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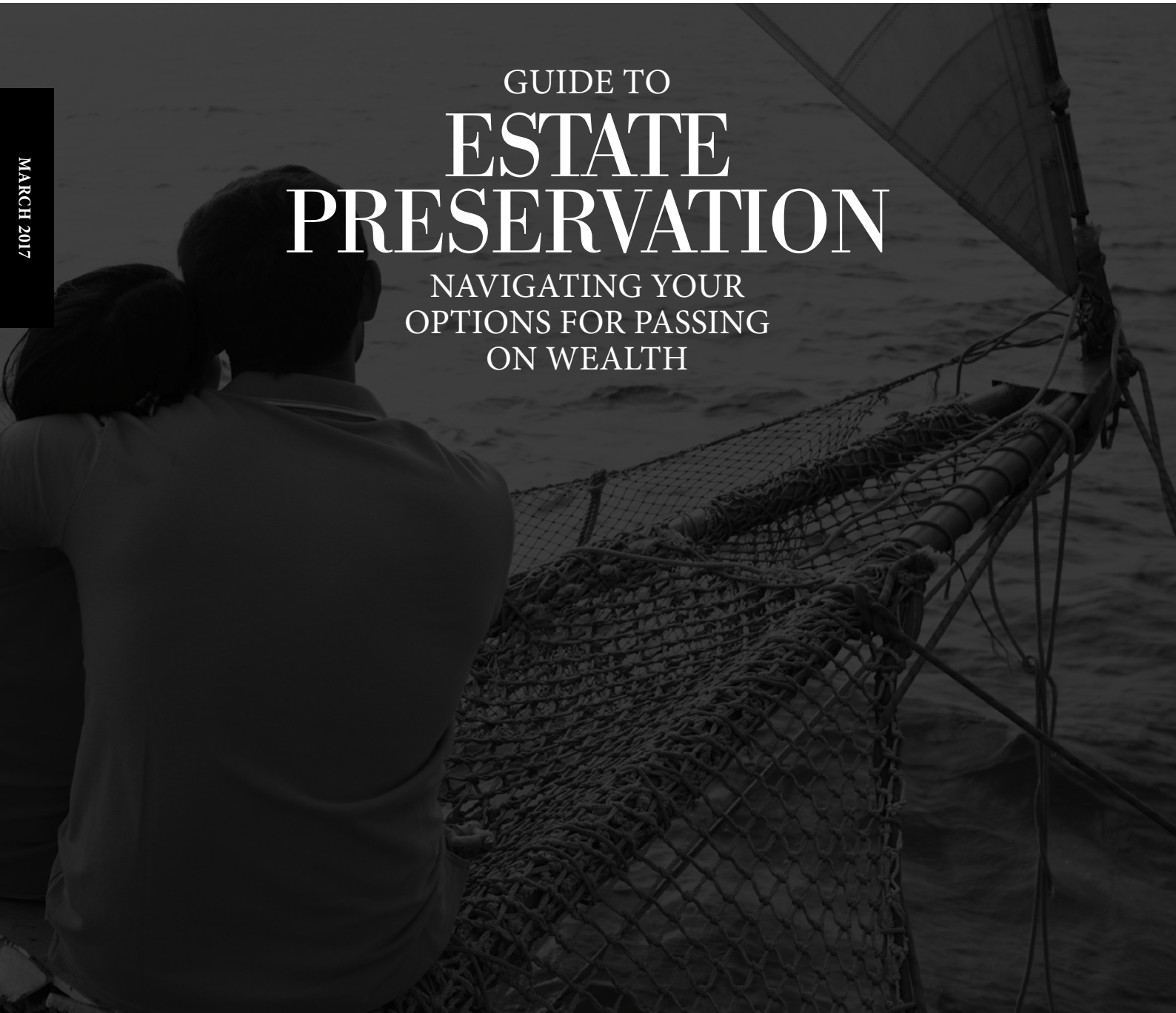

MARCH 2017

GUIDE TO ESTATE PRESERVATION

NAVIGATING YOUR OPTIONS FOR PASSING ON WEALTH

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WELCOME

Navigating your options for passing on wealth

You've worked hard all of your life to get to where you are, and providing for those you care about is important to you. However, just owning your own home and having sufficient capital to provide a reasonable income during your retirement may leave your estate with a sizeable IHT liability.

If you want to have control over what happens to your assets after your death, effective estate planning is essential. After a lifetime of hard work, you want to make sure you protect as much of your wealth as possible and pass it onto the right people.

