

A GUIDE TO
**WEALTH
PRESERVATION**

PROTECTING YOUR ESTATE FOR
FUTURE GENERATIONS



WELCOME

Nothing is certain but death and taxes

Welcome to our Guide to Wealth Preservation. Inside we consider a number of different strategies to help you protect and preserve your estate for you and your loved ones.

Benjamin Franklin once said that ‘nothing is certain but death and taxes’. This means that in the event that something happens, you and your loved ones can focus on the things that matter most, without worrying about financial complications that haven’t been planned for.

Providing for your loved ones after you die is obviously an important issue. Yet, poor planning could cost your beneficiaries hundreds of thousands of pounds in Inheritance Tax. Once considered a tax on the affluent, it is now affecting more estates. However, it is possible to significantly reduce the amount of Inheritance Tax your beneficiaries may pay, or even pay none at all.

As we get older and we are more financially secure, it is only natural that we consider the future for our children and grandchildren. However, the situation is brought into sharper focus by the fact that a lack of planning may well reduce the amount that we are able to leave to our children and grandchildren.

We can offer up-to-date knowledge delivered by our experienced and knowledgeable team and can ensure that you receive the best professional financial advice for your particular circumstances. Any planning strategy should be developed in the context of this wider financial plan. To discuss how we could help you to protect and preserve your wealth, please contact us. We look forward to hearing from you.

Content of the articles featured is for general information and use only and is not intended to address an individual or company's particular requirements or be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

CONTENTS

- 02 Welcome**
Nothing is certain but death and taxes
- 04 Inheritance Tax matters**
Perhaps not quite the 'voluntary' tax it was once considered
- 06 Inheritance Tax 'nil rate band' and rates**
Is it time to evaluate your estate?
- 08 Getting the foundations right**
The later you leave it, the more limited your options will be
- 10 Valuing your estate**
Arriving at the amount of Inheritance Tax payable
- 12 Inheritance Tax calculator**
How much Inheritance Tax could you potentially have to pay?
- 14 Make a Will**
Sharing out your estate
- 16 Exempt gifts**
Passing on parts of your estate
- 18 A gift with reservation**
Getting the full benefit
- 20 Trusts**
Helping you control and protect your assets
- 22 Trust solutions**
Managing wealth
- 24 Life assurance cover**
Funding a potential Inheritance Tax liability



INHERITANCE TAX MATTERS

Perhaps not quite the ‘voluntary’ tax it was once considered

Effective estate planning is about getting the right balance between maintaining access to your money when you need it and saving tax. This is because, in general, the more tax-efficient a solution is, the less access you have to your assets. Safeguarding your own financial future is very important and giving too much away could put this at risk.

Inheritance Tax is the tax that is paid on your estate, chargeable at a current rate of 40%, and is now perhaps not quite the ‘voluntary’ tax it was once considered. However, careful planning to ensure you take advantage of all the allowances and reliefs available could save you a lot of money relatively easily. It’s never too early to start.

Broadly speaking, this is a tax on everything you own at the time of your death, less what you owe. It’s also sometimes payable

on assets you may have given away during your lifetime. Assets include property, possessions, money and investments, and life insurance policies not written in an appropriate trust. One thing is certain: careful planning is required to protect your wealth from a potential Inheritance Tax liability.

Not everyone pays Inheritance Tax on their death. It only applies if the taxable value of your estate when you die (including your share of any jointly owned assets and assets held in some types of trusts) is above the current £325,000 threshold (frozen until 5 April 2018) or ‘nil rate band’. It is only payable on the excess above this amount.

INHERITANCE TAX EXEMPTIONS AND RELIEFS

Sometimes, even if your estate is over the threshold, you can pass on assets without having to pay Inheritance Tax. Examples include:



Spouse or registered civil partner exemption: Your estate usually doesn’t owe Inheritance Tax on anything you leave to a spouse or registered civil partner who has their permanent home in the UK—nor on gifts you make to them in your lifetime—even if the amount is over the threshold.

Charity exemption: Any gifts you make to a qualifying charity—during your lifetime or in your Will—will be exempt from Inheritance Tax.

Potentially exempt transfers: If you survive for seven years after making a gift to someone, the gift is generally exempt from Inheritance Tax, no matter what the value.

Annual exemption: You can give up to £3,000 away each year, either as a single gift or as several gifts adding up to that amount – you can also use your unused allowance from the previous year, but you use the current year’s allowance first.



EFFECTIVE ESTATE PLANNING IS ABOUT GETTING THE RIGHT BALANCE BETWEEN MAINTAINING ACCESS TO YOUR MONEY WHEN YOU NEED IT AND SAVING TAX.

Small gift exemption: You can make small gifts of up to £250 to as many individuals as you like tax-free.

Wedding and registered civil partnership gifts: Gifts to someone getting married or registering a civil partnership are exempt up to a certain amount.

Business, Woodland, Heritage and Farm Relief: If the deceased owned a business, farm, woodland or National Heritage property, some relief from Inheritance Tax may be available.

Transfers of assets into most trusts and companies will become subject to an immediate Inheritance Tax charge if they exceed the Inheritance Tax threshold (taking into account the previous seven years' chargeable gifts and transfers).

In addition, transfers of money or property into most trusts are

also subject to an immediate Inheritance Tax charge on values that exceed the Inheritance Tax threshold. Tax is also payable ten-yearly on the value of trust assets above the threshold; however, certain trusts are exempt from these rules.

GIFTS AND TRANSFERS MADE IN THE PREVIOUS SEVEN YEARS

In order to work out whether the current Inheritance Tax threshold of £325,000 has been exceeded on a transfer, you need to take into account all chargeable (non-exempt, including potentially exempt) gifts and transfers made in the previous seven years. If a transfer takes you over the nil rate band, Inheritance Tax is payable at 20% on the excess.

INHERITANCE TAX 'NIL RATE BAND' AND RATES

Is it time to evaluate your estate?

Inheritance Tax is charged at the following rate on death:

Inheritance Tax	Current tax year
Taxable value of your estate above which it is charged	£325,000*
Rate at which it is charged	40.00%

* Inheritance Tax threshold frozen (until 5 April 2018)

We can help you evaluate the size of your estate—which could include assets such as property, pensions, shares and personal property—and identify the opportunities that will help you avoid or reduce the amount of Inheritance Tax your family will have to pay on your estate and enable you to preserve wealth for your dependants if the worst comes to the worst.

