Fairstone
INTELLIGENT WEALTH MANAGEMENT

–BROCHURE

Estate planning

Create a legacy for future generations

Estate or inheritance planning is simply outlining what you want to happen to your estate and your dependents when you're no longer here.

A robust plan using tax efficient measures including wills and trusts could help you protect your assets and help your loved ones.

Estate planning covers:

- Managing your tax obligations
- Putting a comprehensive will in place that reflects your wishes
- Creating a long-term care plan to provide for your future needs
- Safeguarding the financial stability of your loved ones

Estate planning is not just for the wealthy. Largely due to the enhanced value of homes in the UK, it is predicted that £400 billion will be passed from grandparents to the next generation over the next 10 years, the majority of which will be above the inheritance tax threshold.

Your Fairstone financial planner will work with you to estimate your potential inheritance tax obligations and provide you with tailored advice on how to manage these requirements.

Your estate planning strategy

Common considerations include:

- Utilising available tax allowances and exemptions
- Taking insurance to cover your bill
- Reducing your estate by making tax-free gifts
- Spending your money

Your financial adviser can guide you towards the options that are best for you and your circumstances.

Inheritance tax planning

Without proper financial planning, the harsh reality is HM Revenue & Customs could become the largest beneficiary of your estate following your death.

Introducing inheritance tax

- Inheritance tax is a tax on any part of your estate that exceeds your personal allowance when you die
- Anything left to either your spouse or civil partner will be exempt from inheritance tax, regardless of whether the value exceeds this threshold
- It is usually charged at 40%
- The executors of your estate must pay your inheritance tax bill within six months of your death
- Until the inheritance tax bill is paid, probate will not be granted and your assets can't be distributed in line with your will

Inheritance tax is payable if your estate exceeds the nil-rate band threshold, which will be fixed at £325,000 until 5 April 2026. As of 6 April 2017, each person who is a homeowner now gets an additional £175,000 (fixed until 5 April 2026) tax free allowance to use against the value of their home if it is passed to a direct descendant upon death.

Anything in excess of your nil-rate threshold is taxed at 40%. It is worth noting that anything left to either your spouse or civil partner will be exempt from inheritance tax, regardless of whether the value exceeds this threshold, but then it is taxable upon their subsequent death.

Anyone who is married or in a civil partnership may also be able to transfer any unused portion of their nil-rate threshold to their surviving partner.

While the nil-rate threshold of £325,000 may seem like a lot, once you take the value of your home into account it is highly likely your estate will exceed your tax free allowance even after offsetting the additional £175,000.

Although homeowners benefit from the additional £175,000 tax free allowance, this amount can reduce depending on the estate value. Speak to your financial adviser for more detail on how this could impact you.

You will also need to remember that the rates and thresholds are based on current UK law and are subject to change.

The rules and exemptions around inheritance tax can change regularly and there are severe penalties for breaking tax rules. Professional financial advice can help you to reduce your tax liability and ensure that your loved ones receive the legacy that you have worked hard to create.

Utilising tax allowances

Pensions, business property relief and trusts

Pensions

When it comes to pensions, there is no one size fits all approach, and each of us will have our individual ways of saving into our retirement pots. Those pensions you have built up a fund value with are generally not subject to inheritance tax, which can be a benefit of using pensions for estate planning. Please refer to our retirement planning brochure for further information or speak to your financial adviser.

Business property relief (BPR)

As you approach retirement you may not want to relinquish your assets fully and instead maintain either control or access. Making use of BPR can help you do this in a tax efficient way.

If you have been a business owner for at least two years, BPR could be beneficial. Although the value of your business will be added to your estate upon death, the estate could receive up to 100% relief.

You don't necessarily have to be a business owner to utilise this relief - certain company shares also benefit whether held directly or indirectly such as within an ISA. .

Your adviser can provide you with an insight into how best to use this relief and make you aware of the relevant risks.

Trusts

A trust is a way to make sure your assets are given to your loved ones in a timely manner, without incurring an inheritance tax bill. One benefit of using a trust is that it can be set up exactly to your own wishes.

Trusts can be very complex and we recommend speaking to your Fairstone financial adviser when considering this route.

