Prosperity

Independent Financial Advisors

# THE ULTIMATE GUIDE TO ESTATE PLANNING, LEGACY PLANNING, AND INHERITANCE TAX - 2024

## PROTECT YOUR WEALTH AND SECURE YOUR LEGACY WITH EXPERT GUIDANCE

# INTRODUCTION

### "RECENT HMRC STATISTICS SHOW LESS THAN 4% OF ESTATES PAID INHERITANCE TAX IN 2020-21. THIS NUMBER IS SET TO RISE TO OVER 7% BY 2032-33."

Estate and legacy planning are essential components of financial management for anyone looking to secure their wealth and ensure that their assets are passed on to loved ones according to their wishes. In the UK, Inheritance Tax (IHT) is a significant concern for many families, and without proper planning, a large portion of your estate could be lost to taxation.

This guide is designed to help UK investors and individuals planning their finances understand the complexities of estate and legacy planning, particularly in relation to IHT. By the end of this guide, you will have a clear understanding of the current rules and regulations, the challenges posed by IHT, and the steps you can take to minimise your tax liability with the help of a professional adviser.

## WORSENING PUBLIC FINANCES

At the time of writing , September 2024, the public finances are reported to be worse than expected by the new Labour Government. They are signalling that we should expect some "pain" in the upcoming Financial Statement, and also that the brunt of any forthcoming tax rises will be met by those with the "broadest shoulders."

A tightening of allowances or exemptions, or an outright rise in the tax rate, could be announced in late October. This may impact the preciseness of any planning steps, but the overall approach to estate and legacy planning will remain the same. IHT is a tax that can be managed in advance, with careful planning.

# PART 1: UNDERSTANDING INHERITANCE TAX (IHT) IN THE UK

## 1.1 WHAT IS INHERITANCE TAX (IHT)?

Inheritance Tax (IHT) is a tax levied on the estate of a person, normally on death. It is applied to the value of the estate that exceeds a certain threshold, known as the nil-rate band. The standard rate of IHT is 40%, which can result in a significant reduction in the wealth passed on to heirs.

**Nil-Rate Band:** As of September 2024, the nil-rate band is £325,000. This means that the first £325,000 of an estate is exempt from IHT. Any value above this threshold is subject to the 40% tax rate.

**Residence Nil-Rate Band:** An additional allowance, known as the residence nil-rate band, applies if you leave your home to your children or grandchildren. This allowance is currently £175,000, bringing the total potential exemption to £500,000 per individual

