

Wollen Michelmore

SOLICITORS

THE BENEFITS OF PLANNING AHEAD

Inheritance tax (IHT) is a real worry for people. Planning during your lifetime can assist in reducing the burden. People are often put off using trusts because of perceived costs and complexities. But for many people the saving in tax will outweigh the cost of set up and administration, often leaving you financially better off! It is important to take expert professional advice as when carried out correctly substantial financial benefits can be made from a small initial outlay for the advice received. Below are a few short examples of where we can help provide you with peace of mind.

Deed of Variation

As we live longer, many of us will become beneficiaries of a legacy at a later age. By this stage we may be financially comfortable in our own right, whilst seeing our children laden with debt. Whilst you may wish to retain some benefit, you may also be concerned with your own IHT liability. If you simply receive the legacy and then give (some of) it to your children, it would be treated as a gift from you for IHT purposes and may have adverse tax consequences on your death. A deed of variation enables you to pass some or all of a legacy to another party without it being treated as a gift from you for IHT purposes (provided it is prepared within two years of the death of the person whose will you are benefitting from). This could also be placed in a trust (see below). As any trust in this way is set up by the estate of the deceased and not you, your IHT position remains unaffected. Therefore, the assets placed into trust will not be taxable when you die, yet you will have retained some measure of control over the assets and their destination.

Life Assurance Policies

Many people now have life policies and ordinarily, these are taxed as part of your estate on death. Placing a life policy into trust during your lifetime can ensure the value of the sum received (which may be intended to pay off a mortgage) falls outside of your estate for IHT purposes. The payment from the policy is then diverted back to your chosen beneficiaries via the trust after your death. It is important to get professional advice before completing any paperwork – the standard documents some insurance companies provide, may not cover your individual requirements.

Gifts into a trust

Where you wish to reduce your own IHT liability but are concerned to give money directly to your beneficiaries perhaps because they are young, financially vulnerable or disabled or if you are concerned about divorce or bankruptcy, you can make a gift of assets into trust. Provided the gift is within your nil-rate band allowance (currently £325,000) there will be no immediate charge to IHT and the assets will be outside of your estate for IHT purposes after 7 years. Specialist professional advice should be sought as whilst trusts can be an extremely useful legal tool, the regular changes to the rules of taxation mean they have to be handled with care. Once again it is a case of weighing up the tax saving against the cost of the advice.

At Wollen Michelmores solicitors we have a panel of experienced Estate Planning lawyers who will provide top quality and specialist advice. If you would like to discuss this article further please contact our Partner, Chris Linton at Christopher.Linton@wmlegal.co.uk or call 01803 213251.