Exposed to Inheritance Tax
If you do not plan for what happens to your assets when you die, more of your estate than necessary could be exposed to Inheritance Tax (IHT). You want to be sure that the right people will get the right amounts at the right time – and that they are ready to receive potentially large sums.

Currently, IHT is charged at 40% on all that you own over £325,000. Your estate can pass tax-free to your spouse or registered civil partner when you die. This can mean a joint allowance of £650,000.

New property allowance
From 6 April 2017, the Government is introducing a new, additional tax-free allowance for people who own a home. This is called the 'family home allowance'. It will be gradually phased in and will eventually be worth an additional £175,000 per person. Combined with the £325,000 allowance we each already receive, this means a new allowance for property owners of £500,000 – or £1 million for couples.

However, when you consider the value of your home and possibly other properties (as well as savings and investments), this allowance can soon be used up.

Estate planning possibilities
Estate planning is about more than just tax. It is about making sure the people left behind are financially supported, that your assets are protected and that the tax your estate pays is fair.

From essential estate planning, such as the establishment of Wills and power of attorney, to options such as making the most of exemptions, giving away excess income and creating trusts, there are numerous estate planning possibilities.

Everyone has different requirements and motivations – the right solutions for you are the ones that suit your personal circumstances. We can work with you to discover what these are. Our specialist estate planning advice is designed to help you maximise your wealth and minimise IHT.

Guiding you through the process
Whether building a financial plan with you from the start or reviewing your existing arrangements, we can provide professional financial advice to help guide you through the process to defining your goals and recommend a tailored strategy to meet your individual needs that will be flexible enough to adapt as your life changes. To find out more, please contact us – we look forward to hearing from you.

CONTENTS

02 **Welcome**
Protecting your wealth for future generations

04 **Making a Will**
Is it time to think about what you have and what you want to happen to it?

06 **Lasting Power of Attorney**
Filling the gap if you lose the capacity to deal with your affairs

08 **Inheritance Tax**
Taking advantage of the new rules that apply from 6 April 2017

10 **It's good to give**
Inheritance Tax exemptions

12 **Alternative exemptions**
Reducing the amount of Inheritance Tax payable on other assets

14 **Trusts**
An important part of your estate preservation process

MAKING A WILL

Is it time to think about what you have and what you want to happen to it?

Everyone should have a Will, but it is even more important if you have children, you own property, you have savings, investments or insurance policies, or you own a business.

The very act of having a Will drawn up can be beneficial in that it makes you think about what you have and what you want to happen to it. While most of us find it difficult to think about our mortality, the fact is that one day we will be gone, and we owe it to our beneficiaries to make the task of settling our affairs as easy as we can.

Rules of intestacy will apply
If you do not leave a valid Will, the rules of intestacy will apply in respect of your estate (your 'estate' is defined as assets less outstanding liabilities). If your estate is very small, this may not matter, and there are circumstances in which the result might be perfectly acceptable (for example, if the value of your estate is such that it will pass wholly to a surviving spouse or children). In most cases, however, it still makes sense to have a Will drawn up. The rules of intestacy do not provide for 'common law' spouses. If you do not provide for them via a valid Will, they may be obliged to make a legal claim against your estate and could find themselves seriously short of funds in the meantime.

Protect certain family members
The very act of having a Will drawn up can be beneficial in that it makes you think about what you have and what you want to happen to it. For example, whether you want to protect certain family members (such as minor children or those who will struggle to manage their affairs), whether you want certain interests to take priority (for example, giving a second spouse or registered civil partner a right to remain in occupation of the family home for the rest of their life), whether you want children or grandchildren to benefit equally (or for any inheritance to be adjusted to reflect lifetime gifts), whether you want to benefit charities, and whether it would be appropriate to consider some tax planning.

Aspects of your estate
In addition to a Will, you can write a letter of wishes. This is not legally binding, but you can use it to deal with smaller items and more significant matters such as the factors you would want trustees for your children to consider in exercising their discretion. You might also want to guide your executors towards professional advisers who you think would be best placed to deal with particular aspects of your estate or the estate as a whole.

Refusal to act on your wishes
Talk about your Will to those who will be affected by it. You can name people as executors without their prior consent, but they can refuse to act when the time comes. Check that they are willing, tell them why you have chosen them, and make clear why your Will says what it says and what your wishes are in respect of any matters not covered in the Will. Tell them where your Will is kept.

Impact and the legal costs
If the terms of your Will are likely to lead to arguments within your family, think very carefully about the impact and the legal costs associated with any challenge and whether it makes sense to explain things in a covering letter or face to face while you have time. Think carefully about your choice of executors. While family or friends are usually a good option, there are circumstances – for example, if you have business interests, if family conflicts are expected or if there is simply no one else appropriate – where the appointment of one or more professional executors may make sense.