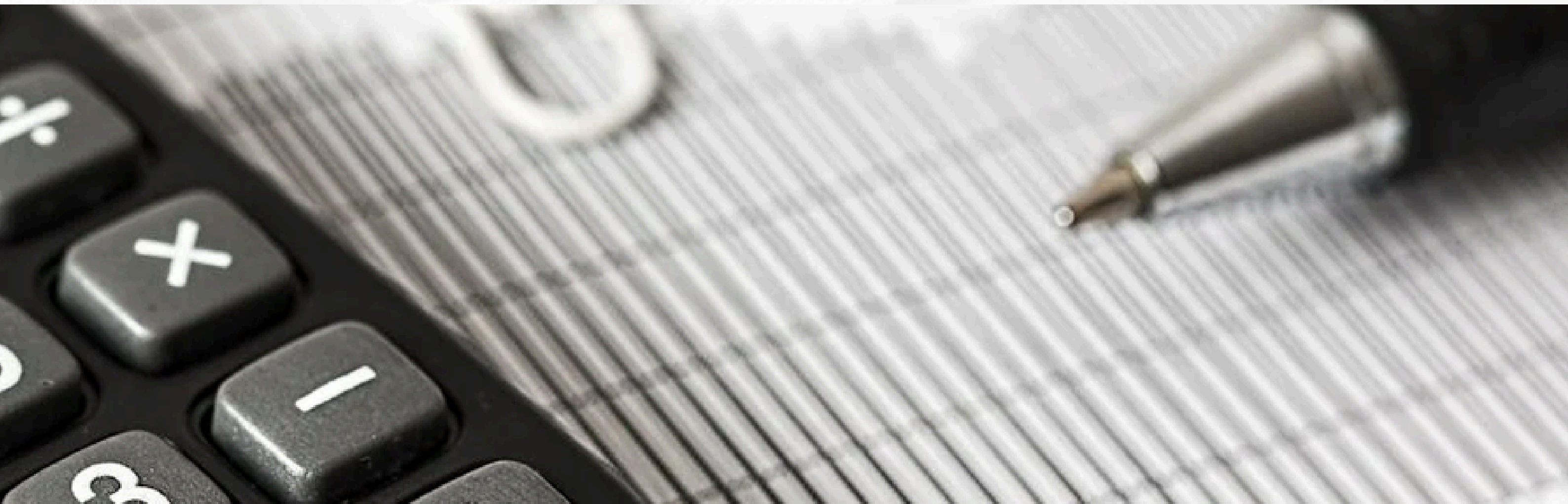
## 1.2 CURRENT RULES AND REGULATIONS

Under the current IHT rules, these are the main exemptions:

**Spousal Exemption:** If you are married or in a civil partnership, you can pass your entire estate to your spouse or partner tax-free. Additionally, your spouse or partner can inherit your unused nil-rate band, potentially allowing up to £1 million to be passed on tax-free.

**Gifts:** You can give away assets during your lifetime, which may be exempt from IHT if you survive for seven years after making the gift. Smaller gifts, such as annual gifts up to £3,000, are immediately exempt.

**Charitable Donations:** Any portion of your estate left to charity is exempt from IHT, and if you leave more than 10% of your estate to charity, the IHT rate on the remaining estate reduces to 36%.



# PART 1: UNDERSTANDING INHERITANCE TAX (IHT) IN THE UK

## 1.3 WHY IS IHT A GROWING CONCERN?

Inheritance Tax has become a growing concern for many UK families as property values have increased significantly in recent years, pushing more estates above the IHT threshold. Here are some key points to consider:

**Rising Number of Estates Impacted:** More estates are now subject to IHT than ever before, due in large part to rising property prices and stagnant IHT thresholds.

**Increasing Tax Take:** The amount of revenue collected by the UK Government from IHT has been steadily rising. In the 2022/23 tax year, the government collected over £7 billion in IHT, a significant increase from previous years.

**Future Projections:** Projections indicate that the tax take from IHT will continue to grow, potentially affecting even more families. Without significant changes to the IHT thresholds or exemptions, more middle-class estates will be drawn into the IHT net.

**Case Study:** John and Mary own a home worth £800,000 and have savings and investments totalling £500,000. Their estate is valued at £1.3 million. Without proper planning, their estate could face an IHT bill of £120,000, significantly reducing the inheritance for their children. Planning steps could include gifting, using IHT-efficient investments or trusts.

## 1.4 POTENTIAL CHANGES UNDER THE NEW LABOUR GOVERNMENT

With the election of a new Labour government, there is speculation that changes to IHT could be on the horizon. Some potential changes include:

**Adjustment of the Nil-Rate Band:** Labour could consider reducing the nil-rate band, which would bring more estates into the IHT net.

**Reforms to Reliefs and Exemptions:** Changes could be made to popular reliefs and exemptions, such as limiting the spousal exemption or tightening rules around gifts and trusts.

**Introduction of New Policies:** Labour might introduce new policies aimed at wealth redistribution, such as increasing the IHT rate or imposing a separate/additional wealth tax on large estates.

**Prosperity Expert Commentary:** "Given the political climate, it’s important for individuals to stay informed about potential changes to IHT laws. Planning early and reviewing your estate plan regularly with a financial adviser is crucial to minimising your exposure to IHT."

