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GUIDE TO

# ESTATE AND TRUST PLANNING

HELPING YOU PLAN FOR YOUR FUTURE  
AND YOUR FAMILY'S FUTURE

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GUIDE TO

# ESTATE AND TRUST PLANNING

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Helping you plan for your future and your family's future

## WELCOME

Welcome to our *Guide to Estate and Trust Planning*. This guide is designed to give you a basic understanding of Estate and Trust Planning and the issues you may face. We look at various ways you could reduce a potential Inheritance Tax liability in order to pass on as much wealth as possible.

This guide addresses the main arrangements available to individuals.

The language used throughout this guide is technical due to the nature of the subject. We always recommend that you obtain professional financial advice before making any decisions. We can help you understand these technical issues and make any decisions that are appropriate for your personal circumstances.

On page 20, we have included a 'glossary' of the technical terms to assist you.

Estate planning is not just about reducing tax. It's about giving you peace of mind for the future, knowing you'll have enough after retirement and your loved ones will have the financial support they need, which is why it's essential to make sure your wealth is protected for you and your family. By structuring your assets in a tax-efficient way, you can make sure everyone is provided for in the future.

There are many factors to consider: from simple gifting to more advanced planning with various entities, we can help you transfer

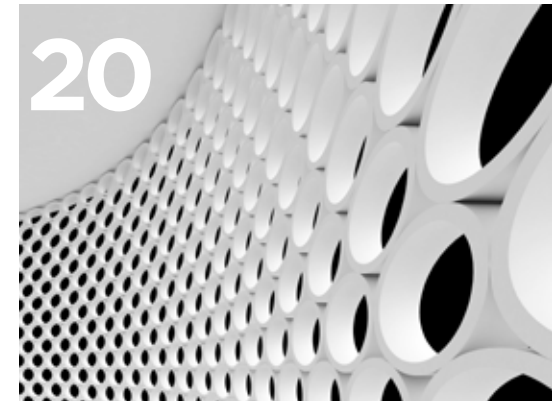
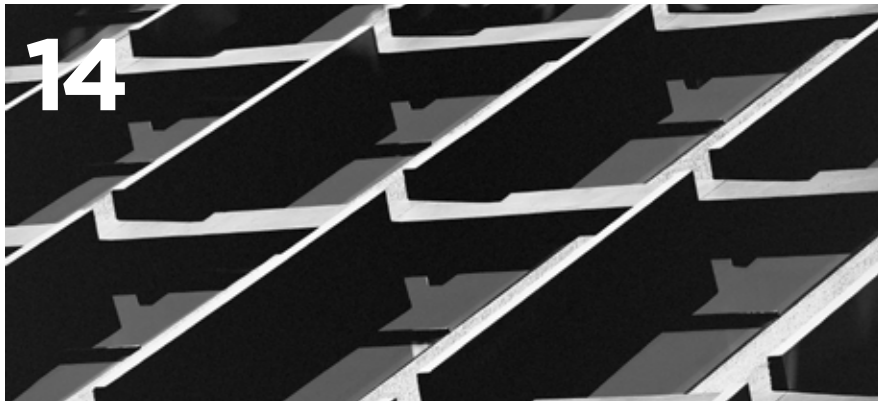
assets to your beneficiaries in a manner that is consistent with your goals and objectives. We provide an extensive range of services, plus the ability to tailor solutions based on your specific needs.

It's not easy projecting yourself into the future and seeing what's around the next bend. Benjamin Franklin famously said: 'Nothing can be said to be certain, except death and taxes.' But while there's nothing any of us can do about the former, there are steps you can take to legitimately reduce a potential Inheritance Tax liability. By structuring your assets in a tax-efficient way, you can make sure everyone is provided for in the future. ■

ESTATE PLANNING AND TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING. INFORMATION PROVIDED AND ANY OPINIONS EXPRESSED ARE FOR GENERAL GUIDANCE ONLY AND NOT PERSONAL TO YOUR CIRCUMSTANCES NOR INTENDED TO PROVIDE SPECIFIC ADVICE. PROFESSIONAL FINANCIAL ADVICE SHOULD BE OBTAINED. WE ACCEPT NO RESPONSIBILITY FOR ANY LOSS ARISING TO ANY PERSON FROM ACTION AS A RESULT OF THIS GUIDE.

### TIME TO CREATE A BESPOKE PLAN THAT WORKS FOR YOU AND WHAT YOU WANT TO ACHIEVE?

Every family is different, and every estate is unique. We understand this, and we work with you to create a bespoke plan that is tailored for you and what you want to achieve. To find out more about how we can help and our Estate and Trust Planning services, please contact one of our experts for an informal chat – don't leave it to chance.



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# INHERITANCE TAX

## How do you leave a legacy which serves your family's best interests?

Will you be one of the thousands of households in Britain that will have to pay Inheritance Tax? What's the best way to avoid it? If you're administering an estate because someone has died, how do you obtain probate? Is it ever possible to retrospectively minimise an estate's tax liabilities?

Inheritance Tax receipts reached a record high of £5.2 billion in the 2017/18 tax year according to figures published by HM Revenue & Customs<sup>[1]</sup>, despite the introduction of a new residence nil-rate band (RNRB).

Families are becoming increasingly complex entities, often shaped by divorces, remarriages and children from previous relationships. This can make estate and trust planning a challenge to navigate if an individual has strong feelings about those they would like to inherit their assets and those they wouldn't.

If applicable to your situation, effective estate and trust planning could save your family a potential Inheritance Tax bill amounting to hundreds of thousands of pounds. Inheritance Tax planning has become more important than ever following the Government's decision to freeze the £325,000 lifetime exemption, with inflation eroding its value every year and subjecting more families to Inheritance Tax.

### Reducing the amount of money beneficiaries have to pay

Inheritance Tax is usually payable on death. When a person dies, their assets form their estate. Any part of an estate that is left to a spouse or registered civil partner will be exempt from Inheritance Tax. The exception is if a spouse or registered civil partner is domiciled outside the UK. The maximum a person can give them before Inheritance Tax may need to be paid is £325,000. Unmarried partners, no matter how long-standing, have no automatic

rights under the Inheritance Tax rules.

However, there are steps people can take to reduce the amount of money their beneficiaries have to pay if Inheritance Tax affects them. Where a person's estate is left to someone other than a spouse or registered civil partner (i.e. to a non-exempt beneficiary), Inheritance Tax will be payable on the amount that exceeds the £325,000 nil-rate threshold. The threshold is currently frozen at £325,000 until the tax year 2020/21.

### IHT is payable at 40% on the amount exceeding the threshold

Every individual is entitled to a nil-rate band (NRB) – that is, every individual is entitled to leave an amount of their estate up to the value of the nil-rate threshold to a non-exempt beneficiary without incurring Inheritance Tax. If a widow or widower of the deceased spouse has not used their entire NRB, the NRB applicable at the time of death can be increased by the percentage of the NRB unused on the death of the deceased spouse, provided the executors make the necessary elections within two years of your death.

To calculate the total amount of Inheritance Tax payable on a person's death, gifts made during their lifetime that are not exempt transfers must also be taken into account. Where the total amount of non-exempt gifts made within seven years of death – plus the value of the element of the estate left to non-exempt beneficiaries – exceeds the nil-rate threshold, Inheritance Tax is payable at 40% on the amount exceeding the threshold.

### Certain gifts made could qualify for taper relief

This percentage reduces to 36% if the estate qualifies for a reduced rate as a result of a charity bequest. In some circumstances, Inheritance

Tax can also become payable on the lifetime gifts themselves – although gifts made between three and seven years before death could qualify for taper relief, which reduces the amount of Inheritance Tax payable.