Using life insurance to cover your inheritance tax bill

To support your beneficiaries in paying future inheritance tax liabilities, you could take out a life insurance policy to cover the anticipated bill.

After you die, your assets cannot be distributed in line with your will until the inheritance tax bill has been settled. This often causes issues as the tax needs to be paid but the money from your estate cannot be released to pay it.

An insurance policy that will pay out a lump sum on your death could act as a means of settling the bill quickly and easily.

It is important to remember to set up any such policy in trust. This ensures the payout can go directly to your beneficiaries. If you don't utilise a trust, the money will form part of your estate and your loved ones won't be able to access it until the inheritance tax bill has been paid.

A Fairstone financial adviser can support you in finding the right policy for your circumstances and ensure it is efficiently set up.

Reducing your estate

Gifts

You don't need to wait until after you have gone to share your wealth with your loved ones. You may want to help parents with their long-term care costs, support a child with a deposit for their first home or pay the education fees for a grandchild.

While HMRC has put rules in place to prevent people from avoiding an inheritance tax bill by simply giving away all of their money on their deathbed, individuals are entitled to give away £3,000 of capital in total, each tax year, free from inheritance tax. This annual gift allowance can be backdated by one year, so where the full £3,000 is not used, it can be carried forward to the next tax year.

This means that a married couple could give away a total of £6,000 a year to their children without incurring inheritance tax (or £12,000 if the previous year's allowances were unused).

Any gifts exceeding these amounts will be classed as potentially exempt transfers. If the person dies within seven years of making the gift, inheritance tax will be payable on a tapered basis. If the person making the gift lives for longer than seven years, the gift becomes fully exempt from inheritance tax.

There are many other gifting options that your Fairstone independent financial adviser can advise you on including:

- Small gift exemptions
- Marriage and civil partnerships gifts
- Maintenance gifts
- Bequests
- Trusts
- Gifting from regular excess income

Gifts in trust

Sometimes making outright gifts may not be the most appropriate choice. For example, if you wanted to give a gift to someone not old enough to manage it. In these situations, you could make a gift in trust.

This lets you choose who receives the gift, when they receive it and what they can use it for.

Your future

While most people focus on what they can leave behind, it is important to remember that you have worked hard for your money and you should make sure you enjoy it. It is also sensible to think about your longer-term financial freedoms and the potential need for later life care.

Long-term care

Did you know that if you have assets of more than £23,250 (in England and Northern Ireland), £30,000 (Wales) and £26,250 (Scotland) you would not be entitled to financial assistance from your local authority towards your care fees?

Latest figures reveal that the average weekly cost of a room in a residential home in the UK is £704, and a room in a nursing home cost £888.*

As we continue to live longer, the cost of long-term care is something we should all be thinking about. Professional financial advice can help you make provisions for your care costs in later life.

Spending your money

It may seem obvious but spending your money will reduce your inheritance tax bill. That said, spending too much money now could mean a shortfall in the future. Your financial adviser can work with you to forecast your future finances, showing you how much money you'll need for your projected retirement plans, how much you can afford to spend and how much you have to gift - leaving you confident in your decision making and giving you peace of mind for the future.

Powers of attorney

There may come a time when you are not physically or mentally able to make decisions regarding your finances or welfare. To protect you in this situation, you can entrust someone to manage your affairs for you if the need arises. This is called a lasting power of attorney.

If you lose the mental capacity to make your own decisions without a power of attorney in place, an application would need to be made to the court for someone to be designated to act on your behalf. This can be time consuming and expensive, but most importantly, you would have no control over who would be making your decisions.

** Source: www.carehome.co.uk, September 2021*

Estate planning can be an extremely complex and emotive area...

Advanced planning and independent financial advice can help ensure you have the most effective plan in place to meet your unique needs and enable you to create a legacy for future generations.

Every family is different, and we will work with you and your beneficiaries over the long-term to ensure your plan stays relevant to your circumstances and most importantly that it remains tax efficient.

Get in touch today to book your no obligation initial consultation:

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*All Trustpilot references are correct as of time of print, February 2022.

Information is based on our current understanding of taxation legislation and regulations.

Any levels and bases of, and reliefs from, taxation are subject to change.

The rules around trusts are complicated, so you should always obtain professional advice.

The value of investments and the income they produce can fall as well as rise. You may get back less