

A Guide to

# ESTATE PLANNING

Helping you develop a financial plan that will  
benefit you and your family for generations



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Helping you develop a financial plan that will benefit you and your family for generations

Estate planning should start early in life and is for everyone, not just the very wealthy. It is about ensuring control of your estate and planning ahead so there are no uncertainties about how it is managed in the future.

## MINIMISE THE EFFECT OF TAX

It can also help minimise the effect of tax and ensure that your beneficiaries are looked after, especially young children or any dependants who may be vulnerable and need special care. Inheritance Tax (IHT) is a tax on your estate – the things that belong to you – when you die and is also sometimes payable on trusts or gifts made during your lifetime.

IHT is often called a voluntary tax because, with careful planning, the amount your estate has to pay could be reduced or removed completely. From writing a Will, to understanding the exemptions and making lifetime gifts, there are currently several options to help mitigate IHT.

Your estate includes the total of everything you own and a share of anything you own jointly. Things that might count towards your estate include:

- Property
- Investments
- Insurance (not written in an appropriate trust)
- Payment from a pension plan or employee death benefit (unless in a trust)
- Other assets, for example, cars, art, jewellery, furniture

- Gifts you have made but still benefit from, for example, a house you have given away but still live in
- Certain gifts that you have made in the last seven years
- Assets held in trust from which you receive personal benefit
- If you own assets jointly, your share of their value is included in your estate

## IHT MATTERS

For the 2011/12 tax year, no IHT is charged on the value of your estate up to £325,000. This is known as the 'nil rate band' and everything above that is taxed at 40 per cent.

If your IHT nil rate band is not used up on your death, the unused proportion can be transferred to your surviving spouse or registered civil partner.

Assets passed to your spouse or registered civil partner are exempt from IHT (assuming your spouse or partner is domiciled in the UK), regardless of your worth and how soon you die after making them. These rules also apply to gifts made to charities.

Additionally, any amount of money you give away outright will not be counted for IHT if you survive for seven years after

making the gift. If you die within this period, the amount of the gift will be included within your estate. Taper relief may also apply in these circumstances and could reduce the amount of IHT due.

Bear in mind tax laws are subject to change, possibly retrospectively. Also, the rules for individuals who are not UK resident or not UK domiciled are different and therefore tax and local laws should be considered.

## PLANNING FOR IHT

**There are a number of things you could do to reduce your family's potential IHT bill:**

- **Make a Will** – an effective Will could help to reduce your IHT bill
- **Look into exemptions** – there are a number of exemptions you could use to reduce the value of your estate. For example, moving assets between spouses or registered civil partners does not create an IHT liability
- **Consider gifts** – if you can afford to give away some of the assets that you own, it may be possible to reduce the size of your estate
- **Think about life assurance** – a life assurance plan won't actually lessen the IHT bill, but the proceeds could be used to help pay the bill on death if written in an appropriate trust
- **Consider trusts** – if structured carefully, trusts can help to reduce or even eliminate your IHT liability

## TRUST IN YOUR FUTURE

The structures into which you can transfer your assets can have lasting consequences for you and your family and it is crucial that you choose the right ones. The right structures can protect assets and give your family lasting benefits.

A trust can be used to reduce how much IHT your estate will have to pay on your death. A trust, in principle, is a very simple concept. It is a legal arrangement where the ownership of someone's assets (such as property, shares or cash) is transferred to someone else (usually a small group of people or a trust company) to manage and use to benefit a third person (or group of people).

There are basically several different types of trust to choose from, however the ones most commonly used are Bare Trusts and Discretionary Trusts.

## DISCRETIONARY TRUST

A Discretionary Trust offers flexibility when it comes to deciding whom you would like to be the Beneficiaries. You (as Settlor of the Trust) together with the Trustees can change who the Beneficiaries are at any time. The Trustees have ultimate discretion to allocate capital and income to any of the Beneficiaries.

However, with a Discretionary Trust there are possible tax liabilities to be aware of. So, if you transfer assets to a Trust within seven years of death, depending on the value of assets in the Trust there could be further charges to consider during the lifetime of the Trust.

## BARE TRUST

A Bare Trust ensures that, once named, the Beneficiaries cannot be changed or added to in the future. Once aged 18, a Beneficiary can ask for the trust to pay their share to them directly. The major advantage of Bare Trusts over Discretionary Trusts is that they are classed as Potentially Exempt Transfers with no immediate or ongoing IHT charges, provided the creator of the trust survives more than seven years from the date of the transfer.

## WANT TO FIND OUT MORE?

FOR FURTHER INFORMATION ABOUT THE SERVICES WE OFFER AND TO DISCUSS HOW WE COULD HELP YOU PROTECT YOUR WEALTH FOR YOU AND YOUR FAMILY, PLEASE CONTACT US FOR FURTHER INFORMATION.

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