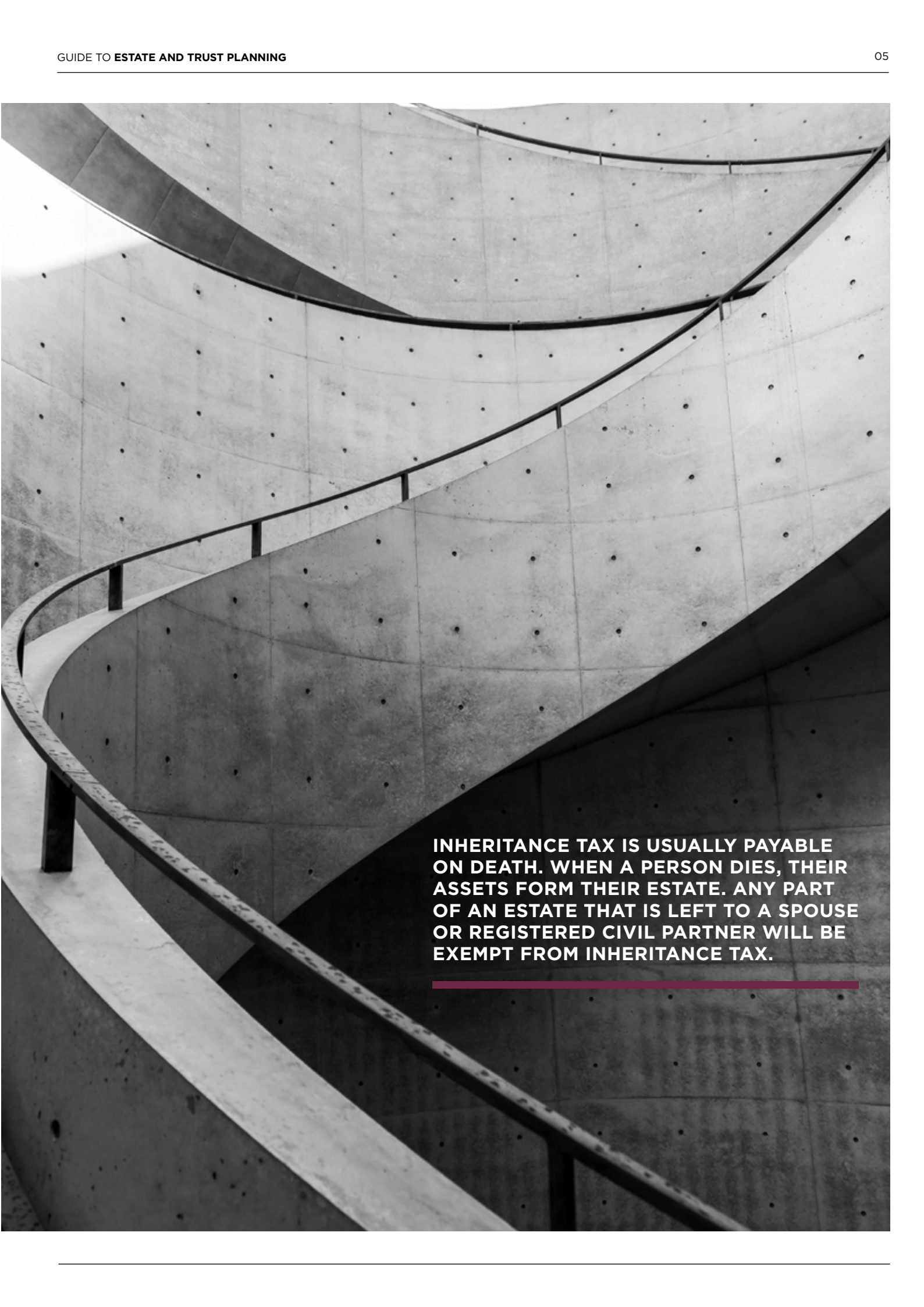
From 6 April 2017, an Inheritance Tax RNRB was introduced in addition to the standard NRB. It's worth up to £150,000 for the 2019/20 tax year and increases to £175,000 for 2020/21. In order to qualify, you must own a property or a share in a property, which you have lived in at some stage and which you leave to your direct descendants (including children, grandchildren or stepchildren). For estates over £2 million, the RNRB is reduced at the rate of £1 for every £2 over £2 million. In addition, it only applies on death and not on gifts or any other lifetime transfers.

### Property, land or certain types of shares where IHT is due

It might also apply if the person sold their home or downsized from 8 July 2015 onwards. If spouses or registered civil partners don't use the RNRB on first death – even if this was before 6 April 2017 – there are transferability options on the second death. Executors or legal personal representatives typically have six months from the end of the month of death to pay any Inheritance Tax due. The estate can't pay out to the beneficiaries until this is done. The exception is any property, land or certain types of shares where the Inheritance Tax can be paid in instalments. Beneficiaries then have up to ten years to pay the tax owing, plus interest. ■

Source data:

[1] [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/730110/Table\\_12\\_1.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730110/Table_12_1.pdf)



**INHERITANCE TAX IS USUALLY PAYABLE ON DEATH. WHEN A PERSON DIES, THEIR ASSETS FORM THEIR ESTATE. ANY PART OF AN ESTATE THAT IS LEFT TO A SPOUSE OR REGISTERED CIVIL PARTNER WILL BE EXEMPT FROM INHERITANCE TAX.**

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# RESIDENCE NIL-RATE BAND

## How to apply the additional threshold

The Inheritance Tax residence nil-rate band (RNRB) came into effect on 6 April 2017. The RNRB provides an additional nil-rate band where an individual dies on or after 6 April 2017, owning a residence which they leave to direct descendants. During the 2019/20 tax year, the maximum RNRB available is £150,000. This rises to £175,000 in 2020/21, after which it will be indexed in line with the Consumer Prices Index.

The RNRB is set against the taxable value of the deceased's estate – not just the value of the property. Unlike the existing nil-rate band (NRB), it doesn't apply to transfers made during an individual's lifetime. For married couples and registered civil partners, any unused RNRB can be claimed by the surviving spouse's or registered civil partner's personal representatives to provide a reduction against their taxable estate.

### Special provisions apply where an individual has downsized

Where an estate is valued at more than £2 million, the RNRB will be progressively reduced by £1 for every £2 that the value of the estate exceeds the threshold. Special provisions apply where an individual has downsized to a lower value property or no longer owns a home when they die.

For these purposes, direct descendants are lineal descendants of the deceased – children, grandchildren and any remoter descendants together with their spouses or registered civil partners, including their widow, widower or surviving registered civil partner – a step, adopted or fostered child of the deceased, or a child to which the deceased was appointed as a guardian or a special guardian when the child was under 18.

### Any unused allowance can't be offset against other assets

The amount of RNRB available to be set against an estate will be the lower of the value of the home (or share) that's inherited by direct descendants and the maximum RNRB available when the individual died. Where the value of the property is lower than the maximum RNRB, the unused allowance can't be offset against other assets in the estate but can be transferred to a deceased spouse or registered civil partner's estate when they die, having left a residence to their direct descendants.

A surviving spouse or registered civil partner's personal representatives may claim any unused RNRB available from the estate of the first spouse or registered civil partner to die. This is subject to the second death

occurring on or after 6 April 2017 and the survivor passing a residence they own to their direct descendants. This can be any home they've lived in – there's no requirement for them to have owned or inherited it from their late spouse or civil partner.

### **RNRB is represented as a percentage of the maximum RNRB available**

The facility to claim unused RNRB applies regardless of when the first death occurred – if this was before RNRB was introduced, then 100% of a deemed RNRB of £100,000 can be claimed, unless the value of the first spouse or registered civil partner's estate exceeded £2 million, and tapering of the RNRB applies.

The unused RNRB is represented as a percentage of the maximum RNRB that was available on first death – meaning the amount available against the survivor's estate will benefit from subsequent increases in the RNRB. The transferable RNRB is capped at 100% – claims for unused RNRB from more than one spouse or registered civil partner are possible but in total can't be more than 100% of the maximum available amount.

### **Personal representatives can elect which property should qualify**

Under the RNRB provisions, direct descendants inherit a home that's left to them which becomes part of their estate. This could be under the provisions of the deceased's Will, under the rules of intestacy or by some other legal means as a result of the person's death – for example,

under a deed of variation. The RNRB applies to a property that's included in the deceased's estate and one in which they have lived in.