Keep it under review
If you already have a Will, make sure you keep it under review. Are your chosen executors still the right people? Are they still alive? Have your wishes changed in any way? Have your family circumstances changed? (Bear in mind that marriage usually makes a Will invalid and that divorce makes any bequests to your ex-spouse/civil partner null and void.) Minor amendments to a Will can be achieved via a codicil. More wholesale changes call for a new Will which, assuming it is valid, takes priority over your old Will.

Make your wishes clear
You can not bind family or friends in terms of funeral arrangements or, at present, organ donation. You could sign up to the organ donor register and carry a donor card, and – most importantly of all – talk to your family about your wishes and the reasoning that lies behind them.

Keep relevant papers safe
It is essential that Wills are kept secure, whether in a professional adviser's safe or at home in a fireproof box. Your executors, however, are going to need access to far more. They will need to determine your assets and liabilities on death and, if Inheritance Tax (IHT) is an issue, investigate any gifts in the seven preceding years. Leave them lists, together with relevant papers, life policies and contact details. Also leave a note of relevant contact details – your accountant, your solicitor, your bank and professional financial adviser – with details of pension and life policies.

Immediate family needs
Assets that are owned jointly (including properties held as joint tenants) pass to the survivor automatically on death. Most other assets, however, will be frozen until a Grant of Probate has been obtained (a process that invariably takes several months). Ensure that your spouse or registered civil partner, or any adult child who is dependent on your support, has sufficient funds in a bank account of their own or in a joint account to meet their immediate needs.

Consider life insurance as an appropriate way of supporting your family after you are gone, and make sure that life insurance policies are 'written in an appropriate trust', which means that the proceeds can be released before Probate has been obtained.

Simple and transparent finances
The more complicated your financial affairs, the greater the difficulty could be for those you leave behind. Try and make things as simple and transparent as you can. Go through your documents and either dispose of or identify those that are no longer valid. If there are matters that should have been disclosed to HM Revenue & Customs (HMRC), think seriously about disclosing now and getting everything cleared up.

Inheritance Tax provision
In the event that your estate is likely to be subject to IHT, it requires advance planning. If your estate passes to a surviving spouse or partner (or to charity), IHT is not likely to be an issue. On the second death, the first £325,000 (the 'nil-rate band') of your estate is likely to be free of tax. You may benefit from an additional £325,000 if a spouse has pre-deceased you, and those dying after 5 April 2017 may benefit from an additional exemption in respect of the family home. However, if you have remained single, have divorced and not remarried, or are in a common-law relationship, the exempt amount may be just £325,000. And, if you have made substantial lifetime gifts, this may not be available to set against your estate at death. Any value not covered by reliefs or exemptions is charged to IHT at 40% (or 36% if 10% of the net estate is left to a registered charity).

LASTING POWER OF ATTORNEY

Filling the gap if you lose the capacity to deal with your affairs

There is a distinct possibility that you could lose the capacity to deal with your affairs well before you die. Lasting Powers of Attorney (LPAs) are intended to fill the gap. An LPA is important, and it should be drawn up while you still have full capacity (they are often dealt with at the same time as a Will). Bear in mind that incapacity could be triggered by an accident or a sudden illness, rather than gradual decline.

More than two million LPA registrations were filed by the end of 2016, with the number of appointments more than trebling between 2010 and 2015. The figures from the Office of the Public Guardian (OPG) were disclosed through a Freedom of Information request by Old Mutual Wealth.

Delegating power
An LPA is used to delegate power to someone to manage an individual's personal and/or welfare affairs in the event that they become mentally incapacitated.

There are two types: Property & Financial Lasting Power of Attorney (P&F LPA) and Health & Welfare Lasting Power of Attorney (H&W LPA). Registering an LPA covering either or both of these areas means that someone gives a trusted friend, family member, solicitor or other individual the responsibility for managing their affairs if they become mentally incapacitated.

Own decisions
Not having an LPA in place can cause problems for both individuals and their families if they become unable to make their own decisions. LPAs were introduced in 2007 following concerns around potential 'abuse' of the existing Enduring Powers of Attorney process.