We can advise on making appropriate provisions for vulnerable beneficiaries, protecting their resources whilst continuing to benefit from them. You may also want to consider appointing a Lasting Power of Attorney who can manage your affairs in the event you become unable to do so.

Our aim is to maximise the inheritance your beneficiaries will receive, avoiding or minimising the amount of Inheritance Tax your family will have to pay on your estate, ensuring plans are in place to protect your property so that you are not forced to sell your home to pay for your care home costs should the need arise.

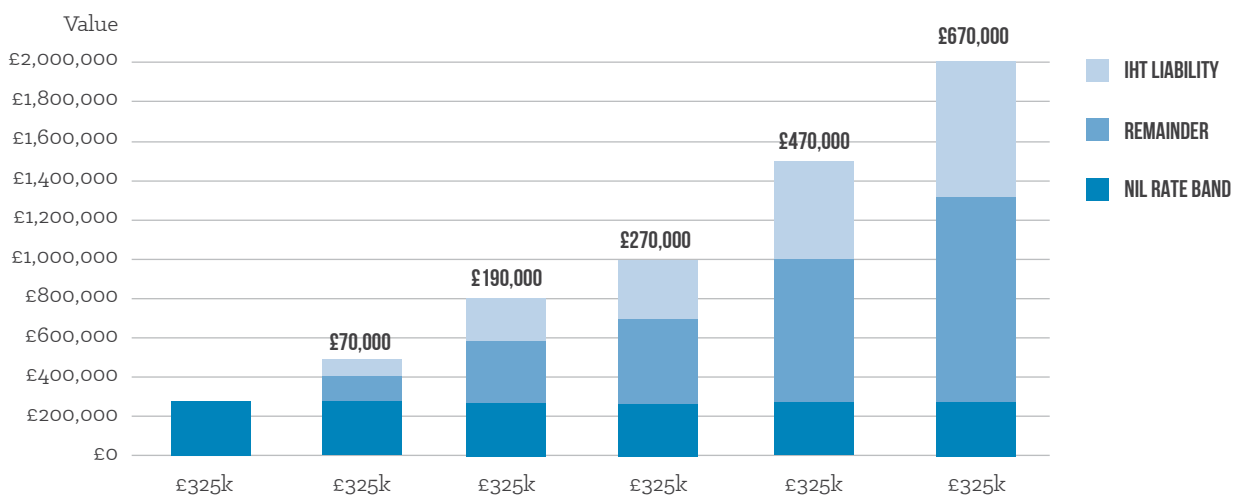
We are on hand to provide straightforward, up-to-date advice. We will assess your situation and provide advice on a number of tax migration solutions, creating bespoke estate protection planning strategies that are tailored to suit you and your circumstances.

WE ARE ON HAND TO PROVIDE STRAIGHTFORWARD, UP-TO-DATE ADVICE.





How much inheritance tax could you pay on your estate?



GETTING THE FOUNDATIONS RIGHT

The later you leave it, the more limited your options will be

Successful planning is dependent on getting the foundations right, and it is most effective when it is conducted early. The later you leave it, the more limited your options will be. Current rules mean that the survivor of a marriage or registered civil partnership can benefit from up to double the Inheritance Tax threshold – 650,000 in the current tax year, in addition to the entitlement to the full spouse relief.

Some initial actions that we can help you with and that can be taken to potentially reduce an Inheritance Tax liability and make the process less stressful are:

WRITING YOUR EXISTING LIFE POLICIES IN AN APPROPRIATE TRUST

Life cover will fall into an estate if it is not placed in an appropriate trust, and so 40% of the sum assured could potentially be subject to Inheritance Tax.

LEAVING YOUR LUMP SUM DEATH BENEFITS FROM PENSIONS IN TRUST

If you die before age 75, lump sums payable from untouched pension funds are usually tax-free. However, if these are left to the surviving partner, they form part of their estate on death. By pre-arranging for these benefits to be added to a trust, tax can be avoided on the second death.

USING DEEDS OF VARIATION

These allow the recipient of a recent inheritance to vary the deceased's Will in order to pass money either outright to other people or to a trust. This can be immediately effective in reducing the original beneficiary's liability on the money they received.

CREATING A LASTING POWER OF ATTORNEY

This gives someone the authority to handle your financial affairs if you are no longer able to manage



them yourself. It may never be needed, but if you do not have one and you lose the capacity to make decisions for yourself, it can be costly and complex to administer your affairs through the courts.

TRANSFERRING EXEMPT ASSETS

Where assets are transferred between spouses or registered civil partners, they are exempt from Inheritance Tax. This can mean that if, on the death of the first spouse or registered civil partner, they leave all their assets to the survivor, the benefit of the nil rate band to pass on assets to other members of the family (normally the children) tax-free is not used.

Where one party to a marriage or registered civil partnership dies and does not use their nil rate band to make tax-free bequests to other members of the family, the unused amount can be transferred and used by the survivor's estate



on their death. This only applies where the survivor died on or after 9 October 2007.

In effect, spouses and registered civil partners now have a nil rate band that is worth up to double the amount of the nil rate band that applies on the survivor's death.

Since October 2007, you can transfer any of the unused Inheritance Tax threshold from a late spouse or registered civil partner to the second spouse or civil partner when they die. This can currently increase the Inheritance Tax threshold of the second partner from £325,000 to as much as £650,000, depending on the circumstances.

TRANSFERRING THE THRESHOLD

The threshold can only be transferred on the second death, which must have occurred on or after 9 October 2007 when the

rules changed. It doesn't matter when the first spouse or registered civil partner died, although if it was before 1975, the full nil rate band may not be available to transfer, as the amount of spouse exemption was limited then. There are some situations when the threshold can't be transferred but these are quite rare.

CALCULATING THE THRESHOLD YOU CAN TRANSFER

The size of the first estate doesn't matter. If it was all left to the surviving spouse or registered civil partner, 100% of the nil rate band was unused and you can transfer the full percentage when the second spouse or registered civil partner dies, even if they die at the same time.