It needn't be their main residence, and no minimum occupation period applies. If an individual has owned more than one home, their personal representatives can elect which one should qualify for RNRB. The open market value of the property will be used less any liabilities secured against it, such as a mortgage. Where only a share of the home is left to direct descendants, the value and RNRB is apportioned.

### **Depending on the type of trust will determine whether the home is included**

A home may already be held in trust when an individual dies, or it may be transferred into trust upon their death. Whether the RNRB will be available in these circumstances will depend on the type of trust, as this will determine whether the home is included in the deceased's estate, and also whether direct descendants are treated as inheriting the property.

This is a complex area, and HM Revenue & Customs provides only general guidance, with a recommendation that a professional specialist should be consulted to discuss whether the RNRB applies to your particular situation.

### **Limited by the value of other assets left to direct descendants**

Estates that don't qualify for the full amount of RNRB may be entitled to an additional

amount of RNRB – a downsizing addition if the following conditions apply: the deceased disposed of a former home and either downsized to a less valuable home or ceased to own a home on or after 8 July 2015; the former home would have qualified for the RNRB if it had been held until death; and at least some of the estate is inherited by direct descendants.

The downsizing addition will generally represent the amount of 'lost' RNRB that could have applied if the individual had died when they owned the more valuable property. However, it won't apply where the value of the replacement home they own when they die is worth more than the maximum available RNRB. It's also limited by the value of other assets left to direct descendants.

### **Planning techniques are available to address a potential Inheritance Tax liability**

The downsizing addition can also apply where an individual hasn't replaced a home they previously disposed of – provided they leave other assets to direct descendants on their death. The deceased's personal representatives must make a claim for the downsizing addition within two years of the end of the month in which the individual died.

Different planning techniques are available to address a potential Inheritance Tax liability, and these can be incorporated into the financial arrangements of any individual whose estate is likely to exceed the threshold. ■

# MAKING FINANCIAL GIFTS

## Passing on your assets effectively whilst you're alive

Some people like to transfer some of their assets whilst they are alive – these are known as ‘lifetime transfers’. Whilst we are all free to do this whenever we want, it is important to be aware of the potential implications of such gifts with regard to Inheritance Tax. The two main types are potentially exempt transfers (PETs) and chargeable lifetime transfers (CLTs).

PETs are lifetime gifts made directly to other individuals, which includes gifts to bare trusts. A similar lifetime gift made to most other types of trust is a CLT. These rules apply to non-exempt transfers; gifts to a spouse are exempt, so are not subject to Inheritance Tax.

### Survival for at least seven years ensures full exemption from Inheritance Tax

Where a PET fails to satisfy the conditions to remain exempt – because the person who made the gift died within seven years – its value will form part of their estate. Survival for at least seven years, on the other hand, ensures full exemption from Inheritance Tax. A CLT is not conditionally exempt from Inheritance Tax. If it is covered by the nil-rate band (NRB) and the transferor survives at least seven years, it will not attract a tax liability, but it could still impact on other chargeable transfers.

A CLT that exceeds the available NRB when it is made results in a lifetime Inheritance Tax liability. Failure to survive for seven years results in the value of the CLT being included in the estate. If the CLT is subject to further Inheritance Tax on death, a credit is given for any lifetime Inheritance Tax paid.

### Transferred amounts less any Inheritance Tax exemptions is ‘notionally’ returned to the estate

Following a gift to an individual or a bare trust (a basic trust in which the beneficiary

has the absolute right to the capital and assets within the trust, as well as the income generated from these assets), there are two potential outcomes: survival for seven years or more, and death before then. The former results in the PET becoming fully exempt, and is no longer included in the Inheritance Tax liability assessment. In other cases, the amount transferred less any Inheritance Tax liability exemptions is ‘notionally’ returned to the estate.

Anyone utilising PETs for tax mitigation purposes, therefore, should consider the consequences of failing to survive for seven years. Such an assessment will involve balancing the likelihood of surviving for seven years against the tax consequences of death within that period.

### Determining whether taper relief can reduce the Inheritance Tax liability bill for the recipient of the PET

Failure to survive for the required seven-year period results in the full value of the PET transfer being notionally included within the estate – survival beyond then means nothing is included. It is taper relief which reduces the Inheritance Tax liability (not the value transferred) on the failed PET after its full value has been returned to the estate. The value of the PET itself is never tapered. The recipient of the failed PET is liable for the Inheritance Tax due on the gift itself and benefits from any taper relief. The Inheritance Tax due on the PET is deducted from the total Inheritance Tax bill, and the estate is liable for the balance.

Lifetime transfers are dealt with in chronological order upon death; earlier transfers are dealt with in priority to later ones, all of which are considered before the death estate. If a lifetime transfer is subject to Inheritance Tax because the NRB is not sufficient to cover it, the

next step is to determine whether taper relief can reduce the tax bill for the recipient of the PET.

### Sliding scale dependant on the passage of time from giving the gift to death

The amount of Inheritance Tax payable is not static over the seven years prior to death. Rather, it is reduced according to a sliding scale dependant on the passage of time from the giving of the gift to the individual's death.

No relief is available if death is within three years of the lifetime transfer. Survival for between three and seven years and taper relief at the following rates is available.

### Tax treatment of CLTs has some similarities to PETs

The tax treatment of CLTs has some similarities to PETs but with a number of differences. When a CLT is made, it is assessed against the donor's NRB. If there is an excess above the NRB, it is taxed at 20% if the recipient pays the tax or 25% if the donor pays the tax.

The same seven-year rule that applies to PETs then applies. Failure to survive to the end of this period results in Inheritance Tax becoming due on the CLT, payable by the recipient. The tax rate is the usual 40% on amounts in excess of the NRB, but taper relief can reduce the Inheritance Tax bill, and credit is given for any lifetime tax paid.

### Potentially increasing the Inheritance Tax bill for those that fail to survive for long enough

The seven-year rules that apply to PETs and CLTs potentially increase the Inheritance Tax bill for those that fail to survive for long enough after making a gift of capital. If Inheritance Tax is due in respect of the failed PET in and of itself, it's payable by the recipient. If Inheritance Tax is due in respect of



a CLT on death, its payable by the trustees. Any remaining Inheritance Tax is payable by the estate.

The potential Inheritance Tax difference can be calculated and covered by a level or decreasing term assurance policy written in an appropriate trust for the benefit of whoever will be affected by the Inheritance Tax liability and in order to keep the proceeds out of the settlor's estate. Whatever is more suitable, and the level of cover required, will depend on the circumstances.

**Covering the gradually declining tax liability that may fall on the gift recipient**

If the PET or CLT is within the NRB, taper relief will not apply. However, this does not mean that no cover is required. Death within seven years will result in the full value of the transfer being included in the estate, with the knock-on effect that other estate assets up to the value of the PET or CLT could suffer tax that they would have avoided had the donor survived for seven years. A seven-year level term policy may be the most appropriate type of policy in this situation.

Any additional Inheritance Tax is payable by the estate, so a trust for the benefit of the estate legatees will normally be required. Where the PET or CLT will exceed the NRB, the tapered Inheritance Tax liability that will

result from death after the PET or CLT was made can be estimated, and a special form of 'gift inter vivos' (a life assurance policy that provides a lump sum to cover the potential Inheritance Tax liability that could arise if the donor of a gift dies within seven years of making the gift ) is put in place (written in an appropriate trust) to cover the gradually declining tax liability that may fall on the recipient of the gift.