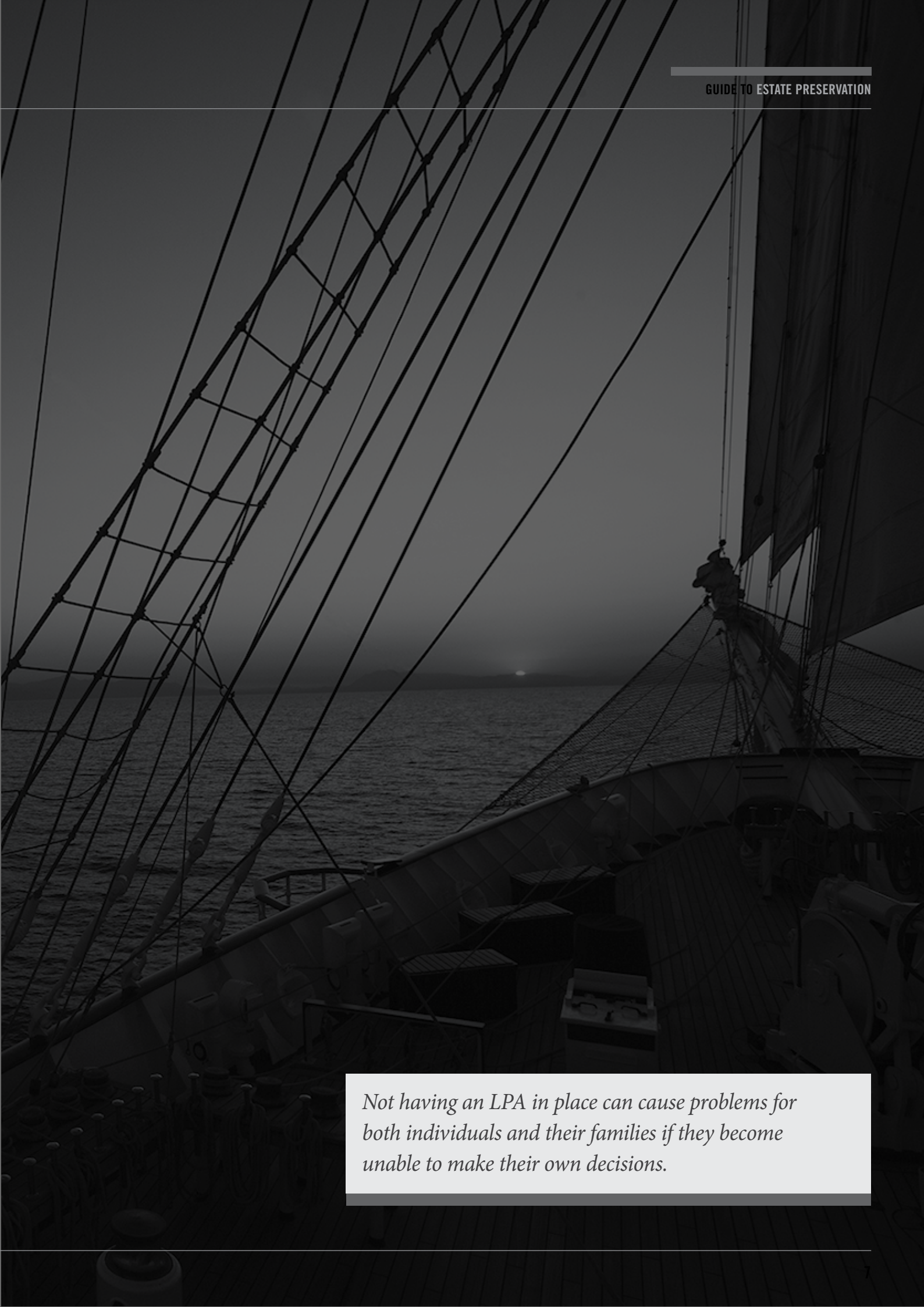
The average age of those registering a LPA (known as 'donors') has fallen from 79 in 2008 to 75 in 2015. It suggests that as awareness of mental health conditions increases, people are become increasingly inclined to prepare earlier in life.

Life planning
Building a financial plan does not have to be only about investing for the future. The most detailed financial planning goes hand in hand with your life planning, and appointing an attorney through a Lasting Power of Attorney is a way to ensure management of your personal affairs is factored into your financial preparations for retirement and later life.

The data shows that hundreds of thousands of people every year are now putting in place a Power of Attorney, delegating responsibility for their health or financial decisions to a trusted friend or relative in case they become mentally incapacitated in later life.

Certainty over the future management of your financial affairs
Talking to your parents or other family members about this is a delicate issue. And it is all too easy to take it for granted that you will always be in a position to manage your own affairs. But mental incapacity is something that affects millions of people, and by planning ahead it is possible to confront the matter head-on, giving both you and your family some certainty over the future management of your financial affairs, welfare decisions, or both.