It isn't the unused amount of the first spouse or registered civil partner's nil rate band that determines what you can transfer to the second spouse or registered civil partner. It's the unused percentage of the nil rate band that you transfer.

If the deceased made gifts to people in their lifetime that were not exempt, the value of these gifts must first be deducted from the threshold before you can calculate the percentage available to transfer. You may also need to establish whether any of the assets that the first spouse left could have qualified for Business or Property Relief.



IF YOU DIE BEFORE AGE 75, LUMP SUMS PAYABLE FROM UNTOUCHED PENSION FUNDS ARE USUALLY TAX-FREE.



VALUING YOUR ESTATE

Arriving at the amount of Inheritance Tax payable

To arrive at the amount of Inheritance Tax potentially payable when valuing your estate, you need to include assets (property, possessions, investments and money) you own and certain assets you have given away during the last seven years. The valuation must accurately reflect what those assets would reasonably receive in the current open market.

THE VALUATION PROCESS

This involves taking the value of all the assets owned together with the value of:

- your share of any assets that are owned jointly with someone else
- any assets that are held in a trust, from which you have the right to benefit
- any assets which you have given away, but in which you kept an interest – for instance, if you gave a house to your children but still lived in it rent-free
- certain assets that you have given away within the last seven years

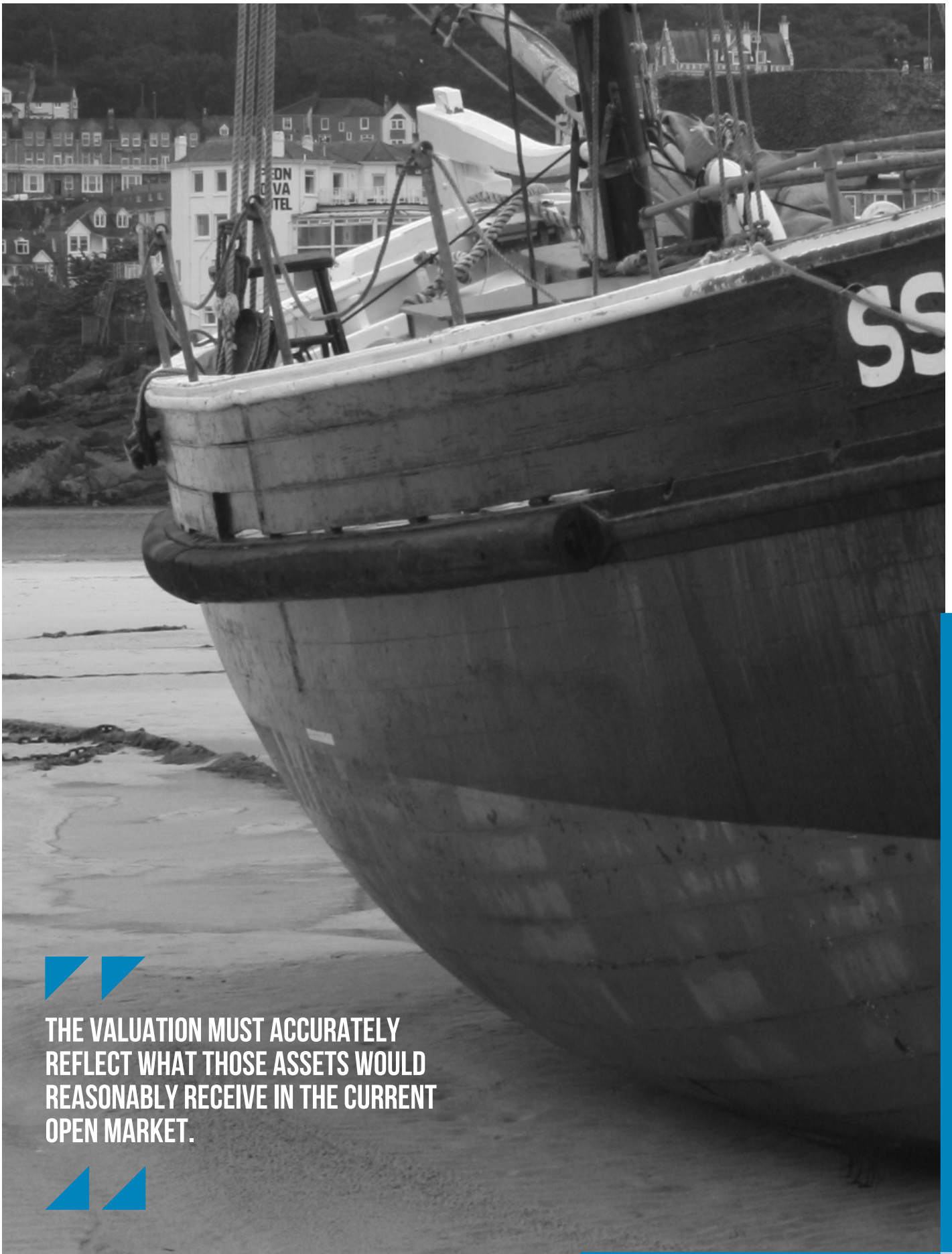
Next, from the total value above, deduct everything that is owed, for example:

- any outstanding mortgages
- other loans
- unpaid bills

The value of all the assets, less the deductible debts, gives you the estate value. The threshold above which the value of estates is taxed at 40% is currently £325,000 (frozen until 5 April 2019).

Married couples (or registered civil partners) can add up their combined estates and reduce this by two allowances of £325,000 before applying the 40% rate to estimate their potential Inheritance Tax liability.

This is based on our understanding of current tax legislation. Whether any tax will be payable, at what level it is charged and whether you qualify for tax relief will depend upon individual circumstances and may be subject to change in the future.



THE VALUATION MUST ACCURATELY REFLECT WHAT THOSE ASSETS WOULD REASONABLY RECEIVE IN THE CURRENT OPEN MARKET.





INHERITANCE TAX CALCULATOR

How much Inheritance Tax could you potentially have to pay?

To estimate how much Inheritance Tax you may have to pay, add up the value of all your wealth, subtract your liabilities and the £325,000 nil rate band allowance, and then multiply the remainder by 40%.