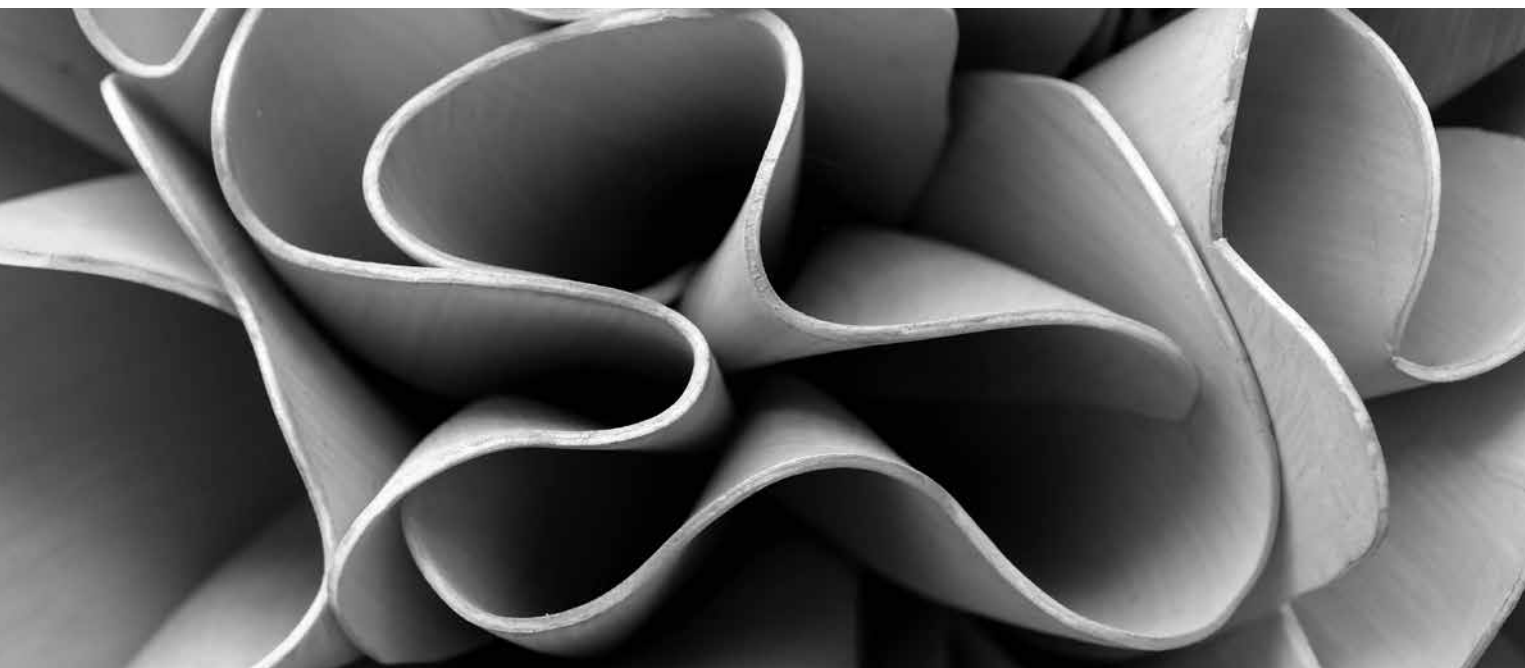
**Level term policy written in an appropriate trust for estate legatees might be required**

Trustees might want to use a life of another policy to cover a potential Inheritance Tax liability. Taper relief only applies to the tax – the full value of the gift is included within the estate, which in this situation will use up the NRB that becomes available to the rest of the estate after seven years.

Therefore, the estate itself will also be liable to additional Inheritance Tax on death within seven years, and depending on the circumstances, a separate level term policy written in an appropriate trust for the estate legatees might also be required. Where an Inheritance Tax liability will continue after any PETs or CLTs have dropped out of account, whole of life cover written in an appropriate trust can also be considered. ■

Timing of gift	Relief on the 40% IHT
Less than 3 years before death	No relief – full 40% IHT payable
3–4 years	20%
4–5 years	40%
5–6 years	60%
6–7 years	80%
7 years and above	Not liable to IHT

**TRUSTEES MIGHT WANT TO USE A LIFE OF ANOTHER POLICY TO COVER A POTENTIAL INHERITANCE TAX LIABILITY. TAPER RELIEF ONLY APPLIES TO THE TAX – THE FULL VALUE OF THE GIFT IS INCLUDED WITHIN THE ESTATE, WHICH IN THIS SITUATION WILL USE UP THE NRB THAT BECOMES AVAILABLE TO THE REST OF THE ESTATE AFTER SEVEN YEARS.**





# MAKING A WILL

Secure more of your wealth for your loved ones

If a person wants to be sure their wishes will be met after they die, then it's important to have a Will. A Will is the only way to make sure savings and possessions forming an estate go to the people and causes that the person cares about. Unmarried partners, including same-sex couples who don't have a registered civil partnership, have no right to inherit if there is no Will. Another of the main reasons for drawing up a Will is to mitigate a potential Inheritance Tax liability.

Where a person dies without making a Will, the distribution of their estate becomes subject to the statutory rules of intestacy (where the person resides also determines how their property is distributed upon their death, which includes any bank accounts, securities, property and other assets you own at the time of death), which can lead to some unexpected and unfortunate consequences.

The beneficiaries of the deceased person that they want to benefit from their estate may be disinherited or left with a substantially

smaller proportion of the estate than intended. Making a Will is the only way for an individual to indicate whom they want to benefit from their estate. Failure to take action could compromise the long-term financial security of the family.

## What are the implications of dying without making a Will?

- Assets people expected to pass entirely to their spouse or registered civil partner may have to be shared with children
- An unmarried partner doesn't automatically inherit anything and may need to go to court to claim for a share of the deceased's assets
- A spouse or registered civil partner from whom a person is separated, but not divorced, still has rights to inherit from them
- Friends, charities and other organisations the person may have wanted to support will not receive anything
- If the deceased person has no close family, more distant relatives may inherit

- If the deceased person has no surviving relatives at all, their property and possessions may go to the Crown

## Unmarried partners have no right to inherit under the intestacy rules

Without a Will, relatives who inherit under the law will usually be expected to be the executors (someone named in a Will, or appointed by the court, who is given the legal responsibility to take care of a deceased person's remaining financial obligations) of your estate. They might not be the best people to perform this role. Making a Will lets the person decide the people who should take on this task.

Where a Will has been made, it's important to regularly review it to take account of changing circumstances. Unmarried partners have no right to inherit under the intestacy rules, and neither do stepchildren who haven't been legally adopted by their step-parent. Given today's complicated and changing family arrangements, Wills are often the only



means of ensuring legacies for children of earlier relationships.

### **Simplifying the distribution of estates for a surviving spouse or registered civil partner**

Changes to the intestacy rules covering England and Wales which became effective on 1 October 2014 are aimed at simplifying the distribution of an estate and could mean a surviving spouse or registered civil partner receives a larger inheritance than under the previous rules. Making a Will is also the cornerstone for Inheritance Tax and estate planning.

#### **Before making a Will, a person needs to consider:**

- Who will carry out the instructions in the Will (the executor/s)
- Nominate guardians to look after children if the person dies before they are aged 18
- Make sure people the person cares about are provided for
- What gifts are to be left for family and friends, and decide how much they should receive
- What provision should be taken to minimise any Inheritance Tax that might be due on the person's death

#### **Preparing a Will**

Before preparing a Will, a person needs to think about what possessions they are likely to have when they die, including properties, money, investments and even animals. Before

an estate is distributed among beneficiaries, all debts and the funeral expenses must be paid. When a person has a joint bank account, the money passes automatically to the other account holder, and they can't leave it to someone else.

#### **Estate assets may include:**

- A home and any other properties owned
- Savings in bank and building society accounts
- Insurance, such as life assurance or an endowment policy
- Pension funds that include a lump sum payment on death
- National Savings, such as premium bonds
- Investments such as stocks and shares, investment trusts, Individual Savings Accounts
- Motor vehicles
- Jewellery, antiques and other personal belongings
- Furniture and household contents

#### **Liabilities may include:**

- Mortgage
- Credit card balance
- Bank overdraft
- Loans
- Equity release

#### **Jointly owned property and possessions**

Arranging to own property and other assets jointly can be a way of protecting a person's spouse or registered civil partner. For example, if

someone has a joint bank account, their partner will continue to have access to the money they need for day-to-day living without having to wait for their affairs to be sorted out.

#### **There are two ways that a person can own something jointly with someone else:**

##### **Tenants in common (called 'common owners' in Scotland)**

Each person has their own distinct shares of the asset, which do not have to be equal. They can say in their Will who will inherit their share.

