Teachers Financial Planning

Estate planning

This guide is designed to highlight important areas of estate planning but please contact us to discuss your specific situation.

Estate planning is essentially about passing the proceeds from your estate to your chosen beneficiaries and minimizing or eliminating HM Revenue & Customs' take from your wealth. The earlier you start planning to pass on your estate, the better. But, it is never too late to start. Effective planning can make a huge difference to the amount left to your beneficiaries when you die, especially if your total estate is worth more than £325,000.

Where to start?

Ask yourself the following questions:

Who?

Who do you want to benefit from your wealth when you are gone? What will your spouse need? Should your grandchildren be included? Will you donate to charity?

What?

Who will your business pass to? What about your home? Do you want to leave particular heirlooms or possessions to specific beneficiaries? How much will you leave to each beneficiary?

When?

What age should your children or grandchildren be before they benefit? Should some assets be placed into trust? What about giving assets away early?

Once you have answered these questions you can start to craft a plan that reflects your wishes.

The role of a Will

Anyone who owns property – a home, a car, investments, business interests, retirement savings, collectibles, personal belongings – needs a Will. Without one, your estate will be distributed according to intestacy law and your wealth could end up in the hands of people you had no intention of leaving it to.

The effect of dying 'intestate' (without a Will) can be devastating on your loved ones. There could be delays, potentially avoidable tax payments to be made and your assets will be distributed according to a set of rules that will probably not reflect your intentions.

A professionally drawn up Will can play a vital role in estate planning, including:

- Protecting your family by making provisions to meet their present and future financial needs
- Minimising or eliminating liability to taxes that might reduce the size of your estate
- Ensuring that your wishes are carried out when you die
- Naming a trusted guardian for your children
- Establishing trusts to manage the deferral of the inheritance of any beneficiaries.

Inheritance tax

Not everyone pays inheritance tax (IHT). It is only due if your assets – including anything held in trust and gifts made within seven years of death – is valued at over £325,000. This threshold is known as the 'nil rate band' and it is expected to remain at £325,000 until at least 2019.

Anything over this amount will be taxed at a standard rate of 40 per cent unless you leave more than 10 per cent of your estate to charity, in which case the rate of IHT is reduced to 36 per cent instead.

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There are a number of exemptions that can be used to pass on your wealth during your lifetime, including:

- The annual gifting exemption of £3,000
- Normal expenditure gifts out of after-tax income
- Wedding gifts (up to specified limits)
- Small gifts of up to £250.

For wealthier individuals the normal expenditure rule is particularly important. IHT is also not normally charged on anything you leave to your spouse or civil partner as long as their permanent home is in the UK.

The seven year rule

Any gifts you make to individuals during your lifetime will be free from IHT as long as you live for seven years after making the gift. Even if you die within seven years of making such a gift, 'taper relief' applies and provided that you live for at least three years after making the gift, a reducing rate of IHT will apply until the seven year anniversary when no IHT will apply. Such gifts are known as 'potentially exempt transfers'. These gifts are exempt regardless of their value, providing you no longer benefit from them once they have been given away.

Don't waste the nil rate band

Although you can make exempt transfers to your husband, wife or civil partner, you are both entitled to your own nil rate band of £325,000. Since 2007 it has been possible to transfer any unused portion of your nil rate band to your spouse or civil partner upon death. Doing so could ultimately protect more of your combined wealth from IHT.

For example:

Peter and Kate are married. When Peter dies he passes his nil rate band allowance of £325,000 to Kate. Upon Kate's death, her estate is worth £750,000 but she can use both nil rate bands to minimise the liability to IHT.

Kate's estate	£750,000
- Peter's nil rate band of £325,000	£425,000
- Kate's nil rate band of £325,000	£100,000
Potential IHT charge at 40%	£40,000

If Kate hadn't used Peter's allowance, her estate would have had an IHT liability of £170,000.

Transferring a nil rate band is subject to complex and technical HMRC requirements, so taking specialist advice is essential.

Discretionary trusts

Discretionary trusts can play an important role in estate planning, potentially allowing you to reduce your IHT liability while retaining some control over the assets placed within the trust. Unlike other lifetime gifts, which become the property of the recipient, gifts made via a discretionary trust allow you to remain in control of where they are invested, whilst reducing the value of your estate and consequent IHT liability. It is important to note that you cannot retain any benefit or potential benefit in the assets that you gift into a discretionary trust if it is to be effective for IHT purposes.

Transfers into a discretionary trust are taxable if the value plus that of any earlier transfers is greater than £325,000. IHT is charged at a reduced rate of 20 per cent, unless the settlor (the person who opens the trust, places the assets into it and says who will benefit from the assets) dies within seven years of the transfer, when a further 20 per cent will be payable. There are also IHT charges on trusts due every 10 years.

There are several types of trust available. Discretionary trusts are generally the most widely used and flexible but rules do vary and it is important to seek professional advice.

Life insurance

You should review your life insurance policies and, where appropriate, have any death benefits written into trust. This means that when you die the payouts fall outside of your estate and are not subject to IHT, whilst your beneficiaries will also receive the benefits more quickly.

Depending on your circumstances, you may also choose to reduce the impact of IHT by taking out a 'whole of life' insurance policy that is written in trust. This can be paid for with monthly premiums or with a one-off lump sum and the death benefit can be used to meet some or all of the IHT due.

Like trusts, life insurance can be complicated and it is vital that you seek professional advice.

When to review?

Just like any financial planning, your estate plans can easily become outdated. Changes in your circumstances may mean that you need to update both your Will and other estate plans. Changes that may prompt a review include:

- Marriages in the family
- Divorce
- A decrease in your estate's value
- Changes in tax law
- Retirement
- The sale of a business
- The birth of a child or grandchild.

Your financial adviser will be able to help and advise when it comes to estate planning. Please contact us to find out more.

Important information
The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. Some estate planning advice and services, such as will writing and advice on gifting, are not regulated by the FCA. The value of investments can fall as well as rise and you may not get back the full amount you originally invested. Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information. Errors and omissions excepted.