If you are married or in a registered civil partnership, add up your combined estates and reduce these by two nil rate band allowances of £325,000 each (£650,000) before applying the 40% rate to estimate your potential liability to Inheritance Tax.

Married couples and civil partners are allowed to pass their possessions and assets to each other tax-free and, since October 2007, the surviving partner is now allowed to use both tax-free allowances (providing one wasn't used at the first death).

Gifts made within the last seven years are not included in the calculations but may be liable to IHT on a sliding scale.

Estate values are for your general information and use only and are not intended to address your particular requirements, and should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation.

ESTATE ASSETS

Property – main residence	£
Savings – current account/s, deposit account/s, premium bonds, TESSAs, Cash ISAs, other savings	£
Investments – shares/equities, unit trusts, investment trusts, Stocks & Shares ISAs, PEPs, investment bonds, other investments	£
Additional assets – cars, holiday home/s, antiques, jewellery, works of art, boat, gifts of capital made within the previous seven years	£
Life insurance policies – policies not written in an appropriate trust	£
Total (A)	£

ESTATE LIABILITIES

Mortgage/s	£
Loan/s/overdraft/s	£
Credit card/s	£
Other liabilities – outstanding bills, hire purchase, funeral expenses	£
Total (B)	£
Total assets (A):	£
Liabilities (B):	£
Estate value (A minus B):	£
Tax-free allowance (deduct from estate value): current £325,000 Nil rate band allowance (frozen until 5 April 2018), or if you are married (or in a registered civil partnership) £650,000	
Net worth:	£
Inheritance Tax bill: (Net worth @ 40%)	£

MAKE A WILL

Sharing out your estate

Planning your finances in advance should help you ensure that when you die, everything you own goes where you want it to. Making a Will is the first step in ensuring that your estate is shared out exactly as you want it to be.

If you don't make a Will, there are rules for sharing out your estate called the 'Law of Intestacy', which could mean your money going to family members who may not need it, with your unmarried partner or a partner with whom you are not in a registered civil partnership receiving nothing at all.

If you leave everything to your spouse or registered civil partner, there'll be no Inheritance Tax to pay because they are classed as an exempt beneficiary. Or you may decide to use your tax-free allowance to give some of your

estate to someone else, or to a family trust.

GOOD REASONS TO MAKE A WILL

A Will sets out who is to benefit from your property and possessions (your estate) after your death. There are many good reasons to make a Will:

- you can decide how your assets are shared – if you don't have a will, the law says who gets what
- if you're an unmarried couple (whether or not it's a same-sex relationship), you can make sure your partner is provided for
- if you're divorced, you can decide whether to leave anything to your former partner
- you can make sure you don't pay more Inheritance Tax than necessary



Before you write a Will, it's a good idea to think about what you want included in it.

You should consider:

- how much money and what property and possessions you have
- who you want to benefit from your Will
- who should look after any children under 18 years of age
- who is going to sort out your estate and carry out your wishes after your death, your executor

PASSING ON YOUR ESTATE

An executor is the person responsible for passing on your estate. You can appoint an executor by naming them in your Will. The courts can also appoint



other people to be responsible for doing this job.

Once you've made your Will, it is important to keep it in a safe place and tell your executor, close friend or relative where it is.

It is advisable to review your Will every five years and after any major change in your life, such as getting separated, married or divorced, having a child, or moving house. Any change must be by codicil (an addition, amendment or supplement to a Will) or by making a new Will.

Scottish law on inheritance differs from English law.



A WILL SETS OUT WHO IS TO BENEFIT FROM YOUR PROPERTY AND POSSESSIONS (YOUR ESTATE) AFTER YOUR DEATH.



EXEMPT GIFTS

Passing on parts of your estate

There are some important exemptions that allow you to legally pass your estate on to others, both before and after your death, without it being subject to Inheritance Tax.

EXEMPT BENEFICIARIES

You can give things away to certain people and organisations without having to pay any Inheritance Tax. These gifts, which are exempt whether you make them during your lifetime or in your Will, include gifts to:

- your husband, wife or registered civil partner, even if you're legally separated (but not if you've divorced or the registered civil partnership has dissolved), as long as you both have a permanent home in the UK
- UK charities and political parties – not only is the gift itself exempt, but if you gift more than 10% of your taxable estate to charity, the rate of Inheritance Tax on the rest of the estate is reduced to 36%
- some national institutions, including national museums, universities and the National Trust

Your need to bear in mind that gifts to your unmarried partner or a partner with whom you've not formed a registered civil partnership aren't exempt.

EXEMPT GIFTS

Some gifts are exempt from Inheritance Tax because of the type of gift or the reason for making it. These include:

WEDDING GIFTS/CIVIL PARTNERSHIP CEREMONY GIFTS

Wedding or registered civil partnership ceremony gifts (to either of the couple) are exempt from Inheritance Tax up to certain amounts:


- parents can each give £5,000
- grandparents and other relatives can each give £2,500
- anyone else can give £1,000

You have to make the gift on or shortly before the date of the wedding or civil partnership ceremony. If it is called off and you still make the gift, this exemption won't apply.


SMALL GIFTS

You can make small gifts, up to the value of £250, to as many people





IT'S A GOOD IDEA TO KEEP A RECORD OF YOUR AFTER-TAX INCOME AND YOUR NORMAL EXPENDITURE, INCLUDING GIFTS YOU MAKE REGULARLY.



as you like in any one tax year (6 April to the following 5 April) without them being liable for Inheritance Tax.

But you can't give a larger sum—£500, for example—and claim exemption for the first £250. And you can't use this exemption with any other exemption when giving to the same person. In other words, you can't combine a 'small gifts exemption' with a 'wedding/registered civil partnership ceremony gift exemption' and give one of your children £5,250 when they get married or form a registered civil partnership.

ANNUAL EXEMPTION

You can give away £3,000 in each tax year without paying Inheritance Tax. You can carry forward all or any part of the £3,000 exemption you don't use to the next year, but no further. This means you could give away up to £6,000 in any one year if you hadn't used any of your exemption from the year before.

You can't use your annual exemption and your small gifts exemption together to give someone £3,250. But you can use your annual exemption with

any other exemption, such as the wedding/registered civil partnership ceremony gift exemption. So, if one of your children marries or forms a civil partnership, you can give them £5,000 under the wedding/registered civil partnership gift exemption and £3,000 under the annual exemption – a total of £8,000.