Estate planning can be complicated, and talking to us about your situation could make a real difference.



Not having an LPA in place can cause problems for both individuals and their families if they become unable to make their own decisions.

INHERITANCE TAX

Taking advantage of the new rules that apply from 6 April 2017

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. We can help you to safeguard your wealth for future generations.

Although often in the news, Inheritance Tax (IHT) is still not widely understood. That's worrying, because it affects thousands of families every year. If you thought IHT was just for extremely wealthy people to worry about, think again. The amount of IHT collected has doubled over the last five years[1].

Money and possessions

If your estate has an IHT liability, IHT must be paid prior to probate and therefore prior to the beneficiaries receiving their legacy. This may not be the kind of legacy most people think of leaving behind. IHT is payable on assets such as property, money and possessions that are passed on when you die. IHT is payable at 40% (or 36% if 10% of the net estate is left to a registered charity) on assets that exceed the threshold nil-rate band, which is currently at £325,000.

The good news is that there are things you can do – in your lifetime – to take care of a potential problem. But finding the right options for you will depend on your personal circumstances and receiving appropriate advice.

New IHT rules

Under the new IHT rules, more estates are likely to pass free of IHT post–5 April 2017. By 5 April 2021, some estates worth £1 million will pass free of IHT. This is the good news, but it's far from the whole picture. For many, in particular the childless, the IHT could in fact (with the effect of inflation) be higher post–5 April 2017.

For deaths from 6 April 2017, an additional IHT-free 'residence nil-rate band' (RNRB) will be available. This will begin at £100,000 in the tax year 2017/18 and will increase by £25,000 each tax year, reaching £175,000 by tax year 2020/21. Based on the current information, from tax year 2020/21 onwards, the RNRB will increase each year in line with increases in the Consumer Price Index.

This RNRB is available where the deceased leaves a property (or the proceeds of sale of a property) in which they have lived at some point to their direct descendents or the spouse or civil partner of a direct descendent (children and their issue).

Residence nil-rate band

The residence nil-rate band is available on top of the existing IHT nil-rate band of £325,000, so that in 2020/21 an individual will potentially be able to leave £500,000 free of IHT. As is now the case with the standard nil-rate band, where the first of a married couple to die leaves their estate to their spouse, the RNRB can effectively be 'passed on' to the surviving spouse.

For those with a conventional family, a modest home and savings (and subject to the rate of house price increases in the coming years), it is therefore likely that no IHT will be payable on their estate.

Downsized or sold up

The new rules are designed to ensure that the elderly are not encouraged to retain family homes they would otherwise have sold. Where the deceased has downsized or sold up, it will still be possible to pass on the proceeds of the family home. The rules provide only that the deceased must have lived in the property in question at some point, and that assets of an equivalent value are passed on to direct descendents.

The additional RNRB will not be available to the most valuable estates. This is because where the value of the deceased's estate (after deducting liabilities but before deducting any reliefs and exemptions) exceeds £2 million, the RNRB will be reduced by £1 for every £2 that this £2 million threshold is exceeded. If, therefore, death was to occur in the

2020/21 tax year when the RNRB will be £175,000, this would mean that no RNRB will be available for estates with a value of £2.35 million or more (or £2.7 million on the death of a surviving spouse where a full RNRB is available to be transferred to the survivor).

Eroded by inflation
The nil-rate band of £325,000 is now frozen until at least April 2021. This means that for the unmarried, and for those who leave no children or grandchildren, the IHT-free band will continue to be eroded by inflation. A single person owning property in London, for example, is highly likely to leave an estate subject to IHT. The number of single and childless persons of even modest means who will fall within the IHT bracket will inevitably continue to increase.

The actions you need to take depend on your family's needs for capital and income, as well as your current assets and your intended beneficiaries, so it's important to speak with us for expert advice on the best options for your circumstances.

Calculating Inheritance Tax
The tax rate is 40% of the estate that is above the threshold. The table below is a simple example of how the current IHT liability is calculated for three different estate values.

The rate may reduce to 36% if at least 10% of the estate is left to charity.

From 6 April 2017, the Government is introducing a new, additional tax-free allowance for people who own a home. This is called the 'family home allowance'. It will be gradually phased in and will eventually be worth an additional £175,000 per person. Combined with the £325,000 allowance we each already receive, this means a new allowance for property owners of £500,000 – or £1 million for couples.

Paying Inheritance Tax
Inheritance Tax (IHT) is normally paid within six months after the person's death. If the tax is not paid within six months, HM Revenue & Customs (HMRC) will start charging interest.

