TOWN CLOSE
Financial Planning

Estate planning and IHT

future proofing your finances

THOUGHTS ON ESTATE PLANNING AND IHT

There are various options when it comes to estate planning. They all have pros and cons, there is no perfect single solution. A combination may well provide the most desirable outcome.

We understand that the objective is that the next, and future, generations receive as much of your wealth as possible.

That means protecting what you have and improving on it where possible and practical, whilst maintaining your own standard of living an financial independence, and security.

“Protecting” means different things to different people.

Inheritance tax and long term care costs are obvious ones. But what if you remarried and then divorced losing half an inherited estate?

Or what if your child’s partner’s eyes lit up when they inherited and divorced your child on the spot, taking half of the inheritance with them?

Then there are bad habits – drugs, drink, gambling, general fecklessness.

Or your children might be too young to know what to do with sudden wealth. Or you might be so wealthy that their inheriting might send them off the rails.

There’s no end to the number of ways family wealth can be lost. It’s easier done than said.

These scenarios may seem unlikely, but they do happen and their consequences can be devastating.

Here is a rundown of options to consider. A conversation with us will help you narrow down these options.

Your wills. These should be as efficient as possible and make use of your nil rate bands effectively.

Financial and medical powers of attorney. You should have them, so someone has the legal power to make decisions for you if needed.

Your home. Consider changing from "joint tenancy" to "tenants in common". That means each owning 50% of the property outright. On death your 50% would go into trust, allowing the survivor to stay in the house, but protecting it from a future partner or going straight to your children on the second death.

Your parents' wills. Rather than add to your estates by inheriting from them see if your parents will change their wills to favour your children. The inheritances could be paid into a trust for your children that you control during your lifetimes.

Annual gifts. You can both give away £3,000 pa (plus last year's allowance if unused) without any tax consequences. This could be paid into a trust for your children that you control during your lifetimes.

Children's pensions and JISAs. You could be paying £2,880 pa each into pensions for your children. And £4,368 pa into Junior ISAs.

Gifts out of income. Any excess income you have can be given away without any tax consequences. This could be paid into a trust for your children that you control during your lifetimes.

Gifts into trust. You could make lump sum payments into trust for the benefit of your children. Or directly to them. If you live seven years, the gift will be outside your estate. If you keep the gift to less than the nil rate band tax is not payable on setting up the trust.

Whole of life assurance. Rather than give up control of your money you could pay for a life assurance policy. The idea is that it would pay out an amount equivalent to your estates' likely inheritance tax bill.

Your pensions. You should check the scope of all the available death benefits available under pensions. Some are very tax efficient.

Death in service. Death in service benefits could be paid into a trust. This would be for the benefit of the survivor and children. Importantly it would mean the money does not form part of the survivor's estate for inheritance tax or future divorce purposes.

There are other options in addition to these. They are typically esoteric and/or higher risk and/or sail close to the wind.

In our mind they are only worthy of consideration once all of the above have been rejected or utilised fully.

The above have varying level of complexity and compromises that we have to grapple with. Some are simple, others not. In combination they should substantially achieve your estate planning goals.