InSight

tandem.

01582 635909
info@tandemfinancial.co.uk
www.tandemfinancial.co.uk

FACTSHEET

# Safeguarding your wealth for future generations

## Steps to mitigate against Inheritance Tax

**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. But for many of us, there can be a remarkable gap between our intentions and our actions.**

Inheritance Tax (IHT) affects thousands of families every year. It comes at a time of loss and mourning and can have an impact on families with even quite modest assets – if you thought IHT was just for extremely wealthy people to worry about, think again.

### TACKLING IHT SOONER RATHER THAN LATER

There are legitimate ways to mitigate against IHT, which is why it is sometimes called the 'voluntary tax'. Unfortunately, some of the most valuable exemptions must be used seven years before your death to be fully effective, so it makes sense to consider ways to tackle IHT sooner rather than later and to seek professional financial advice.

As property prices make IHT a reality for many in the UK, we've looked at a number of ways to prevent HM Revenue and Customs being one of the largest beneficiaries of your estate. IHT is levied at a fixed rate of 40% on all assets worth more than £325,000 per person (0% under this amount) – or £650,000 per couple if other exemptions cannot be applied.

Parents and grandparents can leave property worth up to £850,000 to their children without them having to pay IHT. This figure will rise to £1 million by 2020. The current allowance of £325,000 remains unchanged, but a new tax-free band worth £175,000 per person on your main residence will be added to the £325,000, making it £500,000 per person. The new tax-free band was set at £125,000 in 2018, eventually rising to £175,000 in 2020.

### STEPS TO MITIGATE AGAINST IHT

### 1. MAKE A WILL

Dying intestate (without a Will) means that you may not be making the most of the IHT exemption that exists if you wish your estate to pass to your spouse or registered civil partner. For example, if you don't make a Will, then relatives other than your spouse or registered civil partner may be entitled to a share of your estate – and this might trigger an IHT liability.

### 2. MAKE LIFETIME GIFTS

Gifts made more than seven years before the donor dies to an individual or to a bare trust are free of IHT. So, if appropriate, it could be wise to pass on some of your wealth while you are still alive. This may reduce the value of your estate when it is assessed for IHT purposes, and there is no limit on the sums you can pass on. You can gift as much as you wish, and this is known as a 'Potentially Exempt Transfer' (PET). However, there is a catch: if you live for seven years after making such a gift, then it will be exempt from IHT. But should you be unfortunate enough to die within seven years, it will still be counted as part of your estate if it is above the annual gift allowance. You need to be particularly careful if

tandem.
01582 635909
info@tandemfinancial.co.uk
www.tandemfinancial.co.uk



you are giving away your home to your children with conditions attached to it, or if you give it away but continue to benefit from it. This is known as a 'Gift with Reservation of Benefit'.

## 3. LEAVE A PROPORTION TO CHARITY

Being generous to your favourite charity can reduce your tax bill. If you leave at least 10% of your estate to a charity or number of charities, then your IHT liability on the taxable portion of the estate is reduced to 36% rather than 40%.

## 4. SET UP A TRUST

Family trusts can be useful as a way of reducing IHT, making provision for your children and spouse, and potentially protecting family businesses. Trusts enable the donor to control who benefits (the beneficiaries) and under what circumstances, sometimes long after the donor's death. Compare this with making a direct gift (for example, to a child), which offers no control to the donor once given. When you set up a trust, it is a legal arrangement, and you will need to appoint 'trustees' who are responsible for holding and managing the assets. Trustees have a responsibility to manage the trust on behalf of and in the best interest of the beneficiaries, in accordance with the trust terms. The terms will be set out in a legal document called 'the trust deed'.

## TYPES OF TRUST

## THERE ARE NOW THREE MAIN TYPES OF TRUST.

**Bare (Absolute) trusts –** with a bare trust, you name the beneficiaries at outset and these can't be changed. The assets, both income and capital, are immediately owned and can be taken by the beneficiary at age 18 (16 in Scotland).

**Interest in possession trusts –** with this type of trust, the beneficiaries have a right to all the income from the trust, but not necessarily the capital. Sometimes, a different beneficiary will get the capital – say, on the death of the income beneficiary. They're often set up under the terms of a Will to allow a spouse to benefit from the income during their lifetime but with the capital being owned by their children. The capital is distributed on the remaining parent's death.

**Discretionary trusts –** here, the trustees decide what happens to the income and capital throughout the lifetime of the trust and how it is paid out. There is usually a wide range of beneficiaries, but no specific beneficiary has the right to income from the trust.

A few trusts will now have to pay an IHT charge when they are set up, at ten-yearly intervals and even when assets are distributed. ■

## THE SOONER YOU START PLANNING, THE MORE YOU CAN DO

We can work with you to ensure you make use of all the reliefs and exemptions you can. We can build a tailor-made succession plan based on your individual circumstances to make sure the allowances work best for you. We can give you the peace of mind of knowing that you have laid the firmest foundations for your family's future. Please contact us to discuss you situation.