Estate name	Value of the estate	Amount of taxable estate	Amount of tax due
Estate A	£450,000	£125,000	£50,000
Estate B	£225,000	None	None
Estate C	£900,000	£575,000	£230,000

HMRC can give the executor of the estate more time to pay the tax if certain assets in the estate, such as property, take a while to sell. In this situation, your executor can ask to pay the tax in yearly instalments over ten years, but the outstanding amount of IHT will still get charged interest.

If your estate is likely to incur IHT, it's a good idea for your executor to pay some of the tax even before they finish valuing the estate. This will help the estate avoid getting charged interest if it takes longer to sell the assets to pay off the debts and taxes.

If the executor or administrator is paying the tax from their own account, they can claim it back from the estate. HMRC will refund the estate if it has overpaid the IHT.

Don't leave loved ones with a large and unnecessary IHT bill to pay
Without careful planning and advice, your loved ones could face an IHT bill they would need to pay before your estate is settled, leading to additional stress at a time when they need it least. Taking steps now could make a big difference to your loved ones in the future.

Source data:
[1] HM Revenue & Customs (HMRC) collected £4.7 billion from thousands of bereaved families in 2015/16. Source: Office for National Statistics, 2016.

Married couples and registered civil partners are allowed to pass their estate to their spouse tax-free when they die. In other words, the surviving spouse can inherit the entire estate without having to pay IHT.

IT'S GOOD TO GIVE

Inheritance Tax exemptions

Making a gift to your family and friends while you're alive can be a very effective way to reduce the value of your estate for Inheritance Tax (IHT) purposes and benefit your loved ones immediately.

Married couples and registered civil partners are allowed to pass their estate to their spouse tax-free when they die. In other words, the surviving spouse can inherit the entire estate without having to pay IHT.

You can also pass on your unused tax-free allowance to your spouse. However, gifts to your partner who isn't married to you might incur IHT.

When to make that gift

What and how much you wish to give your children or other members of your family is completely up to you. But to ensure that it's IHT-free, it's important to plan when to make that gift. So long as you live more than seven years from when you make this gift, your children or family will not have to pay IHT on your gift when you die.

But if you unfortunately don't live more than seven years after you've made the gift, they might have to pay IHT. During that seven-year period, your gift is known as a 'potentially exempt transfer' (or 'PET'). If you do not survive the gift by seven years, the exemption fails. The PET is counted as part of your estate and is subject to IHT. How much tax is due depends on when it was given – the rate of tax is lower for older gifts.

Gifts where you still have an interest in it (no matter when you've given it) don't qualify as a PET – for example, if you continue to live for free in the house you gave your child more than ten years ago. The house would still be considered part of your estate and therefore subject to Inheritance Tax. This is known as 'reserving a benefit' in the property which you gave away.

Other taxable gifts

The PET is reassessed and added to any other taxable gift you may have made in the seven years before making the PET. This has to happen to see whether any tax is now due on the PET itself. This means that gifts made during the 14 years before death could be relevant.

If tax does become due on a PET, the person who received the PET will be asked to pay the tax. However, the tax due may be reduced because of 'taper relief'.

The impact of taper relief in reducing tax due on PETs:

- If the gift was made less than three years before death, no reduction in tax is due
- If the gift was made three to four years before death, tax is reduced by 20%
- If the gift was made four to five years before death, tax is reduced by 40%
- If the gift was made five to six years before death, tax is reduced by 60%
- If the gift was made six to seven years before death, tax is reduced by 80%

Total of taxable gifts

If the seven-year running total of taxable gifts and PETs made comes to less than the tax-free allowance (at the date of death), no tax will be due on the PET. While taper relief may reduce tax on PETs if you die within seven years of making them, it won't reduce the tax due on your estate.

The second thing to happen if you die within seven years of making a PET is that the PET is also added to your estate to work out how much tax is due on the estate. If the seven-year running total of PETs, chargeable gifts and your estate comes to less than the unused tax-free allowance, no tax will be due.

However, if much of the tax-free allowance has been used up against PETs and taxable lifetime gifts, this can leave little or no allowance to be used against the rest of the estate.

You should also bear in mind that your gift could incur other types of tax, such as Income Tax or Capital Gains Tax. A gift of shares, for example, might incur Income Tax.

Giving to charity
There is no limit to how much and how often you can give to a charity without incurring IHT. You could also get some relief on other types of tax such as Income Tax when you do this. If you leave at least 10% or more of the 'net value' of your estate, it's possible to reduce the rate of Inheritance Tax on some assets from 40% to 36%. This could save thousands of pounds.

