



Case Study | Inheritance Tax Planning

We were contacted by Derek who holds a Lasting Power of Attorney for his elderly aunt. His initial concern was Inheritance Tax (IHT). As we are regularly asked for help and advice on this matter, we have summarised the guidance recently provided to provide some insights.

The Client Situation:

Derek's Aunt Sue has no children and was recently widowed. Sue had not been involved in making financial decisions while her husband was alive and was unaware of the size of her estate. She did not want to pay Inheritance Tax (IHT) on her hard-earned wealth and did not want to oversee and maintain regular investment decisions.

Sue wanted to make her finances clear and simple to understand. She wanted to know what she had available to live on; to be able to distribute some funds to her family while she was alive and reduce her IHT liability. This is when Derek contacted us for help.

Taking her priorities into considerations. We worked with Derek and Sue to design a strategy to fulfil these objectives by advising on a number of solutions.

The options:

We discussed setting up a life assurance policy on her, written in trust for her beneficiaries, to enable them to pay the IHT bill upon her death. This could be funded from her excess income as under HMRC rules payments made out of normal expenditure are also exempt from IHT.

We also discussed setting up an investment bond written in trust for her beneficiaries which would take these funds out side of her estate after seven years.

Selected solution:

Due to her age and failing health, life cover was not an option. Couple this with the conditions attached to the trust and the 7 year timespan - this was not attractive to them.

We decided on an investment option available in either a cautious or speculative investment that could be placed in an ISA to make the proceeds free of income tax and capital gains tax.

Most importantly for Sue, she would be free of IHT and outside of her estate after only 24 months. This is because the underlying asset qualified for 'business relief' which is one of the many HMRC allowances we are all entitled to. Sue continued to have full access to the funds for any future withdrawals or income she may need.

We also confirmed Sue's annual gifting allowance, and assisted them in setting out further gifting from her disposable / surplus income enabling her to pass funds to her family and for her to see them enjoying the money while she is still alive.

Ongoing support:

We meet with the family regularly to review their finances to ensure they continue to meet their needs and make any appropriate amendments required from changes in taxation and legislation.

"We are grateful to the team at Financial Advice Centre with the thorough investigation of our complicated circumstances and for setting up a strategy we can understand and monitor with ease. This has given Sue huge peace of mind at this time in her life."

Derek & Sue