Planning your estate

Will writing, estate executors and inheritance tax planning.

Most people don't like to think about their own mortality, even though taking charge of planning your estate can ultimately provide peace of mind for you and your loved ones.

The whole purpose of planning your estate, however morbid it may seem, is to ensure your wishes are fully met after you die and to benefit the people or causes you care most about.

Your estate is usually made up of your wealth, personal possessions, any property you own and any investments you have, and the big number to focus on in 2018/19 is £325,000.

As a rule of thumb: if your estate amounts to £325,000 or less, it will not be liable for inheritance tax, while some estates worth more than this will be taxed at 40%.

These figures make planning your estate an important task, to make sure your beneficiaries keep as much of your estate as possible after you're gone.

Drafting a will

Despite the importance of ensuring your assets will be inherited by the people you intend to receive them, a study from YouGov found that 62% of the UK's adult population did not possess a will in 2017.

In fact, most people put off thinking about drafting a will until later in their lives, when the issue begins to feel more urgent – demonstrated by 67% of over-55s having a legally valid will, compared to just 36% of those aged 45 to 54.

A good place to start is to **value your estate** by drawing up a list of your assets and debts. This is something you should review every time your circumstances change.

Assets usually include any property you own, savings, insurance or endowment policies, pensions that may pay out a lump sum on death, and stocks, shares or investment trusts you may have.

It's also important to take into account any debts, such as mortgages, overdrafts, bank loans and credit cards, when valuing your estate to give you an idea of how much it is worth.

From there, you need to think about **how you want your estate to be distributed** and to whom. Make it clear who stands to benefit from your estate, if you want to place any limitation on their use, and whether you want to make any charity donations.

Then it's time to **pick the executors of your will** – the people, or person, who will distribute your estate to your beneficiaries after you die.

Anyone can write a will and you can even buy online software packages that do this for you, although using an accountant or solicitor is a good idea to make sure your will is executed properly.

Inheritance tax planning

Keeping as much of your estate out of the Revenue's hands should be a top priority during the estate planning process.

An inheritance tax charge of 40% is charged on estates worth more than £325,000. This is levied on any amount exceeding the threshold, rather than the total value of the estate.

For example, an estate of £500,000 pays £70,000 inheritance tax in 2018/19, on the basis that the first £325,000 has no tax liability but the next £175,000 pays tax at 40%.

The portion not subject to tax is referred to as the **nil-rate band**, while the residence nil-rate band – more commonly known as the family home allowance – can raise the nil-rate band further.

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The **residence nil-rate band** enables you to pass on one property to 'direct descendants' and save on death duties if you own a home, or a share of one, that is included in your estate.

Direct descendants covers children, grandchildren, stepchildren, foster children, adopted children and their lineal descendants.

The residence nil-rate band stands at £125,000 in 2018/19, so it's currently possible for an individual to pay no inheritance tax on the first £450,000 of the value of their estate.

Much like the basic nil-rate band, the family home allowance is transferable between spouses and civil partners. Therefore, it's possible for a married couple or civil partnership to pass on up to £650,000 in 2018/19, or £900,000 if your estate includes your home.

Making gifts

Reducing the value of your estate by making early gifts to your beneficiaries or charitable causes can be a tax-efficient strategy if used at the right times.

You can gift up to £3,000 a year tax-free, while parents (up to £5,000), grandparents (up to £2,500) and non-relatives (up to £1,000) can put money towards a marriage or civil partnership.

As long as you haven't used another exemption towards the same person in the same tax year, you can make small gifts of up to £250 per person.

You can gift any amount to your spouse or civil partner so long as they reside in the UK.

In addition, if you were to leave 10% of your estate's value to charity, the remainder could be taxed at a reduced rate of 36% if it's worth more than the nil-rate threshold.

The seven-year rule

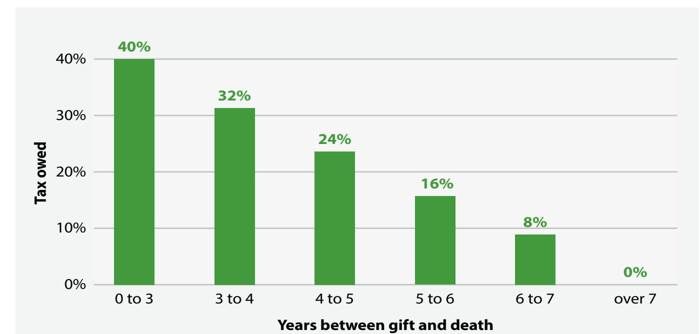
If you make gifts to your children, grandchildren or non-relatives, they will usually be classed as a **potentially exempt transfer**, or PET for short.

When you make this type of gift determines whether or not it is tax-free, although the value of the gift will fall back into the estate if it has reservation of benefit.

For example, a gift of any value will be exempt from inheritance tax if you survive for seven years after making it.

However, if you were to die within seven years of making a gift, the value of the gift would be added to your estate and reassessed against the nil-rate threshold.

Inheritance tax will be due at 40% if you die within three years of making a gift, while gifts made three to seven years before your death are taxed on a sliding scale called taper relief (see bar chart).



Trusts

You can place assets from your estate into trusts, with the ownership being passed on to a trustee or a group of trustees when you die.

It's the role of trustees to administer these assets and any income they may generate, before distributing them according to your wishes upon death.

You can transfer assets into a **bare trust** where the PET rules will apply. So long as you transfer an asset seven years before you die, its value will make up part of your exempt transfers.

These are commonly used to hold assets for children, who can receive income from it when they reach adulthood at the age of 18.

Discretionary trusts are another potentially tax-efficient estate planning option.

Asset transfers into discretionary trusts (and all other types of trust except bare trust) are treated as chargeable lifetime transfers, and are taxed at a reduced inheritance tax rate of 20% for any amount worth more than the nil-rate band.

You can place your home into a discretionary trust, but you won't be able to take advantage of the family home allowance and you would also have to avoid gift with reservation of benefit rules.

Beneficiaries have no automatic entitlement to a share of assets as the trustee(s) decides how to distribute any income or capital according to what you state in the deed.

This can include paying a specific beneficiary, when to pay them, whether to pay them in income or capital and any conditions to impose.

Talk to us about planning your estate.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any estate planning decisions based on its contents.

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