GIFTS THAT ARE PART OF YOUR NORMAL EXPENDITURE

Any gifts you make out of your after-tax income (but not your capital) are exempt from Inheritance Tax if they're part of your regular expenditure. This includes:

- monthly or other regular payments to someone, including gifts for Christmas, birthdays or wedding/civil partnership anniversaries
- regular premiums on a life insurance policy (for you or someone else)

It's a good idea to keep a record of your after-tax income and your normal expenditure, including gifts you make regularly. This will show that the gifts are regular and that you have enough income to cover them and your usual day-to-day expenditure without having to draw on your capital.

MAINTENANCE GIFTS

You can also make Inheritance Tax-free maintenance payments to:

- your husband or wife
- your ex-spouse or former registered civil partner
- relatives who are dependent on you because of old age or infirmity
- your children (including adopted children and stepchildren) who are under 18 or in full-time education

POTENTIALLY EXEMPT TRANSFERS

If you, as an individual, make a gift and it isn't covered by an exemption, it is known as a

potentially exempt transfer (PET). A PET is only free of Inheritance Tax if you live for seven years after you make the gift.

Gifts that count as a PET are gifts that you, as an individual, make to:

- another individual
- a trust for someone who is disabled
- a bereaved minor's trust where, as the beneficiary of an Interest In Possession (IIP) trust (with an immediate entitlement following the death of the person who set up the trust), you decide to give up the right to receive anything from that trust or that right comes to an end for any other reason during your lifetime

ONLY OUTRIGHT GIFTS COUNT AS PETS

If you make a gift with strings attached (technically known as a gift with reservation of benefit), it will still count as part of your estate, no matter how long you live after making it. For example, if you give your house to your children and carry on living there without paying them a full commercial rent, the value of your house will still be liable for Inheritance Tax.

In some circumstances, a gift with strings attached might give rise to an Income Tax charge on the donor based on the value of the benefit they retain. In this case the donor can choose whether to pay the Income Tax or have the gift treated as a gift with reservation.

A GIFT WITH RESERVATION

Getting the full benefit

A gift with reservation is a gift that is not fully given away. Where gifts with reservation were made on or after 18 March 1986, you can include the assets as part of your estate, but there is no seven-year limit as there is for outright gifts. A gift may begin as a gift with reservation, but some time later the reservation may cease.

In order for a gift to be effective for exemption from Inheritance Tax, the person receiving the gift must get the full benefit of the gift to the total exclusion of the donor. Otherwise, the gift is not a gift for Inheritance Tax purposes.

AN OUTRIGHT GIFT

For example, if you give your house to your child but continue to live there rent free, that would be a gift with reservation. If, after two years, you start to pay a market

rent for living in the house, the reservation ceases when you first pay the rent. The gift then becomes an outright gift at that point and the seven-year period runs from the date the reservation ceased. Or a gift may start as an outright gift and then become a gift with reservation.

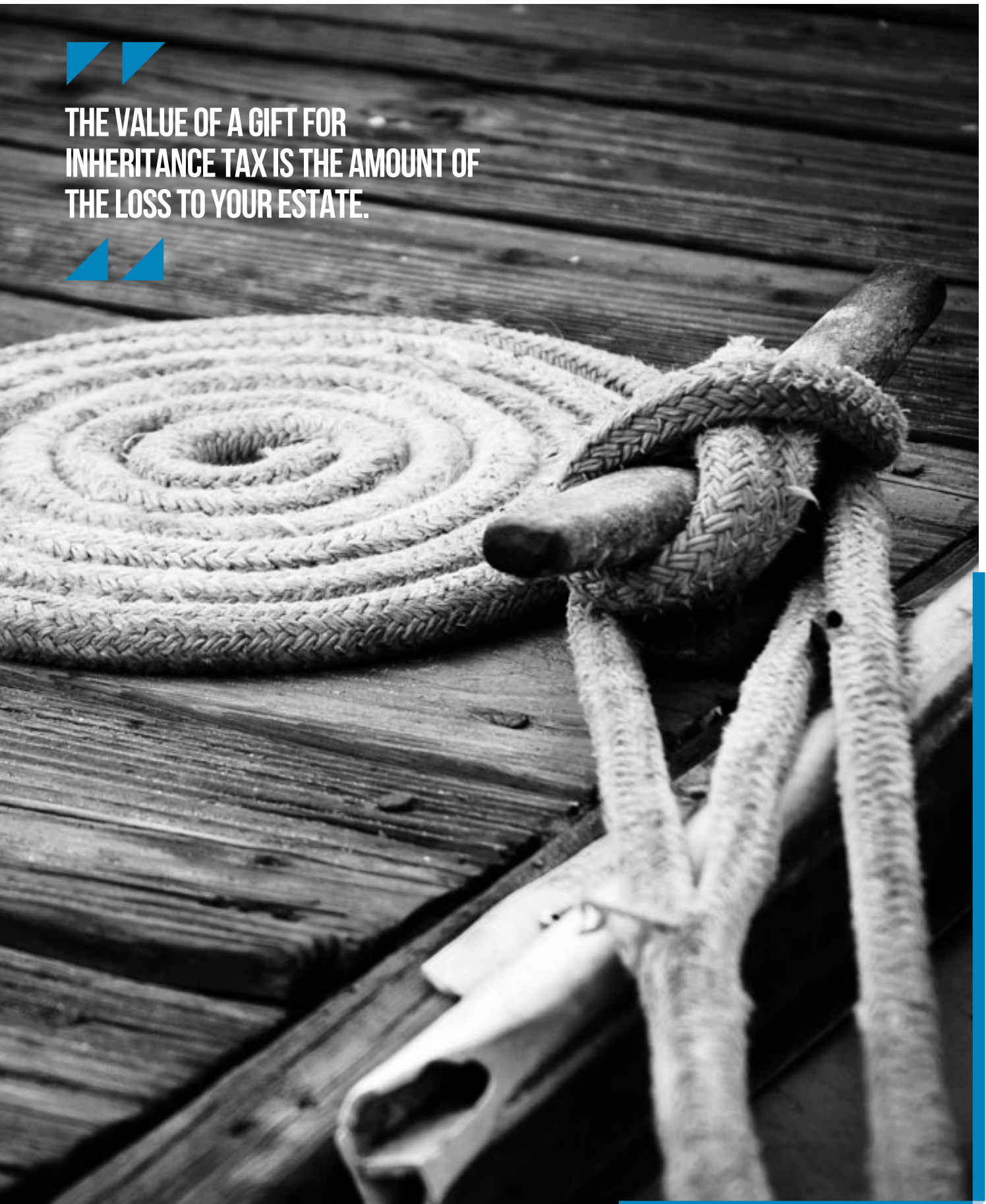
Alternatively, if you give your house to your child and continue to live there but pay full market rent, there is no reservation. If over time you stop paying rent or the rent does not increase (so it is no longer market rent), a reservation will occur at the time the rent stops or ceases to be market rent.

