

# Who Inherits Your Wealth- Could it be the Taxman?

Tuesday 3<sup>rd</sup> November 2009



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# ***Seminar Agenda***

- Chairman's Introduction
- Paul Southward – Keens Shay Keens
- Fiona Halsey – Neves Solicitors
- Guy Murray – Keens Shay Keens
- Questions and Answers
- Conclusion
- Refreshments



# Chairman - Jeremy Tyrrell

Director of Corporate Services

Keens Shay Keens



# Paul Southward

Director of Tax

Keens Shay Keens



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# TAX PLANNING

A political tax?

Avoidance and the current climate



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# IHT – CURRENT REGIME, RULES, CHARGES & ALLOWANCES

- What is it?
- Rates
- Threshold
- Transferable nil rate band
- Annual exemption - £3,000



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# HOW TO AVOID IHT

- A voluntary tax?
- PET's
- Specific assets
- Planning is the key to mitigation

# HOW TO REDUCE THE IMPACT OF IHT

- Asset reduction
- Asset conversion
- Asset freezing



# ASSET REDUCTION

- Annual exemption - £3,000
- Small annual gifts - £250
- Gifts on marriage:
  - £5,000
  - £2,500
  - £1,000



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# ASSET REDUCTION

- Normal expenditure out of income
- Gifts to spouse/civil partner



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# ASSET CONVERSION

- Business Property Relief
- Agricultural Property Relief
  - 100%
  - 50%



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# ASSET FREEZING

- Loans
- Sale of assets
- Other:
  - Grants of options to purchase
  - Family company or partnership planning
  - Life insurance



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# IHT PLANNING – SUMMARY

- Sophisticated avoidance schemes may no longer be acceptable
- It is never too late to do something
- Planning ahead is better
- Understand what professional advice you need to take and when to take it



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# Fiona Halsey

Private Client Solicitor

Neves Solicitors



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## What is the Transferable Nil Rate Band?

- Pre-9<sup>th</sup> October 2007
- Deceased spouse's unused Nil Rate Band can be deducted from surviving spouse's estate when they die
- Value is not 'frozen' and is a % of Nil Rate Band on surviving spouse's death (100% maximum)
- Retrospective
- Do not waste it – good record keeping essential



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## Basic Example

- Mr Chalk died May 1996 and left £50,000 to children, rest to wife
- Nil Rate Band is £200,000 and 25% of this used by gift to children ( $£50,000/£200,000 \times 100$ ). Rest spouse exempt
- Mrs Chalk dies November 2009 leaving everything to children. Deduct Mrs Chalk's £325,000 Nil Rate Band and Mr Chalk's £243,750 unused Nil Rate Band ( $£325,000 \times 75\%$ )



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## Should You Amend Existing Discretionary Trust Wills?

### Yes:

- Simplify
- Potential loss of future tax saving

### No:

- Not necessary & “wait and see”
- Terminate or keep/change trust
- Other asset protection benefits
- “Bank” Nil Rate Band in case future change in law
- Ensure terminate correctly



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# Should You Amend Other Inheritance Tax Planning Wills?

## Yes:

- If share of house to children absolutely. In trust for spouse removes risk of divorcing children, etc.
- Inadequate provision for spouse
- Potential loss of future tax saving
- Result of Nil Rate Band gift is not as you intended

## No:

- Asset protection benefits
- “Bank” Nil Rate Band in case future change in law



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## Other Inheritance Tax Planning in Wills

- Successive marriages – Stop transferable nil rate band being wasted
- Choose beneficiaries and types of gift to maximise reliefs
- Pilot trusts – reduce ongoing inheritance taxation of children's trusts and pension benefits
- Post death variations – do not rely on this



# Guy Murray

## Independent Financial Advisor

### KSK Financial Solutions Limited

Appointed representative of CharterGroup Financial Management  
which is authorised and regulated by the Financial Service Authority

The FSA do not regulate tax planning or wills



# What can you do about it? (Legally!)

Give everything away 7 years before you die!

Use a Life Assurance policy  
Asset rich but cash poor?  
Gifting money whilst retaining control

Other options - Talk to us.....its not too late!



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# Using a Life Assurance policy



Husband 65, Wife 60

Property valued at £1m (no other assets)

On death of last survivor IHT liability = £140,000

£1m estate for IHT purposes

less £325,000 wife's nil rate band

less £325,000 husband's nil rate band

so £650,000 is IHT exempt

Leaves £350,000 liable to IHT at 40% = £140,000

Take out a life assurance policy.....

..... that will pay out £140,000 on second death



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# Using a Life Assurance policy

Male age 65, female age 60  
£140,000 life cover = £206 per month

Would have to live another 56 years before  
you would have paid more than the cover!

However, male age 70 female age 70  
£140,000 life cover = £309 per month

37 years before breakeven point

Even better if you start in your 50's or even 40's!



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Source: Assureweb quotation system

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# Using a Life Assurance policy

- IHT in instalments!
- Needs to be whole life
- Need spare income to pay premiums
- Must be written in trust from outset
- Earlier the better
- Outside estate from day one



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# What if you are “asset rich” but “cash poor”?