##### **Joint tenants (called 'joint owners' in Scotland)**

Individuals jointly own the asset so, if they die, the remaining owner(s) automatically inherits their share. A person cannot use their Will to leave their share to someone else.

#### **Dying without a Will is not the only situation in which intestacy can occur**

It can sometimes happen even when there is a Will, for example, when the Will is not valid, or when it is valid but the beneficiaries die before the testator (the person making the Will). Intestacy can also arise when there is a valid Will but some of the testator's (person who has made a Will or given a legacy) assets were not disposed of by the Will. This is called a 'partial intestacy'. Intestacy therefore arises in all cases where a deceased person has failed to dispose of some or all of his or her assets by Will, hence the need to review a Will when events change. ■

# TRUSTS

## How to give away your wealth and keep some control

Trusts are not a one-size-fits-all solution, but they are incredibly useful for protecting and giving you control over your assets.

Appropriate trusts can be used for minimising or mitigating Inheritance Tax estate taxes, and they can offer other benefits as part of an integrated and coordinated approach to managing wealth.

A trust is a fiduciary arrangement that allows a third party or trustee to hold assets on behalf of a beneficiary or beneficiaries. Once the trust has been created, a person can use it to 'ring-fence' assets.

### Trusts terms:

**Settlor** – the person setting up the trust.

**Trustees** – the people tasked with looking after the trust and paying out its assets.

**Beneficiaries** – the people who benefit from the assets held in trust.

### Bare Trust

#### Simplest form of trust

They're also known as 'absolute' or 'fixed interest trusts', and there can be subtle differences. The settlor – the person creating the trust – makes a gift into the trust which is held for the benefit of a specified beneficiary. If the trust is for more than one beneficiary, each person's share of the trust fund must be specified. For lump sum investments, after allowing for any available annual exemptions, the balance of the gift is a potentially exempt transfer (PET) for Inheritance Tax purposes.

As long as the settlor survives for seven years from the date of the gift, it falls outside their estate. The trust fund falls into the beneficiary's Inheritance Tax estate from the date of the initial gift. With loan trusts, there isn't any initial gift – the trust is created with a loan instead. And with discounted gift plans, as long as the settlor is fully underwritten at the

outset, the value of the initial gift is reduced by the value of the settlor's retained rights.

#### Normal expenditure out of income exemption

When family protection policies are set up in bare trusts, regular premiums are usually exempt transfers for Inheritance Tax purposes. The normal expenditure out of income exemption often applies, as long as the cost of the premiums can be covered out of the settlor's excess income in the same tax year, without affecting their normal standard of living.

Where this isn't possible, the annual exemption often covers some or all of the premiums. Any premiums that are non-exempt transfers into the trust are PETs. Special valuation rules apply when existing life policies are assigned into family trusts. The transfer of value for Inheritance Tax purposes is treated as the greater of the open market value and the value of the premiums paid up to the date the policy is transferred into trust.

#### No ongoing IHT reporting requirements or further IHT implications

There's an adjustment to the premiums-paid calculation for unit-linked policies if the unit value has fallen since the premium was paid. The open market value is always used for term assurance policies that pay out only on death, even if the value of the premiums paid is greater.

With a bare trust, there are no ongoing Inheritance Tax reporting requirements and no further Inheritance Tax implications. With protection policies, this applies whether or not the policy can acquire a surrender value. Where the trust holds a lump sum investment, the tax on any income and gains usually falls on the beneficiaries. The most common exception is where a parent has made a gift

into trust for their minor child or stepchild, where parental settlement rules apply to the Income Tax treatment.

#### Trustees look after the trust property for the known beneficiaries

The trust administration is relatively straightforward even for lump sum investments. Where relevant, the trustees simply need to choose appropriate investments and review these regularly.

With a bare trust, the trustees look after the trust property for the known beneficiaries, who become absolutely entitled to it at age 18 (age 16 in Scotland). Once a gift is made or a protection trust set up, the beneficiaries can't be changed, and money can't be withheld from them beyond the age of entitlement. This aspect may make them inappropriate to many clients who'd prefer to retain a greater degree of control.

#### Securing the settlor's right to receive their fixed payments

With a loan trust, this means repaying any outstanding loan. With a discounted gift trust, it means securing the settlor's right to receive their fixed payments for the rest of their life. With protection policies in bare trusts, any policy proceeds that haven't been carved out for the life assured's benefit under a split trust must be paid to the trust beneficiary if they're an adult. Where the beneficiary is a minor, the trustees must use the trust fund for their benefit.

Difficulties can arise if it's discovered that a trust beneficiary has predeceased the life assured. In this case, the proceeds belong to the legatees of the deceased beneficiary's estate, which can leave the trustees with the task of tracing them. The fact that beneficiaries are absolutely entitled to the funds also means the trust offers no protection of the funds from third parties, for



example, in the event of a beneficiary's divorce or bankruptcy.

### Discretionary Trust

#### Settled or relevant property

With a discretionary trust, the settlor makes a gift into trust, and the trustees hold the trust fund for a wide class of potential beneficiaries. This is known as 'settled' or 'relevant' property. For lump sum investments, the initial gift is a chargeable lifetime transfer (CLT) for Inheritance Tax purposes. It's possible to use any available annual exemptions. If the total non-exempt amount gifted is greater than the settlor's available nil-rate band (NRB), there's an immediate Inheritance Tax charge at the 20% lifetime rate – or effectively 25% if the settlor pays the tax.

The settlor's available NRB is essentially the current NRB less any CLTs they've made in the previous seven years. So in many cases, where no other planning is in place, this will simply be the current NRB band, which is £325,000 up to 2020/21. The residence nil-rate band (RNRB) isn't available to trusts or any lifetime gifting.

#### Special valuation rules for existing policies assigned into trust

Again, there's no initial gift when setting up a loan trust, and the initial gift is usually discounted when setting up a discounted gift plan. Where a cash gift exceeds the available NRB, or an asset is gifted which exceeds 80%

of the NRB, the gift must be reported to HM Revenue & Customs (HMRC) on an IHT 100.

When family protection policies are set up in discretionary trusts, regular premiums are usually exempt transfers for Inheritance Tax purposes. Any premiums that are non-exempt transfers into the trust will be CLTs. Special valuation rules for existing policies assigned into trust apply.

#### Value of the trust fund will be the open market value of the policy

As well as the potential for an immediate Inheritance Tax charge on the creation of the trust, there are two other points at which Inheritance Tax charges will apply. These are known as 'periodic charges' and 'exit charges'. Periodic charges apply at every ten-yearly anniversary of the creation of the trust. Exit charges may apply when funds leave the trust. The calculations can be complex but are a maximum of 6% of the value of the trust fund. In many cases, they'll be considerably less than this – in simple terms, the 6% is applied on the value in excess of the trust's available NRB.

However, even where there is little or, in some circumstances, no tax to pay, the trustees still need to submit an IHT 100 to HMRC. Under current legislation, HMRC will do any calculations required on request. For a gift trust holding an investment bond, the value of the trust fund will be the open market value of the policy – normally its surrender value. For a loan trust, the value of the trust fund is the

bond value less the amount of any outstanding loan still repayable on demand to the settlor.

#### Retained rights can be recalculated as if the settlor was ten years older

For discounted gift schemes, the value of the trust fund normally excludes the value of the settlor's retained rights – and in most cases, HMRC are willing to accept pragmatic valuations. For example, where the settlor was fully underwritten at the outset, and is not terminally ill at a ten-yearly anniversary, any initial discount taking account of the value of the settlor's retained rights can be recalculated as if the settlor was ten years older than at the outset.

If a protection policy with no surrender value is held in a discretionary trust, there will usually be no periodic charges at each ten-yearly anniversary. However, a charge could apply if a claim has been paid out and the funds are still in the trust. In addition, if a life assured is in severe ill health around a ten-yearly anniversary, the policy could have an open market value close to the claim value. If so, this has to be taken into account when calculating any periodic charge.