The value of a gift for Inheritance Tax is the amount of the loss to your estate. If you make a cash gift, the loss is the same value as the gift. But this is not the case with all gifts.





**THE VALUE OF A GIFT FOR
INHERITANCE TAX IS THE AMOUNT OF
THE LOSS TO YOUR ESTATE.**



TRUSTS

Helping you control and protect your assets

One of the most effective ways you can manage your estate planning is through setting up a trust. The structures into which you can transfer your assets can have lasting consequences for you and your family, so it is important that you obtain professional advice as the right structures can protect assets and give your family lasting benefits.

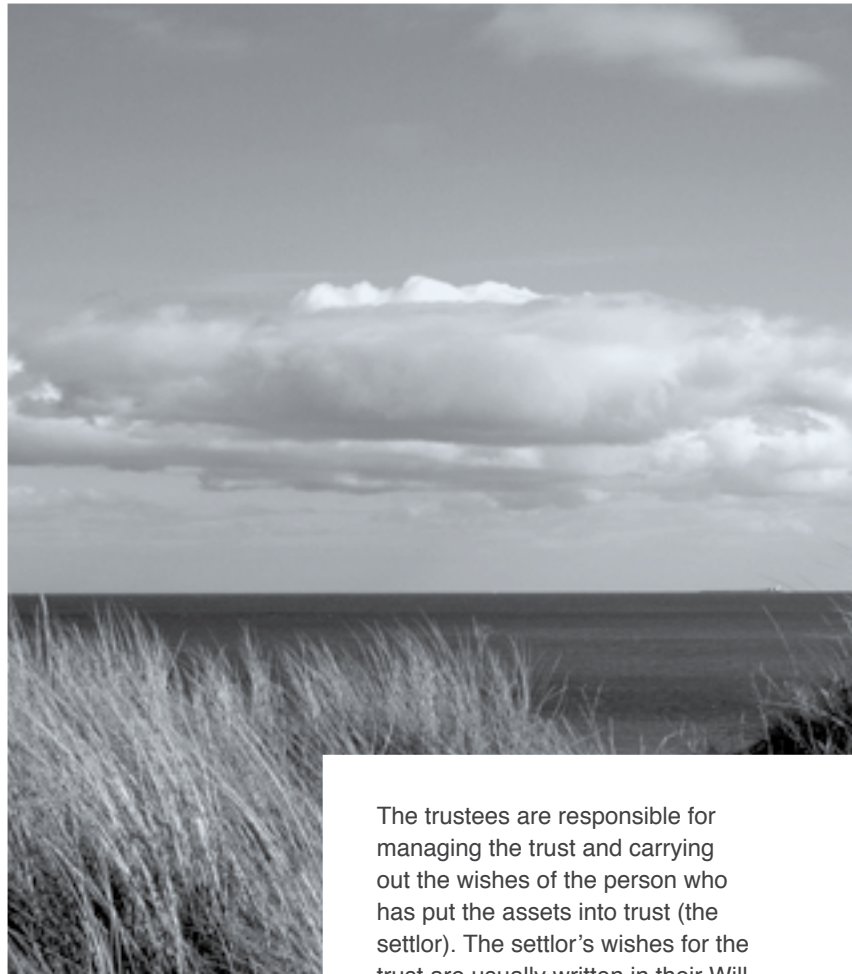
A trust is a legal arrangement where one or more trustees are made legally responsible for assets. The assets—such as land, money, buildings, shares or even antiques—are placed in trust for the benefit of one or more beneficiaries.

They are not the sole domain of the super-rich. Trusts are incredibly useful and flexible devices that people employ for all sorts of different purposes, including Inheritance Tax planning.

In its simplest form, a trust is just a legal mechanism for separating the ownership of an asset into two parts: the 'legal' ownership, or title to the asset, on the one hand, and the 'beneficial' ownership on the other hand.

It is in the course of Inheritance Tax planning, though, that people are most likely to come face to face with trusts, and seek to get an understanding of what they are and how they work. Their use is widespread and, despite some recent adverse changes in tax law, they remain an important tool in estate planning.

The trust is created when the settlor transfers assets to the trustees, who hold the assets in trust for the beneficiaries. The main reason a person would put assets into a trust rather than make an outright gift is that trusts offer far more flexibility than outright gifts.



The trustees are responsible for managing the trust and carrying out the wishes of the person who has put the assets into trust (the settlor). The settlor's wishes for the trust are usually written in their Will or given in a legal document called the trust deed.

THE PURPOSE OF A TRUST

Trusts may be set up for a number of reasons, for example:

- to control and protect family assets
- when someone is too young to handle their affairs
- when someone can't handle their affairs because they are incapacitated
- to pass on money or property while you are still alive
- to pass on money or assets when you die under the terms of your Will – known as a Will trust
- under the rules of inheritance that apply when someone dies without leaving a valid Will (England and Wales only)

There are several types of UK family trusts, and each type of trust may be taxed differently.



There are other types of non-family trusts. These are set up for many reasons, for example, to operate as a charity, or to provide a means for employers to create a pension scheme for their staff.