Single female age 75, property worth  
£1m (no other assets)



Equity release of £200,000

Purchase an Annuity with £200,000 that pays an income of £1,500pm



Use the £1,500pm to pay the premium on a Life  
Assurance Policy that will pay £425,000 on death

Source: Assureweb quotation system

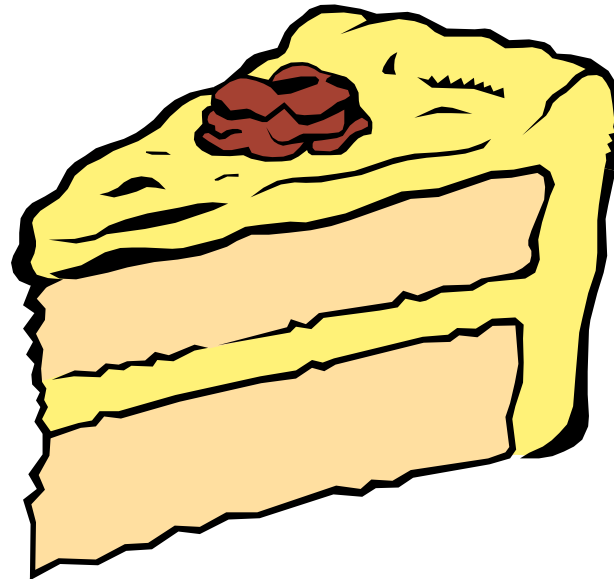


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# Have your cake and eat it!

- Gift money to children but still need an income from the capital?

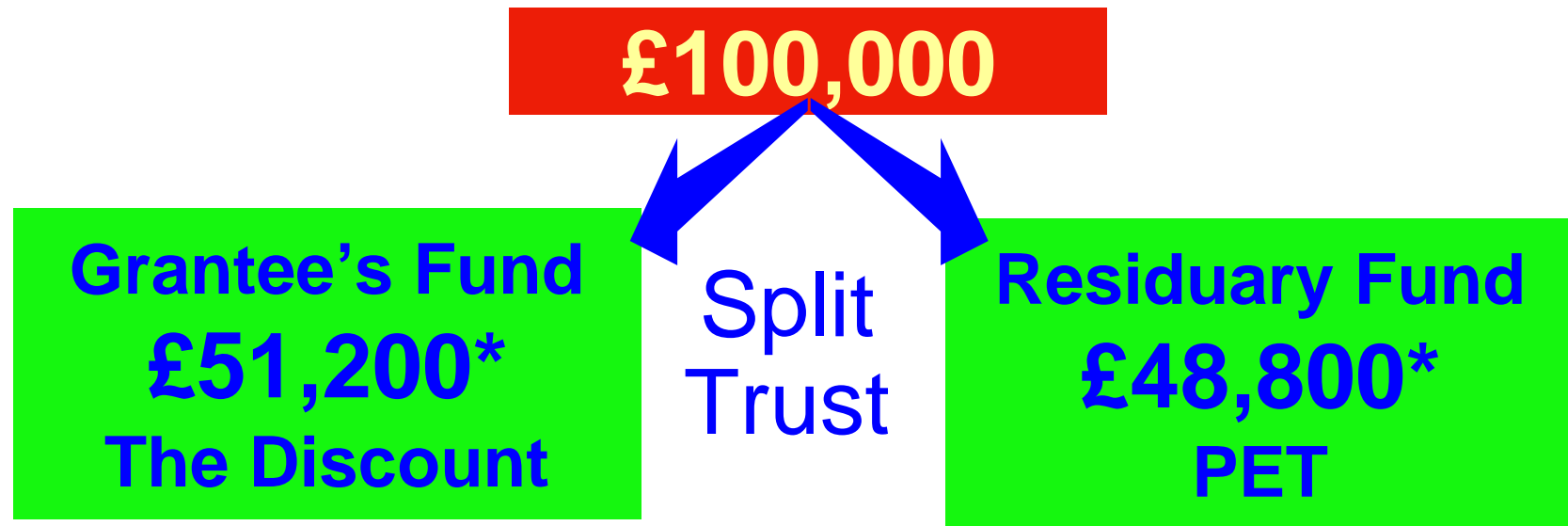


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# Discounted Gift Plan

Female aged 75  
£100,000 to invest and wants 5% pa “income”



After 7 years all free of IHT including growth.  
PLUS client has received £35,000 income  
*\* standard terms based upon normal health*

# Discounted Gift Plan

## What does it do?

- Immediate reduction in the estate
- The entire investment plus growth outside of estate after 7 years
- Income withdrawals for life or until prior exhaustion of the fund
- Retain control of investment decisions
- Growth in a tax efficient environment (offshore)

Why not  
consider



Equity  
release



use £200,000  
to purchase



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Who will be your biggest beneficiary?

Your Children?

Your Grandchildren?

Or Alistair Darling?

“Inheritance tax is a voluntary tax paid by those who distrust their heirs more than they dislike the Inland Revenue”



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# Questions and Answers and Chairman's Conclusion



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## REMINDER

All attendees are entitled to a 30 minute FREE consultation with KSK or Neves, please register before you leave today.

Presentation Notes are available as a PDF, please supply your email address and we will email these to you

Please enjoy the refreshments and we hope to see you soon

