KEEPING IT IN THE FAMILY

THE IMPORTANCE OF ESTATE PLANNING

Understanding how to pass on wealth in the most tax efficient manner is key to cutting the amount that HM Revenue & Customs (HMRC) can claim when it eventually comes to assessing inheritance tax (IHT).

If you fail to do any estate planning, it could cost your heirs up to 40% of their inheritance. By planning ahead, you can minimise IHT and ensure as much of your estate as possible reaches your loved ones.

There are lots of options when it comes to passing on wealth – it's a case of finding the right ones to suit you and your family.

Making a Will is essential, and there are other ways to hand down assets to loved ones such as drawing up trusts and even gifting money while you're still living.

The tax-free inheritance allowance, known as the nil-rate band, allows your beneficiaries to inherit up to £325,000 of your estate without incurring tax, this is frozen at the same rate until 2028.

This means more and more families are likely to be caught in the IHT trap.

The latest figures show that HM Revenue & Customs pocketed £6.4 billion[1] in inheritance taxes between April 2022 and January 2023 - £0.9 billion higher than the same period a year earlier.

Here are five ways to ensure you can keep your wealth in the family:

1.WRITE A WILL

A Will is an important way to protect your family and other loved ones. It ensures your assets and possessions are passed on to the people you choose. It is one of the most important documents to have when it comes to preserving the long-term financial security of your family.

Without one a rigid set of Intestacy rules will dictate what happens to your assets and your property. Writing a Will can save on IHT as well as spell out your wishes.

If you already have a Will, you still may need to review it. If your circumstances have changed, which they often do, it is important that you make a Will to ensure that your money and possessions are still distributed according to your wishes. For example, if you have divorced or suffered a bereavement, you may wish to review your beneficiaries.

When you marry, any existing Will that you had will automatically be revoked and is no longer valid. If you do not make a new one, then when you die the law of intestacy decides how your assets are divided.

2. CONSIDER TRUSTS

If you want to set aside money for your family further into the future, you could set up a trust to minimise IHT.

A bare trust is commonly used. This type of trust gives the named beneficiary or beneficiaries the immediate right to the trust fund, and any income received from it. Bare trusts are a useful legal vehicle for passing assets on to minors, for example, with trustees managing the trust until the beneficiary or beneficiaries are aged 18. Your initial gift into a bare trust is a potentially exempt transfer (unless covered by an exemption) and providing you survive seven years there is no IHT due.

Alternatively, discretionary trusts give greater power to trustees to decide how and when to give funds to beneficiaries. This can be useful for estate planning and save assets from being depleted unnecessarily.

Trusts are a complex area which typically need to be set up correctly by a professional who can help with making sure you have enough capital and income for your own lifetime, whilst making provision for children and grandchildren so that more assets can be passed on in the most tax efficient manner.

3. LOOK AT PROPERTY OWNERSHIP

If you are joint tenants with your spouse, your share of the house will automatically pass to them, regardless of what your Will states. The common way to avoid this is to change how you own your property and become what's known as 'tenants in common' so that your share of the property is recognised as separate to that of your spouse. You could then gift your share to your children or into trust.

4. IMPORTANCE OF GIFTING

One of the most straightforward ways to support family members – and reduce the value of your estate to minimise IHT - is to give away assets while you are still alive.

For example, using the various exemptions such as the 'annual exemption' allows individuals to give financial gifts, tax-free, to the value of £3,000.

You can also give £250 to any number of people every year, though you can't combine it with your annual £3,000 gift.

There's more to be given away tax efficiently using the "Potentially Exempt Transfer" which allows the giving away of all types of assets, including cash, property and shares tax-free, as long as you live for seven years after making the gift.

You can also make regular gifts from your income. These gifts are immediately IHT free (there's no need to wait for seven years) and there's no cap on how much you can give away, provided you can demonstrate your standard of living is not affected.

5. PASS ON YOUR PENSION

People are increasingly passing on their pension pot as part of their legacy, and using other assets for a retirement income.

Pension savings are not subject to inheritance tax when you die. If you die before the age of 75, the person(s) who inherit your pension pot can draw on the money as they wish, without paying any income tax either.

If you are 75 or over when you die, a beneficiary of your pension pot will have to pay income tax on any withdrawals at their marginal rate.

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[1]https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-monthly-bulletin

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen

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