WHEN YOU MIGHT HAVE TO PAY INHERITANCE TAX ON YOUR TRUST

There are four main situations when Inheritance Tax may be due on trusts:

- when assets are transferred—or settled—into a trust
- when a trust reaches a ten-year anniversary of when it was set up
- when assets are transferred out of a trust or the trust comes to an end
- when someone dies and a trust is involved when sorting out their estate

The treatment of trusts for tax purposes is the same throughout the United Kingdom. However, Scottish law on trusts and the terms used in relation to trusts in Scotland are different from the laws of England and Wales and Northern Ireland.



TRUSTS ARE INCREDIBLY USEFUL AND FLEXIBLE DEVICES THAT PEOPLE EMPLOY FOR ALL SORTS OF DIFFERENT PURPOSES, INCLUDING INHERITANCE TAX PLANNING.

TRUST SOLUTIONS

Managing wealth

We can advise you on a range of different trust solutions, each designed with a particular purpose in mind.

Some types of trust are treated differently for Inheritance Tax purposes.

BARE TRUSTS

These are where the assets in a trust are held in the name of a trustee but go directly to the beneficiary, who has a right to both the assets and income of the trust.

Transfers into a bare trust may also be exempt from Inheritance Tax, as long as the person making the transfer survives for seven years after making the transfer.

INTEREST IN POSSESSION TRUSTS

These are trusts where the beneficiary is entitled to trust income as it's produced – this is called their 'interest in possession'.

On assets transferred into this type of trust before 22 March 2006, there's no Inheritance Tax to pay.

On assets transferred on or after 22 March 2006, the 10-yearly Inheritance Tax charge may be due.

During the life of the trust, there's no Inheritance Tax to pay as long as the asset stays in the trust and remains the 'interest' of the beneficiary.

Between 22 March 2006 and 5 October 2008:

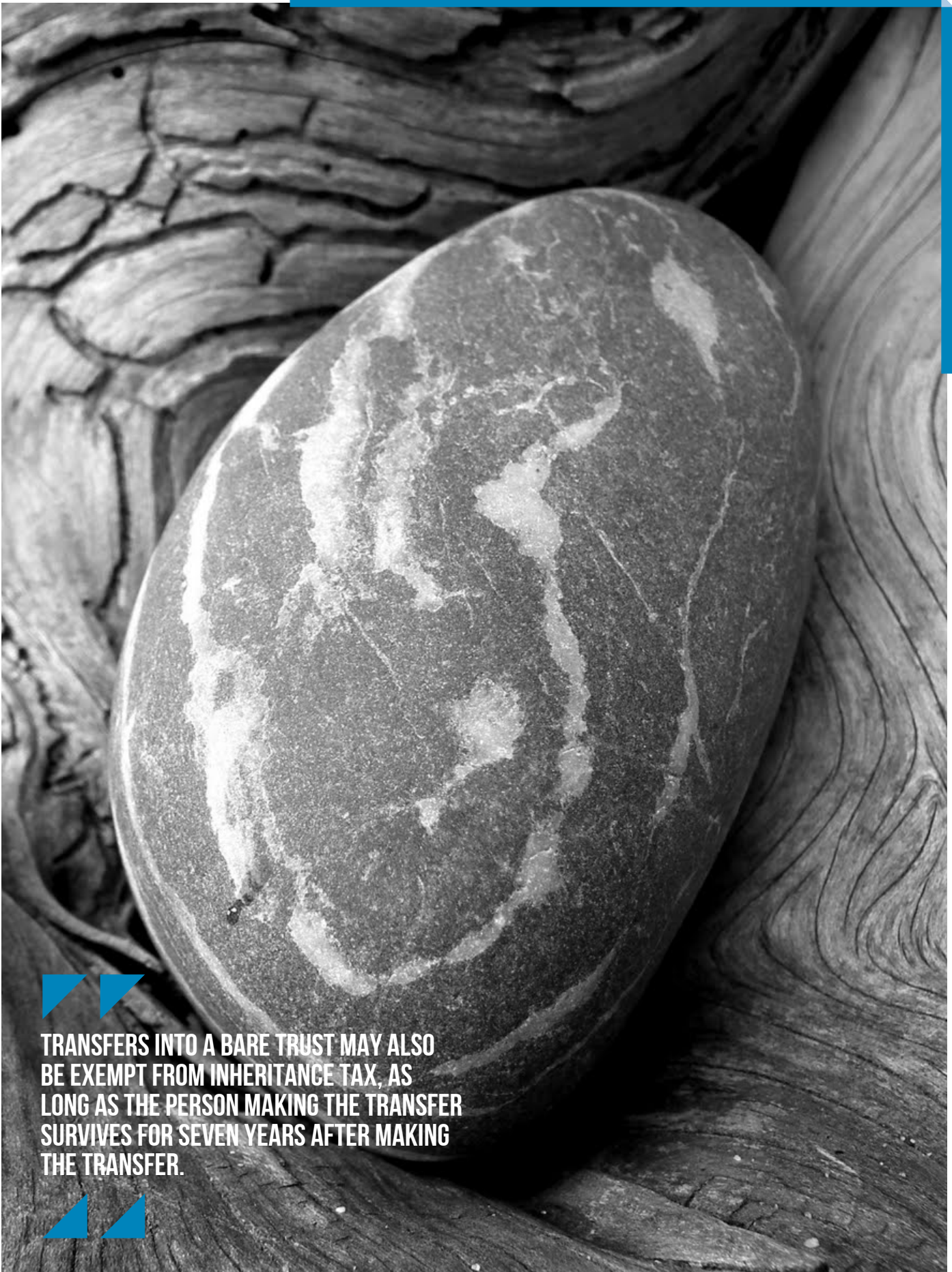
- beneficiaries of an interest in possession trust could pass on their interest in possession to other beneficiaries, like their children
- this was called making a 'transitional serial interest'
- there's no Inheritance Tax to pay in this situation

From 5 October 2008:

- beneficiaries of an interest in possession trust can't pass their interest on as a transitional serial interest
- if an interest is transferred after this date, there may be a charge of 20% and a 10-yearly Inheritance Tax charge will be payable unless it's a disabled trust

If you inherit an interest in possession trust from someone who has died, there's no Inheritance Tax at the 10-year anniversary. Instead, 40% tax will be due when you die.

The treatment of trusts for tax purposes is the same throughout the United Kingdom. However, Scottish law on trusts and the terms used in relation to trusts in Scotland are different from the laws of England and Wales and Northern Ireland.



