Estate Planning Strategies: Part 2

Karina
Thank you for joining me today Paul to discuss estate planning strategies.

Paul, can you summarise how to approach the lifetime strategies.

Paul
So, during your lifetime you'll want to consider various strategies to adopt, some of which you may choose to undertake immediately and others over the longer term as your needs become more apparent.

Karina
And what are the lifetime strategies – the main ones?

Paul
So, gifting is something we see frequently: gifting out of excess income, gifts into trust, asset conversion or even life insurance.

Karina
How do these estate planning strategies work and when may they be appropriate? Let's start with lifetime gifts.

These are often made for specific purposes, such as the purchase of a house or help with a business and, provided you survive for seven years from the date of the gift, you don't currently need to worry about inheritance tax.

Karina
And what about gifts out of excess income?

Paul
The current rules for gifting from excess income are incredibly generous, and we don't know how much longer they'll last. Provided you can demonstrate that the gift isn't derived from capital, then it's immediately exempt from inheritance tax and not subject to the seven-year tapering rule.

And this is probably one of the strategies we see clients adopt most frequently.

Karina
And how about gifts into trust?

Paul
So, this type of planning we most often see for business owners presale of their business where the shares will qualify for a particular relief called business property relief. Where this relief isn't available, it's quite unusual for us to see assets being placed on trust above the available no rate band, which is only £325,000.

And the reason for this is that the assets placed on trust above that level will attract a lifetime charge to inheritance tax of 20%.

Paul
What about asset conversion, Karina?

Karina
This would typically involve acquiring assets that have an inheritance tax relief such as business property relief, which you've just spoken about, or agricultural property relief. And what's important is, they might qualify today but this may not be so in the future.

So, if they cease to qualify or they're disposed of then you would need to look at replacing them if you want to benefit from one of these two reliefs.

Karina
Let's now look at the position of those who are UK resident but non-domiciled and who've been resident in the UK for less than 15 out of the last 20 years, so they're not deemed domiciled.

Paul
Those in this position are always potentially exposed to UK inheritance tax on their UK-situated assets. So, typically we see a number of strategies, for example, keeping assets offshore or outside of the UK can provide more than just income tax and capital gains tax advantages. Provided those assets don't have a UK situs, then they'll be outside of the charge to UK inheritance tax.

However, it's not that simple. For example, taking things like real estate overseas, that may well be charged to some form of estate tax locally, even if UK inheritance tax isn't in point.

Are there any other strategies we see?

Karina
Well, one would be to set up an offshore trust. A number of people before they become deemed domicile and intend to remain in the UK beyond their 15th year, often set up an offshore trust into which they settle assets so that they won't be within the scope of inheritance tax.

But there's one thing they have to remember is any UK property, however that's owned, will always be subject to UK inheritance tax.

Paul
What about gifting?

Karina
So, if they make a gift offshore before they've been here 15 out of the last 20 years, let's say that they gift, someone gives £1 million to someone else from their offshore account to the other person's offshore account, there's no UK inheritance tax. However, if they make the same gift out of a UK bank account to the other person's UK bank account, it'll be subject to the seven-year taper. So, what normally people do is that they leave assets to their spouse or civil partner who shares the same domicile status. And the reason they do this is there's no inheritance tax on first death.

However, on second death there will be inheritance tax. So, a number of people tend to take out debt when they acquire a net asset so that it reduces the inheritance tax. And then they follow one of the inheritance tax strategies that we've been talking about today.

What are the key takeaways?

Paul
Think about the vision for the wealth you've created. Do you want to leave it to the next generation, successive generations, or will the majority of it get left to charity. Set aside time to review your planning with your spouse and your professional advisers, and regularly review your Wills and letters of wishes to ensure they reflect your thoughts. Is there anything else?

Karina
Consider the impact of any estate planning strategy that you adopt to ensure that it doesn't impact on your financial position.

And the other thing is, prepare your children for their inheritance, because if you undertake any estate planning and you don't align the planning across the generation, then whatever planning you've undertaken will be diluted if there's no planning in future generations.

Paul
Thank you, Karina, for your time today and the points you've raised.

Karina
Thank you for your input today Paul.

And I'm sure if anybody wants more information, they can contact their Relationship Manager who can put them in touch with us.