Magenta
FINANCIAL PLANNING

Magenta's Estate Planning Toolkit

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What is this toolkit?

Estate planning involves advice about passing on more of your assets to the next generations by reducing your potential Inheritance Tax (IHT) .
This toolkit will give you tips to help with your planning and guidance about some of the simple steps that you can take to mitigate Inheritance Tax.

"Inheritance Tax is a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue"
Former Labour Chancellor Roy Jenkins

Understand your future

As you get older, your thoughts may turn to your legacy - determining the value of your estate, what you want to leave to which beneficiaries and how much inheritance tax they may have to pay.

It may be important to you to help family now, rather than after you have gone and to do this you will need to know you will have enough capital for your later years (including potential care costs) and the financial impact of making gifts.

A **personal lifetime cashflow forecast** can help determine what you need for the future, taking into account your current and future income/expenditure, assets and liabilities. Magenta specialises in estate planning and later life options, enabling you to understand when and how you should draw from pensions, make gifts and utilise specialist exemptions, and how your decisions will impact on your future plans.

Firstly, what is inheritance tax?

Inheritance Tax is a tax charge on any part of your estate that exceeds your personal allowance (also known as the nil rate band). Your estate is the combination of your property, savings and investments, other assets and any gifts you gave away in the seven years leading up to your death.

How much is Inheritance Tax?

Inheritance Tax is usually charged at 40%. This drops to 36% if you give away at least 10% of your estate to charity.

How do I calculate my liability to IHT?

Click **here** to calculate your IHT liability.

Remember that every £1,000 reduction in your estate will save £400 in IHT.

For every £100,000, that means £40,000!

The Nil Rate Band (NRB)

The nil rate band is your personal allowance that is free from Inheritance Tax.

It is currently £325,000 per person. Any unused allowance can be transferred between married couples and civil partners when they die, meaning you could potentially pass on up to £650,000 without your beneficiaries paying any Inheritance Tax.

The Residence Nil Rate Band (RNRB)

The residence nil rate band is a new allowance for passing on the family home that was introduced in April 2017. The allowance is currently £125,000 and will increase over the next two years, up to £175,000 in April 2020.

As the allowance can be transferred between spouses, this means married couples and civil partners could potentially leave £1 million to the next generation with no Inheritance Tax to pay.

The allowance is tapered down for people with larger estates – it will reduce by £1 for every £2 your estate is over £2 million. The residence nil rate band only applies to the family home (not a second home or buy-to-let property) and can only be used when passing on assets to direct descendants.

Watch this **FILM** that explains this all in simple terms.

How much money can you afford to give away?

Recent surveys show that around £5.5 trillion pounds of wealth will be transferred from the baby boomer generation over the next 20-30 years.

At Magenta we are primarily concerned with the happiness and security of our clients but there is a balance to be considered here too. It may make parents and grandparents happy to set up their young people, but too often we have seen clients compromise their own future security by giving away too much – and sometimes to ungrateful, expectant recipients.

As we are all going to be living longer and not necessarily in the best of health, it is important to ensure that we don't give away too much and that we maintain a cushion of wealth to pay for our health and nursing care in the future as well as the things that bring us joy.

We can calculate the long-term impact any gifts could have so you'll know how much you can give away without affecting your lifestyle.

Making outright gifts

Depending on your personal circumstances, making gifts within your lifetime may be an effective way of reducing a potential IHT liability on death. Lifetime gifts fall into one of three categories:

1) Exempt gifts, ignored for IHT purposes both when they are made and on subsequent death.

2) Gifts to most types of Trust, immediately liable to IHT as Chargeable Lifetime Transfers (CLTs).

3) Any other transfers, classified as Potentially Exempt Transfers (PETs) which are only liable to IHT if the donor dies within 7 years of the date of the gift.

Any gift made, whether into Trust or directly to a person, should be unconditional. This means that you should derive no benefit from the gift, otherwise it will be considered for IHT purposes to be a "gift with reservation" (GWR) and it will fall back into your estate for the purposes of calculating tax.

Small tax exempt gifts

Certain gifts leave your estate immediately after being made, and are therefore free from Inheritance Tax:

• Gifts up to the value of £3,000 a year (your annual gifting allowance). The £3,000 can be split between as many people as you like, and if you don't use it you can carry it forward one year for a maximum allowance of £6,000

• Wedding or civil ceremony gifts of up to £1,000 per person (£2,500 for a grandchild or great-grandchild, £5,000 for a child)

• Small gifts of up to £250. You can make as many of these gifts as you like but they can be no more than £250 per person

• Regular gifts out of excess income, as long as they won't affect your normal lifestyle

• Gifts to charities, museums, universities, sports clubs and some political parties

Watch our short **FILM** about gifts **here**.

Making large gifts or gifts to Trust

Trusts make it possible to give gifts to others while keeping control of the money. This is useful if you want to make a gift to someone who would be unable to look after it for themselves.