#### Investing in life assurance investment bonds could avoid complications

Where discretionary trusts hold investments, the tax on income and gains can also be complex, particularly where income-producing assets are used. Where

appropriate, some of these complications could be avoided by an individual investing in life assurance investment bonds, as these are non-income-producing assets and allow trustees to control the tax points on any chargeable event gains.

Bare trusts give the trustees discretion over who benefits and when. The trust deed will set out all the potential beneficiaries, and these usually include a wide range of family members, plus any other individuals the settlor has chosen. This gives the trustees a high degree of control over the funds. The settlor is often also a trustee to help ensure their wishes are considered during their lifetime.

### **Powers depend on the trust provisions, but usually include some degree of veto**

In addition, the settlor can provide the trustees with a letter of wishes identifying who they'd like to benefit and when. The letter isn't legally binding but can give the trustees clear guidance, which can be amended if circumstances change. The settlor might also be able to appoint a protector, whose powers depend on the trust provisions, but usually include some degree of veto.

Family disputes are not uncommon, and many feel they'd prefer to pass funds down the generations when the beneficiaries are slightly older than age 18. A discretionary trust also provides greater protection from third parties, for example, in the event of a potential beneficiary's divorce or bankruptcy, although in recent years this has come under greater challenge.

### **Flexible Trusts with Default Beneficiaries**

#### **At least one named default beneficiary**

These are similar to a fully discretionary trust, except that alongside a wide class of potential beneficiaries, there must be at least one named default beneficiary. Flexible trusts with default beneficiaries set up in the settlor's lifetime from 22 March 2006 onwards are treated in exactly the same way as discretionary trusts for Inheritance Tax purposes. Different Inheritance Tax rules apply to older trusts set up by 21 March 2006

that meet specified criteria and some Will trusts, but further discussion is outside the scope of this guide.

All post-21 March 2006 lifetime trusts of this type are taxed in the same way as fully discretionary trusts for Inheritance Tax and Capital Gains Tax purposes. For Income Tax purposes, any income is payable to and taxable on the default beneficiary. However, this doesn't apply to even regular withdrawals from investment bonds, which are non-income-producing assets. Bond withdrawals are capital payments, even though chargeable event gains are subject to Income Tax. As with bare trusts, the parental settlement rules apply if parents make gifts into trust for their minor children or stepchildren.

#### **Trustees still have discretion over which of the default and potential beneficiaries**

When it comes to beneficiaries and control, there are no significant differences between fully discretionary trusts and this type of trust. There will be a wide range of potential beneficiaries. In addition, there will be one or more named default beneficiaries. Naming a default beneficiary is no more binding on the trustees than providing a letter of wishes setting out who the settlor would like to benefit from the trust fund.

The trustees still have discretion over which of the default and potential beneficiaries actually benefits and when. Some older flexible trusts limit the trustees' discretionary powers to within two years of the settlor's death, but this is no longer a common feature of this type of trust.

### **Split Trusts**

#### **Family protection policies**

These trusts are often used for family protection policies with critical illness or terminal illness benefits in addition to life cover. Split trusts can be bare trusts, discretionary trusts or flexible trusts with default beneficiaries. When using this type of trust, the settlor/life assured carves out the right to receive any critical illness or terminal illness benefit from the outset, so there aren't any gift with reservation issues.

In the event of a claim, the provider normally pays any policy benefits to the trustees, who must then pay any carved-out entitlements to the life assured and use any other proceeds to benefit the trust beneficiaries.


If terminal illness benefit is carved out, this could result in the payment ending up back in the life assured's Inheritance Tax estate before their death. A carved-out terminal illness benefit is treated as falling into their Inheritance Tax estate once they meet the conditions for payment.

#### **Trade-off between simplicity and the degree of control**

Essentially, these types of trust offer a trade-off between simplicity and the degree of control available to the settlor and their chosen trustees. For most, control is the more significant aspect, especially where any lump sum gifts can stay within a settlor's available Inheritance Tax NRB. Keeping gifts within the NRB and using non-income-producing assets such as investment bonds can allow a settlor to create a trust with maximum control, no initial Inheritance Tax charge and limited ongoing administrative or tax burdens.

In other cases (for example, grandparents funding for school fees), the bare trust may offer advantages. This is because tax will fall on the grandchildren, and most of the funds may be used up by the age of 18. The considerations are slightly different when considering family protection policies, where the settlor will often be dead when policy proceeds are paid out to beneficiaries.

A bare trust ensures the policy proceeds will be payable to one or more individuals, with no uncertainty about whether the trustees will follow the deceased's wishes. However, this can also mean that the only solution to a change in circumstances, such as divorce from the intended beneficiary, is to start again with a new policy. Settlors are often excluded from benefiting under discretionary and flexible trusts. Where this applies, this type of trust isn't suitable for use with joint life, first death protection policies if the primary purpose is for the proceeds to go to the survivor. ■



**WHEN IT COMES TO BENEFICIARIES AND CONTROL, THERE ARE NO SIGNIFICANT DIFFERENCES BETWEEN FULLY DISCRETIONARY TRUSTS AND THIS TYPE OF TRUST. THERE WILL BE A WIDE RANGE OF POTENTIAL BENEFICIARIES. IN ADDITION, THERE WILL BE ONE OR MORE NAMED DEFAULT BENEFICIARIES.**

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# LASTING POWER OF ATTORNEY

Allowing someone to make decisions for you, or acting on your behalf

A lasting power of attorney (LPA) enables individuals to take control of decisions that affect them, even in the event that they can't make those decisions for themselves. Without them, loved ones could be forced to endure a costly and lengthy process to obtain authority to act for an individual who has lost mental capacity.

An individual can create an LPA covering their property and financial affairs and/or a separate LPA for their health and welfare. It's possible to appoint the same or different attorneys in respect of each LPA, and both versions contain safeguards against possible misuse.

## Individual loses the capacity to manage their own financial affairs

It's not hard to imagine the difficulties that could arise where an individual loses the capacity to manage their own financial affairs, and without access to their bank account, pension and investments, family and friends could face an additional burden at an already stressful time.

LPAs and their equivalents in Scotland and Northern Ireland should be a consideration in all financial planning discussions and should be

a key part of any protection insurance planning exercise. Planning for mental or physical incapacity should sit alongside any planning for ill health or unexpected death.

Commencing from 1 October 2007, it is no longer possible to establish a new enduring power of attorney (EPA) in England and Wales, but those already in existence remain valid. The attorney would have been given authority to act in respect of the donor's property and financial affairs as soon as the EPA was created. At the point the attorney believes the donor is losing their mental capacity, they would apply to the Office of the Public Guardian (OPG) to register the EPA to obtain continuing authority to act.

## Giving authority to a chosen attorney in respect of financial and property matters

Similar provisions to LPAs apply in Scotland. The 'granter' (donor) gives authority to their chosen attorney in respect of their financial and property matters ('continuing power of attorney') and/or personal welfare ('welfare power of attorney'). The latter only takes effect upon the granter's mental incapacity. Applications for powers of attorney must

be accompanied by a certificate confirming the granter understands what they are doing, completed by a solicitor or medical practitioner only.

LPAs don't apply to Northern Ireland. Instead, those seeking to make a power of appointment over their financial affairs would complete an EPA. This would be effective as soon as it was completed and would only need to be registered in the event of the donor's loss of mental capacity with the High Court (Office of Care and Protection).

## Where the donor has lost mental capacity in the opinion of a medical practitioner

It's usual for the attorney to be able to make decisions about the donor's financial affairs as soon as the LPA is registered. Alternatively, the donor can state it will only apply where the donor has lost mental capacity in the opinion of a medical practitioner.

An LPA for health and welfare covers decisions relating to an individual's day-to-day well-being. The attorney may only act once the donor lacks mental capacity to make the decision in question. The types of decisions



## **A LASTING POWER OF ATTORNEY (LPA) ENABLES INDIVIDUALS TO TAKE CONTROL OF DECISIONS THAT AFFECT THEM, EVEN IN THE EVENT THAT THEY CAN'T MAKE THOSE DECISIONS FOR THEMSELVES. WITHOUT THEM, LOVED ONES COULD BE FORCED TO ENDURE A COSTLY AND LENGTHY PROCESS TO OBTAIN AUTHORITY TO ACT FOR AN INDIVIDUAL WHO HAS LOST MENTAL CAPACITY.**

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covered might include where the donor lives and decisions concerning medical treatment.

