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Planning your estate

Estate planning should start early in life. If your estate is worth in excess of £325,000 it could be subject to inheritance tax (IHT). Even if it isn't, careful planning and a well-drafted will can ensure that your assets will go to your chosen beneficiaries.



Your Money UPDATE

Do you need a will?

Anyone who owns property - a home, a car, investments, business interests, retirement savings, collectibles or personal belongings - needs a will. A will allows you to direct by and to whom your property will be distributed after your death. If you die without a will, your property will normally be distributed according to intestacy laws. Assumptions about how these rules work is a very common mistake.

Making your estate plan

Start by answering the following questions:

1. **Who?** Who do you want to benefit from your wealth? What do you need to provide for your spouse or civil partner? Should your children share equally in your estate? Do you wish to include grandchildren? Would you like to give to charity?

2. **What?** Should your business pass only to those children who have become involved in it? Should you compensate the others with assets of comparable value?
3. **When?** Consider the age and maturity of your beneficiaries. Should assets be placed into a trust restricting access to income or capital? Or should gifts wait until your death?

Use your exemptions

You should make the best use of IHT exemptions, including:

- the £3,000 annual gifts exemption
- normal expenditure gifts out of after-tax income
- marriage gifts (up to specified limits)
- exemption for gifts of up to £250 a year to any number of persons
- exemption for gifts between spouses or civil partners

If you die within seven years of making substantial lifetime gifts, they will be added back into your estate and may result in

a substantial IHT liability for the recipients. You can take out a life assurance policy to cover this tax risk if you wish.

However, you can make substantial gifts out of your taxable estate into trust now and, as a trustee, retain control over the assets.

Your gift strategy

Business assets

There will be no capital gains tax (CGT) and perhaps little or no IHT to pay if you retain business property until your death. This is fine, so long as you wish to continue to hold your business interests until death and recognise that the rules may change.

Alternatively, you may wish to hand your business over to the next generation. A gift of business property today will probably qualify for up to 100% IHT relief and any capital gain can be rolled over to the new owner, so there will be no CGT liability.



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Appreciating assets

Gifts do not have to be in cash. You could save more IHT or CGT by giving away assets with the potential for growth in value. Give while the asset has a lower value so that the appreciation then accrues outside your estate.

Gifts out of income

Another way to build up capital outside your own estate and save IHT is to make regular gifts out of income, perhaps by way of premiums into an insurance policy written in trust for your heirs. Regular payments of this type are exempt from IHT.

Use the nil-rate band

Most transfers of property between spouses or civil partners are exempt from IHT. This means that when one partner dies leaving some or all of their property to their spouse/civil partner they may not make full use of their own £325,000 nil-rate band. In these circumstances, it is possible to transfer unused nil-rate band allowances between spouses or civil partners.

The amount of the nil-rate band potentially available for transfer will be based on the proportion of the nil-rate band unused when the first spouse or civil partner died.

For example, if on the first death the chargeable estate is £162,500 and the nil-rate band was £325,000, then 50% of the original nil-rate band is unused. If the nil-rate band when the surviving spouse dies is £325,000, then that would be increased by 50% to £487,500.

Different circumstances

Estate planning for singles

Single people might not have given much thought to estate planning. But you should make a will to set out your preferred funeral arrangements, how you want your estate to devolve on your death and who will have responsibility for it.

Your net estate might pass to your parents or your siblings under intestacy rules but would you prefer to leave your wealth to your nieces or nephews?

Estate planning for grandparents

Your children may be grown up and financially secure. If your assets pass to them, you will be adding to their estate and to the IHT which will be charged on their deaths. Instead, you might consider leaving something to your grandchildren, or reducing your taxable estate by helping them out during their education.

A will is a powerful planning tool

A properly drawn will can help you to:

- protect your family by making provisions to meet their present and future financial needs
- minimise taxes that might reduce the size of your estate
- name an experienced executor who will ensure that your wishes are carried out
- name a trusted guardian for your children
- provide for any special needs of specific family members
- include gifts to charity
- establish trusts to manage the deferral of the inheritance of any beneficiaries
- secure the peace of mind of knowing that your family and other heirs will receive according to your express wishes.

Having a will also means there is an opportunity for re-writing this in the two years after your death, in the event that some changes are agreed by all concerned to be desirable.

Is it time to update your estate plan?

If any of the following changes have occurred since you last updated your estate plan, it could be a good idea to reassess its suitability:

- the birth of a child or grandchild
- the death of your spouse, another beneficiary, your executor or your children's guardian
- marriages in the family
- divorces
- a substantial increase or decrease in the value of your estate
- the formation, purchase or sale of a business
- retirement
- changes in tax law.

Contact us today to discuss your estate planning.