Annual 'gift allowance'
While you're alive, you have a year without incurring IHT. Certain gifts don't count towards this annual exemption. As such, no IHT is due on them. Gifts that are worth more than the £3,000 allowance are subject to IHT. The amount of tax to pay on these gifts depends on whether it was given within seven years before the person died.

You can carry over any leftover allowance from one tax year to the next, up to a maximum of £6,000. If you do this, you have to use up all your allowance in that tax year. In other words, you can't accumulate several years' worth of allowance and use it up in a single large gift.

Gifting tax-free
You can give as many gifts of up to £250 to as many people as you want (though not to anyone who has already received a gift of your whole £3,000 annual exemption). None of these gifts are subject to IHT.

Gifts can also be made to people getting married: up to £5,000 from each parent of the couple and £2,500 from each grandparent or more remote relative; £2,500 from the bridegroom to bride (and vice versa) and between registered civil partners; and £1,000 from anyone else.

If you have enough income to maintain your usual standard of living, you can also make gifts from your surplus income, for example, regularly paying into your child's savings account, or paying a life insurance premium for your spouse or registered civil partner. To make use of this exemption, it's very important that you keep very good records of these gifts. Otherwise, IHT is very likely to be due on these gifts when you die.

The rules for this exemption are complex – these gifts must be regular, so you need to be committed to keeping up with making these gifts. It's best to speak to a legal or estate tax adviser first if you want to use this exemption.

This is a good way of giving gifts on birthdays, Christmas or even to pay life insurance premiums. Grandparents can also use it to pay for things like their grandchildren's school fees.

Keeping records

Keeping a record of gifts will help your executor and HM Revenue & Customs calculate how much of your estate (if any) is liable for IHT. Information to include:
- What you gave
- How much the gift is worth
- The recipient
- The date you gave it

Financial security
Although it is tempting to transfer assets out of your estate in order to minimise IHT, you shouldn't take risks with your financial stability. Ensuring that you are financially secure, particularly in retirement, should be a priority.

Once you have made the gift, you no longer have control over the asset in question, so think carefully about the implications before making a decision.

ALTERNATIVE EXEMPTIONS

Reducing the amount of Inheritance Tax payable on other assets

Business
Depending on how you own the business and what type of business it is, you could receive either 50% or 100% tax relief on it. Business Relief reduces the value of a business or its assets when working out how much Inheritance Tax (IHT) has to be paid.

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

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

As the executor of the Will or administrator of the estate, you can claim Business Relief when you're valuing the estate. You must use the market value of the business or asset when calculating relief at 50%.

You can claim relief on property and buildings, unlisted shares, and machinery.

Agricultural property
A farm can be passed on free from IHT. However, certain farm assets aren't exempt from tax, such as farm machinery. Agricultural property that qualifies for Agricultural Relief is land or pasture that is used to grow crops or to rear animals intensively.

Woodland property
If you leave a woodland property, the land itself is not subject to IHT. However, the trees on the property are subject to the tax if sold or given away as timber. The executor of your estate will have to include the value of the woodland when applying for probate, even though it's not considered for IHT.

Heritage assets
If you own a building, land or objects of national scientific, historic or artistic importance, you could claim relief from IHT. However, there are certain conditions that must be met in order to get this relief.

Any ownership of a business, or share of a business, is included in the estate for IHT purposes. Business Relief of either 50% or 100% is available on some of an estate's business assets, which can be passed on while the owner is still alive, or as part of the Will.

TRUSTS

An important part of your estate preservation process

If you want to mitigate the effects of Inheritance Tax (IHT) on your estate, trusts can be an important part of the process. When you put cash, property or investments in a trust, provided certain conditions are satisfied, you don't own it any more. This means it might not count towards your IHT bill when you die.

Although trusts can be a cornerstone of effective estate planning, they are complex. For this reason, it is important to seek professional advice when considering trusts.

What is a trust?
A trust is a way of managing assets for people. A trust can be seen as a protective shield for your assets and can be established on death or during your lifetime. One of the advantages of setting up a trust in your lifetime is that you can influence who manages the trust, who benefits and when.

It is a legal arrangement where you give cash, property or investments to someone else so they can look after them for the benefit of a third person. So, for example, you could put some of your savings aside in a trust for your children.

There are three categories of people involved in a trust (there may be more than one of each):

Trustee – this is the person who owns the assets in the trust. They have the same powers a person would have to buy, sell and invest their own property. It's the trustees' job to run the trust and manage the trust property responsibly.

Beneficiary – this is the person who the trust is set up for – usually someone unable to manage the trust assets for themselves. The assets held in trust are held for the beneficiary's benefit.