### **Option to provide authority to give or refuse consent for life-sustaining treatment**

The donor also has the option to provide their attorney with the authority to give or refuse consent for life-sustaining treatment. Where no authority is given, treatment will be provided to the donor in their best interests. Unlike the registration process for an EPA, registration for both types of LPA takes place upfront and is not dependent on the donor's mental capacity. An attorney must act in the best interest of the donor, following any instructions and considering the donor's preferences when making decisions.

### **They must follow the Mental Capacity Act Code of Practice which establishes five key principles:**

1. A person must be assumed to have capacity unless it's established he or she lacks capacity.
2. A person isn't to be treated as unable to make a decision unless all practicable steps to help him or her do so have been taken without success.
3. A person isn't to be treated as unable to make a decision merely because he or she makes an unwise decision.
4. An act done, or decision made, under the Act for or on behalf of a person who lacks capacity must be done, or made, in his or her best interests.
5. Before the act is done, or the decision is made, regard must be had to whether the purpose for which it's needed can be as effectively achieved in a way that is less restrictive of the person's rights and freedom of action.

### **Trust corporation can be an attorney for a property and financial affairs LPA**

A donor with mild dementia might be provided with the means to purchase items for daily living, but otherwise their financial matters are undertaken by their attorney. The code of practice applies a number of legally binding duties upon

attorneys, including the requirement to keep the donor's money and property separate from their own or anyone else's.

Anyone aged 18 or over who has mental capacity and isn't bankrupt may act as an attorney. A trust corporation can be an attorney for a property and financial affairs LPA. In practice, attorneys will be spouses, family members or friends, or otherwise professional contacts such as solicitors.

### **Relating to things an attorney should or shouldn't do when making decisions**

Where joint attorneys are being appointed, the donor will state whether they act jointly (the attorneys must make all decisions together), or jointly and severally (the attorneys may make joint decisions or separately), or jointly for some decisions (for example, the sale of the donor's property) and jointly and severally in respect of all other decisions. An optional but useful feature of the LPA is the ability to appoint a replacement attorney in the event the original attorney is no longer able to act.

The donor can leave instructions and preferences, but if they don't, their attorney will be free to make any decisions they feel are correct. Instructions relate to things the attorney should or shouldn't do when making decisions – not selling the donor's home, unless a doctor states the donor can no longer live independently, or a particular dietary requirement would be examples.

### **Beliefs and values an attorney has to consider when acting on the donor's behalf**

Preferences relate to the donor's wishes, beliefs and values they would like their attorney to consider when acting on their behalf. Examples might be ethical investing or living within close proximity of a relative.

The following apply to both forms of LPA. A 'certificate provider' must complete a section in the LPA form stating that as far as they are aware, the donor has understood the purpose

and scope of the LPA. A certificate provider will be an individual aged 18 or over and either someone who has known the donor personally well for at least two years, or someone chosen by the donor on account of their professional skills and expertise (for example, a GP or solicitor).

### **Allowing for any concerns or objections to be raised before the LPA is registered**

There are restrictions on who may act as a certificate provider – these include attorneys, replacement attorneys, family members and business associates of the donor. A further safeguard is the option for the donor to choose up to five people to be notified when an application for the LPA to be registered is being made.

This allows any concerns or objections to be raised before the LPA is registered, which must be done within five weeks from the date on which notice is given. The requirement to obtain a second certificate provider where the donor doesn't include anyone to be notified has now been removed as part of the Office of the Public Guardian (OPG) review of LPAs.

### **Strict limits on the type of gifts attorneys can make on the donor's behalf**

A person making an LPA can have help completing it, but they must have mental capacity when they fill in the forms. Otherwise, those seeking to make decisions on their behalf will need to apply to the Court of Protection for a deputyship order. This can be expensive and time-consuming and may require the deputy to submit annual reports detailing the decisions they have made.

There are strict limits on the type of gifts attorneys can make on the donor's behalf. Gifts may be made on 'customary occasions,' for example, birthdays, marriages and religious holidays, or to any charity to which the donor was accustomed to donating. Gifts falling outside of these criteria would need to be approved by the Court of Protection. An example would be a gift intended to reduce the donor's Inheritance Tax liability. ■

# WEALTH PRESERVATION

## The 6 things you need to consider to help preserve your wealth

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. According to a YouGov survey, almost 60% of all UK adults do not have a Will. This is mainly due to apathy but also a result of the fact that many people feel uncomfortable talking about issues surrounding death.

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 that, if appropriate, usually involve parents (settlers) 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 settlers, the investment is paid out according to the settlers' wishes. In most cases, this will be to children or grandchildren.

The most widely used trust is a discretionary trust and can be set up in a way that the settlers (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 settlers via the beneficiaries.


### 5. The income over expenditure rule

As well as 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 straightaway without the need for the executors to borrow. ■



**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.**

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# GLOSSARY

## Estate and Trust Planning technical terms explained

### Administrator

The Administrator is the person assigned to handle the Estate of a deceased person who does not have a Will, because no Executor(s) have been appointed. They will mainly handle financial aspects of their life, such as ensuring bills are paid, closing credit card accounts, utility and bank accounts, and distributing gifts.

### Asset

These are items of value you own, such as a savings account, fine jewellery, vehicle, condominium or house. They are separate from debts and must be free of liens that are held until a loan has been paid off.

### Beneficiary/Beneficiaries

One person or a group of people who will receive money, property or other items designated in a Will. These may involve friends, family, colleagues, an organisation or a charitable association.

### Capital

Capital is in reference to the current value of the assets. It does not pertain to any future income, such as interest or income that may be earned from them.

### Deed

A deed differs from a Will in that it transfers an interest in property or land to another person. It is also a legal document that must be legally witnessed.

### Deed of Gift

This occurs as a gift that is transferred from one person to another. It can involve property, a share of the property, land, or other buildings. There is no recompense involved.

### Donor

The donor is the person who requires the services of the lasting power of attorney (LPA) or enduring power of attorney (EPA). They are considered the owner or donor and are authorising the other to work on their behalf.

### Estate

Your Estate is the total value of your assets when you die. It can involve fine art and jewellery, property, buildings, and financial assets. The total

amount is minus the amount of any loans, debts or liabilities that you may have.

### Executor

This is the person or people who you will appoint in your Will to administer your estate upon your death. They will be the ones who deal with your financial affairs and be responsible for disposing of your assets after they have been validated by the Probate court.

### Family Trust

A person with a family can create a family trust in advance that will not necessitate any need for formal administration after death. It may also include generation skipping or protection measures. There are tax benefits that may be of benefit to setting up a family trust in advance.

### Grant of Probate

The Court will give a Grant of Probate after a Will has been filed with the Probate Registry or Sub-Registry. The Executor(s) can then dispose of the assets and property of the deceased.

### Guardian

This is a person that can be designated by a Testator so that children or their dependents are properly cared for in the event of their death. The Guardian will have all parental responsibilities for these children.

### Inheritance Tax

Inheritance Tax is a tax that must be paid on an Estate before it passes on to the beneficiaries. If the Estate is valued at under £325,000, then no tax is due. There are ways of reducing the potential Inheritance Tax bill through things such as charitable donations and legacy gifts.

### Intestacy

This is when a person has died without having written a Will. To distribute their Estate or assets, certain laws will have to be followed. An administrator will also need to be assigned.

### Intestacy (Partial)

This occurs when a person has written a Will but it has failed to cover all aspects of their Estate. This may occur when they have purchased real Estate since writing the Will, or have had children

since then. It may also occur if there is no Executor appointed.

### Intestacy (Rules of)

If a person passes away without a Will, there are rules that must be followed, particularly if the person has left assets or an Estate behind. The rules may pertain to what level of relationship the survivors had to that person.