# PART 2: STRATEGIES TO MITIGATE INHERITANCE TAX LIABILITY

## 2.1 OUR ROLE IN ESTATE PLANNING

Navigating the complexities of IHT and estate planning requires professional guidance. We can help you:

**Assess Your Situation:** Understand your current financial position and potential IHT liability.

**Develop a Plan:** Create a tailored estate plan that minimises IHT while achieving your legacy goals.

**Implement Strategies:** Execute the necessary legal and financial strategies to reduce your tax burden.

**Review and Adjust:** Regularly review your plan to ensure it remains effective in light of changing laws and personal circumstances.

## 2.2 KEY STRATEGIES TO REDUCE IHT LIABILITY

Several strategies can help reduce your estate's IHT liability. Some of the most effective include:

**Gifting:** Regularly gifting money or assets during your lifetime can reduce the size of your estate. Gifts made more than seven years before your death are generally exempt from IHT.

**Trusts:** Placing assets in a trust can help protect them from IHT. Different types of trusts, such as discretionary trusts, can be tailored to meet your specific needs.

**Investing in IHT-Exempt Assets:** Certain investments, such as shares listed on the Alternative Investment Market (AIM), can be exempt from IHT if held for at least two years.

**Life Insurance:** Taking out a life insurance policy to cover your potential IHT bill can ensure that your heirs receive the full value of your estate without the burden of a large tax bill.

**Case Study 1:** Sarah and David have an estate worth £2 million. By placing £500,000 into a discretionary trust and gifting £300,000 to their children, they can reduce their IHT liability significantly. Additionally, they invest £200,000 in AIM shares, which are exempt from IHT after two years.

**Case Study 2:** Emma and Bob, with an estate valued at £1,400,000, and an estimated liability to IHT of £160,000 decide to take out a life insurance policy to cover their IHT liability. By naming their children as beneficiaries, they ensure the children receive the full value of their estate, including their home.

# PART 2: STRATEGIES TO MITIGATE INHERITANCE TAX LIABILITY

## 2.3 LONG-TERM PLANNING: SECURING YOUR LEGACY

Estate planning is not a one-time event; it's an ongoing process that requires regular attention. To secure your legacy:

**Start Early:** The earlier you begin planning, the more options you'll have to reduce your IHT liability.

**Regular Reviews:** Review your estate plan regularly, especially after major life events like marriage, divorce, or the birth of a child.

**Communicate Your Plans:** Ensure your heirs understand your estate plan and the reasons behind your decisions to avoid conflicts or misunderstandings.

## 2.4 CHECKLIST FOR REDUCING IHT LIABILITY

Here's a practical checklist to help you reduce your IHT liability:

**Assess Your Estate:** Calculate the current value of your estate and potential IHT liability.

**Utilise Gifting:** Make use of annual gift allowances and consider larger gifts if possible.

**Consider Trusts:** Explore different trust options that may suit your needs.

**Invest in IHT-Exempt Assets:** Research AIM shares or other qualifying investments.

**Plan for Life Insurance:** Consider taking out a life insurance policy to cover your IHT bill.

**Review Regularly:** Keep your estate plan up-to-date and adjust it as necessary.

## 2.5 SEEK PROFESSIONAL ADVICE

Use our expert help and advice to achieve your objectives.

# CONCLUSION

Inheritance Tax is a significant consideration for anyone with substantial assets, but with careful planning and professional advice, it is possible to minimise your exposure and protect your wealth for future generations.

Staying informed about potential changes to IHT laws and regularly reviewing your estate plan will ensure that you can adapt to any new developments.

## BEGIN YOUR ESTATE PLANNING TODAY, AND TAKE CONTROL OF YOUR LEGACY.

**This guide provides an overview of estate planning, legacy planning, and IHT in the UK, seeking to explain more about this important subject.**

**It should not be seen as providing advice or used to make decisions about your individual circumstances.**

**You should always take appropriate regulated advice before proceeding with any of the steps outlined.**

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