Estate Planning Strategies: Part 1

Karina
Thank you for joining me today Paul to discuss estate planning strategies. When we embark on an estate planning strategy, where do we normally start from?

Paul
So, we always begin with death, making sure that the position's certain should you die unexpectedly. And, once we've set out the plans there, then we focus on lifetime planning.

Karina
And what are the options on death?

Paul
So, you can gift assets directly, you can gift to a trust or even a combination of both.

Karina
And why would you leave your assets directly to your beneficiaries in your Will?

Paul
So, it's simple but, you're leaving the wealth you've created directly to your beneficiaries for them to handle as they wish. And this may, of course, be a good thing.

But what happens if they spend the entire legacy leaving little or nothing for future generations.

Why would you leave some of your estate in trust on death, Karina?

Karina
For two reasons: control and asset protection. So, if we start with control; if you want to benefit future generations rather than just the next generation, by putting it in trust you are guiding the trustees not to just distribute to the next generation because, if they did that, it would be like leaving it to them directly.

So, by putting it in trust you need to guide the trustees to ensure that they acquire assets, that's what some people do, rather than make distributions the trust acquires the assets, it might be property for the beneficiaries, it might be a business interest, or it might be investments. And this is to ensure that future generations can also benefit.

The other reason is asset protection. So, from an asset protection point of view, if you put money in trust, rather than leaving it directly to beneficiaries, if there's a divorce amongst the beneficiaries, there's less access where a trust is involved. Not a guarantee, but it can also help where you've got vulnerable beneficiaries who may be susceptible to outside influences.

And those are the reasons people would look at using a trust.

Paul
How would this work?

Karina
You may have created a trust during your lifetime. Let's say you had shares in your business and before selling it, you transferred some of those shares into trusts. So, that could have been created during your lifetime. The other one is that a trust may be created in your Will into which the assets will pass on your death.

And the latter is what's also called a testamentary trust.

Paul
So, what do most people do?

Karina
Most people do a combination of the two. So, they leave outright gifts but the bulk of it actually goes into trust for future generations as well.

Paul
And when might insurance be considered?

Karina
This is often considered for, say, a lifetime gift over seven years, or even over a longer period or on a whole-of-life basis.

The younger you are when you take out the insurance the more cost effective it is. And the reason people take it is that it leaves them in control of their assets over a longer period. It's simple. It doesn't fix the problem, but at least it gives the beneficiaries some or all of the money to pay towards the inheritance tax liability.

Paul
Are there any other strategies we could consider?

Karina
Yes, asset freezing, where you freeze the value of your estate, leaving the growth in the hands of the beneficiaries. And the type of strategy could be undertaken with an insurance contract such as a gift and loan trust or a gift into a corporate where you subscribe for different share classes with different rights.

Are there any other ways of minimising the inheritance tax liability on death?

Paul
Yeah, there's a there's a couple of options we see adopted frequently. Should you leave 10% of your estate to a qualifying charity on death, and that can bring the rate of inheritance tax down from 40% to 36%, or doing something simple like leaving taxable assets to the surviving spouse, provides flexibility in the future around inheritance tax planning.

Karina
What do most people do?

Paul
So, typically we see a combination of strategies ensuring that we don't focus solely on inheritance tax planning and give away too much too soon, leaving you with little or insufficient resources for your future needs.

Karina
Thank you for your input today Paul.

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

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