### Irrevocable

This is a process where the Will cannot be changed or cancelled. The Will is final. This is so that beneficiaries or other people cannot attempt to make changes when they may be unhappy after the reading of the Will.

### Joint Tenancy

This is when more than two people own a single property. Even if one of the people dies in the joint tenancy, the other person will automatically inherit their portion. Even if that person has designated another owner of the property in their own Will, the original joint tenancy agreement will hold.

### Lasting Power of Attorney (LPA) (Property and Financial Affairs)

An LPA can be assigned through a document by a person or their family in the event that the person can no longer manage their affairs. It may be because of mental incapacitation, illness or accident, and is permanent. A friend, relative or lawyer may be assigned.

### Lasting Power of Attorney (LPA) (Health & Welfare)

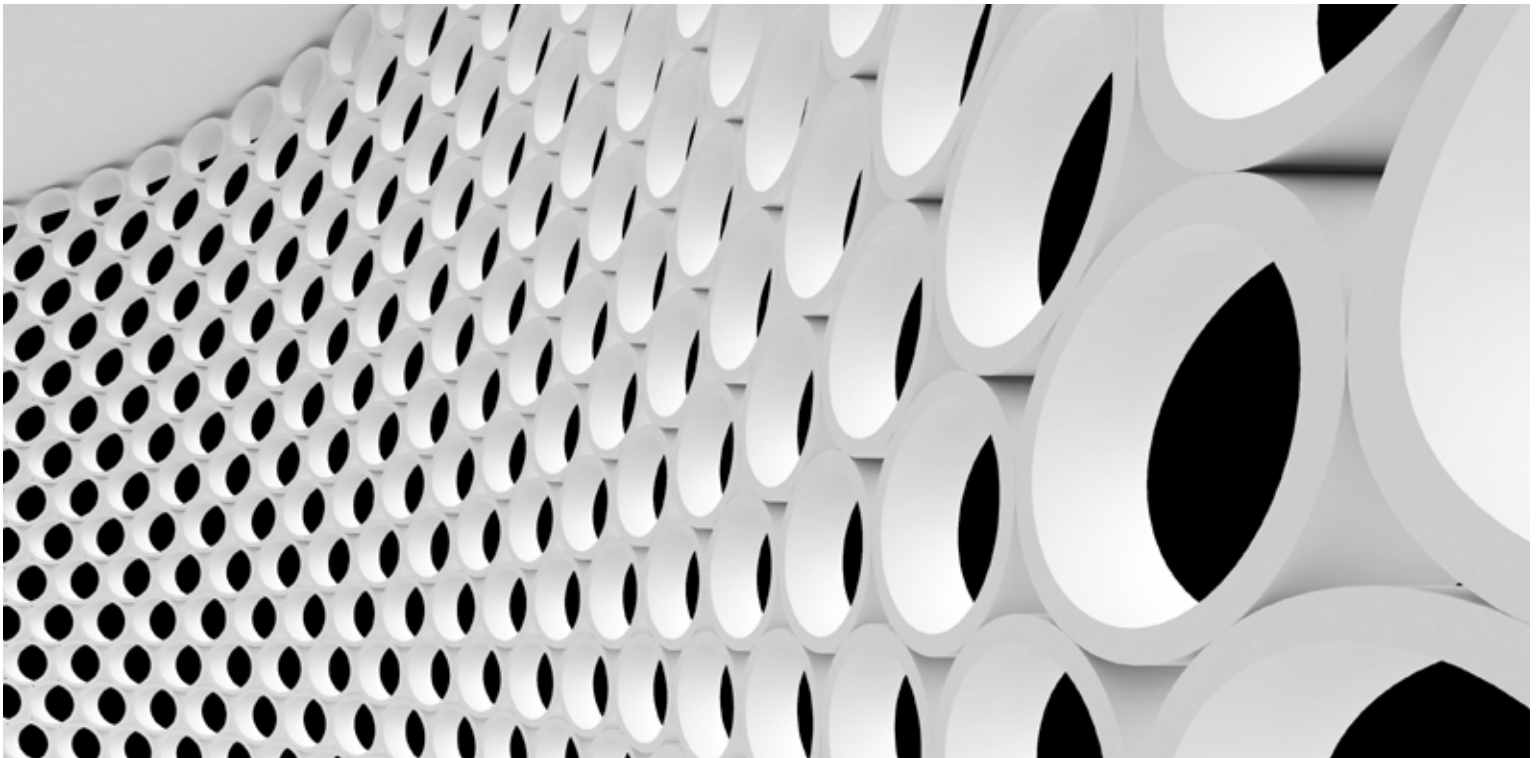
This is similar to the above, but may also be designated when a person can no longer make healthcare or welfare decisions for themselves. This is also assigned by a document.

### Legacy

This is the actual gift that is left to a person, organisation or charity in a Will. A person can bequeath a legacy to someone in their Will. A legacy can be given to someone of their own choosing, and it does not have to be a descendent.

### Letter of Wishes

A letter of wishes is separate from your Will. It states your wishes for your smaller assets, but



that the Executor(s) or trustees do not have to necessarily legally follow. This may include those smaller household items you may own that have little value, or photographs, or papers.

### Liabilities

Liabilities are separate from assets. These are debts, bills or loans that will be paid from that person's Estate after they die. From there, the remainder of the Estate will be distributed to the beneficiaries.

### Lifetime Gift

A lifetime gift is given before a person passes away. It is not designated in the Will. Generally, it is given from parents to children, or at the point when a person may have a terminal illness but wishes to see their lifetime gift benefit their loved ones while they're still living.

### Power of Attorney

An attorney is appointed to another person by a living person who can no longer manage their own finances or make healthcare decisions. Power of Attorney is one designation. They are appointed with a lasting power of attorney or enduring power of attorney document.

### Probate

This is the legal procedure that occurs after a person has died. It authorises the administration of an Estate according to what has been laid out in the Will. It must be done for every person upon their death.

### Probate Registry

This is a legal office, often located at the courthouse, where the Executor(s) must apply for permission to administer a deceased person's Estate. It operates a lot like a court.

### Residual Beneficiaries

These are the beneficiaries that will benefit after all other gifts have been made, and all debts, taxes, probate fees, administrative fees and court costs have been made. They will benefit from any residual property that remains.

### Residue/Residuary Estate

This is the property or assets that will remain in your Estate after all gifts have been done, and all debts, taxes and fees have been paid.

### Settlement

This is in reference to a business trust. A business trustee will administer or control a trust that contains business assets. It may also involve a resolution between two or more disputing parties.

### Settlor

This is the person who creates a trust. It may be so that their survivors can avoid paying Estate taxes in the future. They are doing it for the beneficiaries in a Will. Can also be known as a 'Trustor'.

### Survivor

A survivor is the last person within a marriage or a family who survives their relative dying. It

can be a spouse, child or other type of relative. Usually, this designation is made within a Will.

### Tenancies in Common

This is one of two ways that two or more people can own one property. The other is a joint tenancy. In a tenancy in common, each owner has an equal share of the property. Should one of them die, then it will be left to the beneficiaries that they have designated in their Will.

### Trust

It is an arrangement where the legal interest in the property is owned by trustees for someone else's benefit. For example, a parent can set up a trust for a child in the event that the parent dies. The trustee will look after the child until they are an adult.

### Trustees

This can be one person, people or an organisation that manages the trust. At the appropriate time, they will pass the assets to the beneficiaries.

### Will (Last Will and Testament)

Officially called the 'Last Will and Testament', it can also be shortened to just 'Will'. This is a legal document that tells the Probate Court exactly how the deceased's assets are to be distributed upon their death. ■

# LOOKING TO PASS ON MORE OF YOUR WEALTH IN THE MOST TAX-EFFICIENT WAY?

Having an effective Estate and Trust Planning strategy in place prepares for every possibility. We can help you provide financial support to your family and help you pass on more of your wealth in the most tax-efficient way – please call us to arrange an appointment or if you have any concerns about your financial situation.

This guide is for your general information and use only and is not intended to address your particular requirements. It should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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