TRANSFERS INTO A BARE TRUST MAY ALSO BE EXEMPT FROM INHERITANCE TAX, AS LONG AS THE PERSON MAKING THE TRANSFER SURVIVES FOR SEVEN YEARS AFTER MAKING THE TRANSFER.



LIFE ASSURANCE COVER

Funding a potential Inheritance Tax liability

After taking the appropriate steps to put in place an Inheritance Tax planning strategy, if there is still the potential likelihood of a liability on your estate or if you have made gifts which have created a potential liability for the recipients if you die within seven years, we can help you review how you could fund this liability in the most efficient way.

By using life assurance cover, it is possible to use the proceeds to fund a potential Inheritance Tax liability whenever it may arise. Life assurance cover is often the only means of providing immediate protection against a future Inheritance Tax liability. Each premium payment is classed as a gift for Inheritance Tax purposes.

THE TWO COMMON POLICY TYPES ARE:

Whole of life policies - To generate a payment on death to cover the tax liability on the estate.

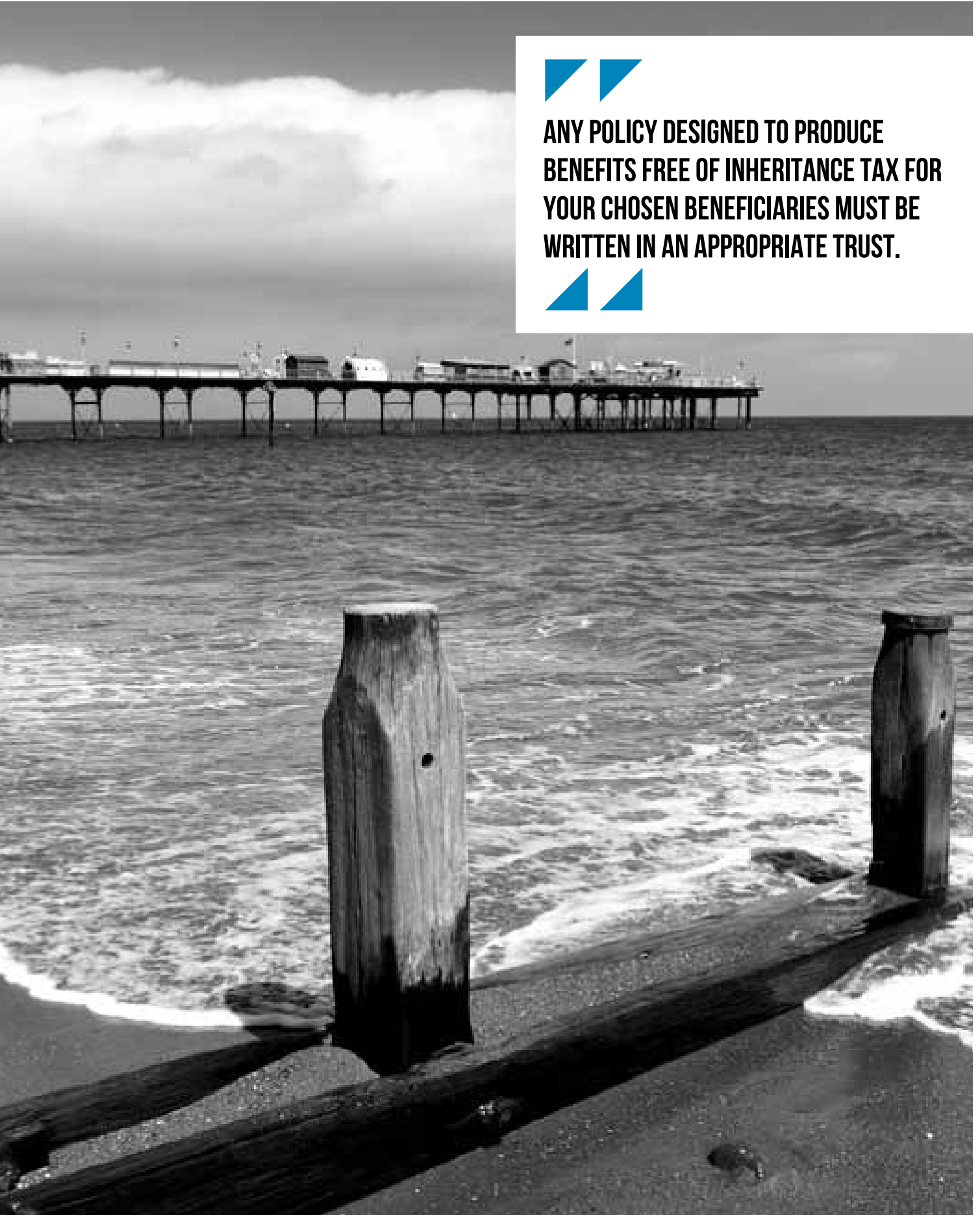
Reducing term policies - To cover the tax liability payable by the recipient of a gift if the donor dies within seven years.

Any policy designed to produce benefits free of Inheritance Tax for your chosen beneficiaries must be written in an appropriate trust. The trust will enable policyholders to retain control over the ultimate destination of the benefits.





**ANY POLICY DESIGNED TO PRODUCE
BENEFITS FREE OF INHERITANCE TAX FOR
YOUR CHOSEN BENEFICIARIES MUST BE
WRITTEN IN AN APPROPRIATE TRUST.**



Helping you to take control of your future

Wealth Preservation is a complex area and requires professional financial advice. The structures into which you transfer your assets can have lasting consequences for you and your family. We can help you choose structures and trusts designed to protect your assets and give your family lasting benefits.

Although we have tried to simplify the principles in this guide by looking at the solutions in isolation, the majority of our clients require a strategy which incorporates a combination of different solutions.

We are able to provide the one-to-one expertise you need to protect your assets. By gaining a real understanding of your requirements, we can offer you effective solutions to reduce or mitigate altogether an Inheritance Tax liability. To arrange a consultation with one of our advisers, please contact us to discuss your requirements.

Contact us today

Content of the articles featured in *A Guide To Wealth Preservation* are for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. The performance of the investment funds will have an impact on the amount of income you receive. If the investments perform poorly, the level of income may not be sustainable.