficiaries).

Key point – Setting up trusts isn't a straightforward process, so expert advice from an experienced estate planner is essential.

5. MAKE FULL USE OF YOUR GIFT ALLOWANCES

There are some things you can do straight away to reduce the amount of IHT payable when you die.

These all involve giving your money away – known as “gifting”.

GIFT ALLOWANCES

You can make certain gifts that are immediately outside of your estate as soon as you make them. These include:

- Your annual exemption, which are gifts of up to £3,000 per year
- Gifts in respect of a wedding; Up to £5,000 to a child (including step and adopted) from parents, £2,500 to a grandchild or great-grandchild, and £1,000 to anyone else
- You can also give up to £250 a year to anyone who has not received anything from you
- Any gifts you make to UK or EU charities are also exempt from IHT.

Keep good records

If you’re making gifts to reduce the value of your estate, it’s important to keep clear records of the gifts you make.

This is particularly true if you’re using the “gifting from income” exemption.

Working with us can help you to ensure you make the most of your gifting allowances, and that you have the records to evidence the gifts you have made.

POTENTIALLY EXEMPT TRANSFERS

As well as the gift allowances outlined above, you can make unlimited other gifts in the form of potentially exempt transfers (PETs).

The difference with PETs is that you have to live for seven years after making the gift, for it to be free of Inheritance Tax.

The full rate of 40% IHT is payable on the value of any PET over the nil-rate band if you pass away during the first three years after making the gift, but it then “tapers down” year-on-year.

Years between gift and death	IHT rate applicable
1-3	40%
4	32%
5	24%
6	16%
7	8%

GIFTS OUT OF INCOME

You can also make gifts out of your regular income. These will immediately fall outside your estate for IHT purposes.

But it's not simply a case of handing over money to someone every time you get paid. There are three key criteria you should be aware of:

- Gifts out of income can't be one-off events.
- After making the gifts out of income, you must be left with sufficient income to maintain your usual standard of living.
- The gifts must come out of your actual income, rather than simply be lump sums paid from your savings.

You should also make sure you keep accurate records of any gifts you make out of your income, including the amount, the date and who you make the gift to.

Key point – Gifting assets is a great way to reduce the amount of IHT your estate has to pay, but be aware of the "seven-year rule" and always take professional advice.

4 STEPS TO REDUCE FAMILY DISPUTES OVER YOUR ASSETS:

1. Make sure you have an up-to-date will in place that covers how you want your assets distributed when you pass on.
2. Set up a Lasting Power of Attorney to ensure your affairs are managed by someone you trust should you be unable to do so.
3. Work with estate planning experts – solicitors and advisers – to ensure the steps you take are correctly set up in accordance with your wishes.
4. Make sure other members of your family and the beneficiaries are aware of your intentions.

6. IF YOU'VE ALREADY RETIRED MAKE SURE YOU'RE TAKING INCOME EFFICIENTLY

Pensions can be incredibly tax-efficient from an IHT perspective, but only if you nominate beneficiaries.

We find that many people who save into pensions haven't correctly nominated their beneficiaries. That means their loved ones could unnecessarily be paying tax when they die.

Nominating beneficiaries is simple to do and something we can help you with.

7. IF YOU'VE ALREADY RETIRED MAKE SURE YOU'RE TAKING INCOME EFFICIENTLY

Your pension is there to support you through retirement, so using it to provide you with a regular income after you stop work makes sense.

However, if you're fortunate enough to have sufficient and appropriate other assets, it might pay to be a little more creative.

Any savings and investments – such as ISAs and shares – are likely to be subject to IHT when you die. But most pension arrangements are not included in IHT calculations.

To minimise the amount of your assets liable to IHT, it can make sense to use your savings and investments to provide yourself with an income before you take income from your pension.

Doing this could save you a huge amount in tax, as less of your estate will be subject to a 40% charge when you die.

There's a lot to think about though, such as the tax position of your potential beneficiaries, so taking expert advice is important.

Older pension schemes may not provide the same death benefits as newer schemes, so it's worth reviewing your older schemes to check what they offer.

We can help with this.

Key point –
Having a flexible plan in place for taking income in retirement can reduce your IHT liability.

8. MAKE SURE YOU MANAGE YOUR LIFE INSURANCE EFFECTIVELY

If you have existing life cover, make sure you consider any benefits of placing it into trust. As you saw in the section about trusts, this can mean that the proceeds of the life insurance policy will then sit outside of your estate for IHT purposes.

It also enables the insurance company to pay out the proceeds more quickly to your beneficiaries, as they will not have to go through the same legal processes as your other assets.

Another way to use life insurance is to set up a policy to help your family pay the IHT due on your estate.

You could do this by taking out life insurance on yourself for the amount of IHT that will be payable. You must consider whether this should be written under trust so when you die, the money is there for your heirs to use to pay the IHT bill when it arrives.

Key point – Ensure you consider whether any life cover is written under trust – otherwise, it could be included in the value of your estate and accentuate a problem it was intended to solve.

Why not transfer your IHT bill to an insurance company? You pay a monthly amount, and then the insurance company effectively pays the bill for you when you die.

Life insurance can be a great way to mitigate an IHT bill. However, it's vital that it's taken out at an age when it's still affordable and you're healthy enough to get cover.

Talk to us to find out how we can help.

MAKE SURE YOU GET ADVICE FROM AN ESTATE PLANNING EXPERT

As you might have realised from reading this guide, it's not always straightforward to manage your financial affairs and maximise tax efficiencies when you pass away.

That's where we come in!

We can help you put a robust plan together, and regularly review it to ensure it still fits your needs. We will then sit down with you regularly to review your plans. If any changes are required, we can help you with them.

Having a detailed plan in place will ensure that as much of your wealth as possible passes to your intended beneficiaries when you pass away.

3 BENEFITS OF WORKING WITH KBA ESTATE PLANNING

- We will help you understand the impact IHT could have on the value of your estate.
- We will help you plan your finances to minimise the amount of IHT your heirs will have to pay when you pass away.
- We will regularly review your arrangements to ensure they're up to date and appropriate for your circumstances.

HOW WE CAN HELP

Helping families protect their wealth and create certainty for their family and future generations is what we are truly passionate about.

We can help you achieve the peace of mind that comes with correctly organising your inheritance affairs, while also helping you to protect your hard-earned wealth for the next generation.

To find out more about our services or talk through your own situation, please get in touch.

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