Using a trust you could give the gift while keeping control over how, when and in what circumstances it is received.

Gifts into bare trusts, trusts for disabled people and certain trusts for children where they become absolutely entitled to the trust property at age 18 qualify for treatment as PETs; however, gifts into most other types of trust, particularly where there is an element of flexibility about who will benefit and when, are classified as a Chargeable Lifetime Transfer (CLT).

A CLT may be immediately liable to an IHT charge at 20% if the value of the transfer to the Trust, or if the cumulative value of CLTs over the last 7 years, exceeds the available nil rate band.

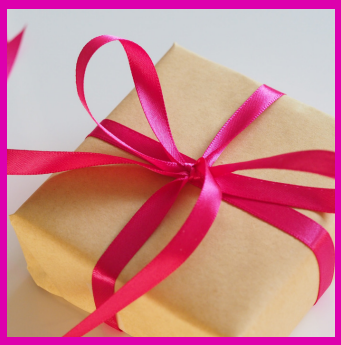
In some circumstances you can make a capital gift while keeping the income or keep an investment while giving away the growth. These solutions are complex, but we can advise where appropriate.

Potential Exempt Transfers (PETs)

If you make a gift that is not exempt or a CLT, it is known as a 'potentially exempt transfer' (PET).

PETs temporarily reduce your NRB by the value of the gifts made. As such, if you make a gift, you have to live for 7 years to ensure that the value is not added back into your estate for IHT calculations.

Depending on the size of the gift, both CLTs and PETs may be eligible for reduced tax rates using taper relief. Contact us for more information about this.



Keep a record of any gifts you make, as your executors will have to account for any gifts you made during the last 7 years of your life.

Managing Inheritance Tax without making gifts

Pension advantage

Money left in a pension when you die does not form part of your estate and isn't included when your Inheritance Tax bill is calculated.

If you can use other income sources to fund your retirement and supplement your income, you can pass any pension fund remaining in your pension on to your beneficiaries tax-free.

Claiming Business Relief

Investments or assets that qualify for Business Relief leave your estate after just two years.

After this you can continue to own them and use them for your benefit.

You can claim Business Relief on:

• A business or interest in a business (such as being a partner).

• Land, buildings or machinery owned by a partner or controlling shareholder of a business.

• Unquoted shares such as those listed on the Alternative Investment Market (AIM).

Investments that qualify for Business Relief are usually complex – so they tend to suit experienced investors who are prepared to take on more risk.

Life insurance

One of the simplest ways to manage Inheritance Tax is to take out a life insurance policy that pays a lump sum to your beneficiaries when you die.

They can then use this money to settle the Inheritance Tax bill without the stress and upset of having to sell the family home or your other possessions.

Spending

SKI-ING (Spending the Kids' Inheritance) is a great way of reducing your IHT bill and shouldn't be discounted as a very efficient strategy! Live the life you want – we don't know how long we have left!

Contribution to society

Some people are happy to pay IHT, believing it to be their fair contribution to society as a whole. In our experience this needs to be discussed with family members to avoid some nasty surprises when their loved one passes on.

Marital status

If you're married or in a civil partnership, the assets you leave to your spouse will be transferred without any inheritance tax. Also, leaving assets to a spouse does not use up your nil-rate band.

When someone dies, their unused nil-rate band can be transferred to their spouse or civil partner. For example, if your spouse left everything to you before they died, you could have a combined nil-rate band of £650,000 applied to the value of your estate.

If you are part of an unmarried couple, you are still treated as single for inheritance tax purposes. This means that each of you has a separate nil-rate band of £325,000 which cannot be combined upon death. Perhaps a very good reason to get married!

IMPORTANT ACTIONS

1. Is your will up to date and does it reflect your current wishes?

If you die without a will, it means you have died “intestate.” When this happens, strict intestacy laws will determine how your estate is distributed upon your death. This includes any bank accounts, investments, property and other assets you own at the time of death.

2. Are you leaving money to charity?

If you wish to do this and leave over 10% of your estate to charity, your IHT bill will be reduced.

3. Do you have an Attorney - someone to look after your affairs if you can not?

You should consider setting up Lasting Powers of Attorney (LPA). There are now two types of LPA:

1) Property and Financial Affairs - giving your attorneys authority to manage a bank account, pay bills and sell your home, if you are unable.

2) Health and Welfare - giving your attorneys discretion over things like medical care and choice of care home.

At Magenta we can assist you in drafting your Will or Lasting Power of Attorney, if you don't already have these in place.
Contact us for more information.

Professional and technical support when you need it

You can be reassured that at Magenta we have all the technical experience and relevant specialist qualifications to help you with the complexity of Estate Planning and Inheritance Tax mitigation.

But we won't just help with the finance and money side of things, we can work with you and your family to create an inter-generational financial plan together, so that your dependants, children and attorneys know your wishes and plans. You can trust us to help you all to be on the same page.

So get in touch and we can start to discuss your options and what's best for you.