Settlor – this is the person who establishes the trust and/or provides the trust property.

Cash, property or investments
If you put cash, property or investments into a trust, provided certain conditions are met, they no longer belong to you. This means that when you die, their value normally won't be counted when your IHT bill is worked out.

Instead, the cash, investments or property belong to the trust. Once the property is held in trust, it is outside of anyone's estate for IHT purposes. Another potential advantage is that a trust is a means of retaining control and asset protection for the beneficiary; a trust avoids handing over valuable property, cash or investments whilst the beneficiaries are still relatively young or vulnerable. The trustees have a legal duty to look after and manage the trust assets for the person who will benefit from the trust in the end.

When you set up a trust, you decide the rules about how it's managed. For example, you could say that your children will only get access to their trust when they turn 25.

Types of trust
Some trusts you can write into your Will, while others you can set up right now. Some trusts are subject to their own IHT regimes, and, once assets have successfully been transferred into trust, they are no longer subject to IHT on your death. Others pay Income Tax and Capital Gains Tax at higher rates, so it is important to know what type of trust you have. The kind of trust you choose depends on what you want it to do.

There are a number of different trust options available:

Bare trusts
Assets in a bare trust are held in the name of a trustee. However, the beneficiary has the right to all of the capital and income of the trust at any time if they're 18 or over (in England and Wales), or 16 or over (in Scotland). This means the assets set aside by the settlor will always go directly to the intended beneficiary. Bare trusts are often used to pass assets to young

people – the trustees look after them until the beneficiary is old enough.

Interest in possession trusts
These are trusts where the trustee must pass on all trust income to the beneficiary as it arises (less any expenses). The beneficiary can receive income from the trust straight away, but doesn't have a right to the cash, property or investments that generate that income. The beneficiary will need to pay Income Tax on the income received. You could set up this kind of trust for your partner, with the understanding that when they die the investments in the trust will pass to your children. This trust structure is used in Wills for people who remarry, but have children from their first marriage.

Discretionary trusts
These are where the trustees can make certain decisions about how to use the trust income, and sometimes the capital. The trustees have absolute power to decide how the assets in the trust are distributed. You could set up this kind of trust for your grandchildren and leave it to the trustees (who could be the grandchildren's parents) to decide how to divide the income and capital between the grandchildren. The trustees will have the power to make investment decisions on behalf of the trust.

Mixed trusts
These are a combination of more than one type of trust. The different parts of the trust are treated according to the tax rules that apply to each part. For example, a beneficiary might have an interest in possession in (i.e. a right to the income of) half of the trust fund, and the remaining half of the trust fund could be held on discretionary trust.

Non-resident trusts
This is a trust where the trustees aren't resident in the UK for tax purposes. The tax rules for non-resident trusts are very complicated. Non-resident trusts are usually ones where none of the trustees are resident in the UK for tax purposes, or only some of the trustees are resident in the UK and the settlor of the trust wasn't resident, ordinarily resident or domiciled in the UK when the trust was set up or

funds added. Domicile usually refers to the country or legal jurisdiction (a state, for example) where someone intends to make their permanent home – you can only have one place of domicile at any given time.

Appropriate trusts for life assurance
Taking out a life assurance policy to pay some or all of an Inheritance Tax (IHT) bill can make things easier on your family when it comes time to sort out your estate. It can help protect your home from having to be sold to pay the IHT.

It can also help ensure your gifts to family and friends in the last seven years of your life are protected from this tax, so it can give you peace of mind that you're not burdening your family and friends with an IHT bill when you pass away.

However, the money could be subject to IHT as it will form part of your estate when you die. For this reason, you could place any life assurance policies in to an appropriate trust. This will enable your loved ones to legally sidestep IHT, and they would not have to give any of the proceeds of the policy to HM Revenue & Customs on your death. Putting life assurance policies into an appropriate trust can also help your beneficiaries avoid probate. This means they could receive the life insurance proceeds without a lengthy legal process.

Reduce or mitigate the tax you'll pay on your inheritance
A trust can be an effective way to reduce or mitigate the tax you'll pay on your inheritance, but you should obtain professional advice. Money, assets or property you put into a trust isn't always exempt from Inheritance Tax. It depends on the type of trust you choose to set up to hold the asset.

HAVE YOU TAKEN ALL STEPS POSSIBLE TO PROTECT YOUR LOVED ONES' STANDARD OF LIVING?

When it comes to planning your family's financial future, it makes good sense to take all steps possible to protect their standard of living. We've provided information in this guide about the different options you can use for your IHT planning, as everybody's situation is different.

To find out more, please contact us.

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