Estate planning workout – how to pass on your wealth

July 2024

evelyn PARTNERS

evelyn PARTNERS

Important information

FINANCIAL PLANS | INVESTMENTS | TAXES

This presentation is solely for information purposes, and is not intended to be, and should not be, construed as financial advice.

The value of investments, and the income derived from them, can go down as well as up and investors can get back less than the amount originally invested.

Prevailing tax rates and reliefs depend on individual circumstances and are subject to change.

This information is for UK residents only

Issued by Evelyn Partners Financial Planning Limited. Authorised and regulated by the Financial Conduct Authority.

About Evelyn Partners

1
of the leading wealth management groups

187 YEARS
of helping clients achieve their financial goals

179k+
clients trust us with their financial future

£59.1bn
assets under management

10+
Years Performance track record

A leading
provider of investment and financial advisory services

3000
>3,000 staff across the UK, Ireland and Jersey

290+
Qualified financial planners

330+
Investment managers

30
local offices

Financial Planning Awards

thewealthnet – Top Financial Planning Companies 2020

thewealthnet – Top Financial Planning Companies 2021

MAGIC CIRCLE AWARDS – Financial Planning Firm of the year Large – Citywealth 2023 Gold – Evelyn Partners

Investment Awards

International Investment Awards 2021 Winner – Best International Discretionary Fund Manager

Professional Adviser – Women in Financial Advice Awards 2021

COLWMA 2022 – The Six Securities Services Award for Best Advisory Service – Company Award Winner

Your Evelyn Partners team

Financial advice and planning

Henrietta Grimston

Associate Director

Evelyn Partners Financial Planning Limited

In her role as a financial planner, Henrietta has been advising private clients for 15 years. Henrietta is both a Chartered Financial Planner and Chartered Wealth Manager, as well as a Fellow of the Chartered Institute of Securities and Investments (CISI).

Ian Dyall

Head of Estate Planning

Evelyn Partners Financial Planning Limited

Having worked in the industry for over 30 years, Ian is the esteemed spokesperson on estate planning and inheritance tax mitigation. In 2019, Ian was recognised with the 'Outstanding Contribution to Estate Planning' award at the City of London Wealth Management Awards.

Estate planning workout – how to pass on your wealth to adult children

Ian Dyall FPFS TEP

Head of Estate Planning FPFS TEP

evelyn
PARTNERS

WHAT WE'LL COVER

- Reasons for making lifetime gifts?
- How much can you afford to gift?
- The rules and taxation around gifting
- The different options when making gifts
- Protecting against the tax liability on gifts
- Making gifts on death – the alternative
- Key points

WHY MAKE GIFTS DURING LIFETIME?

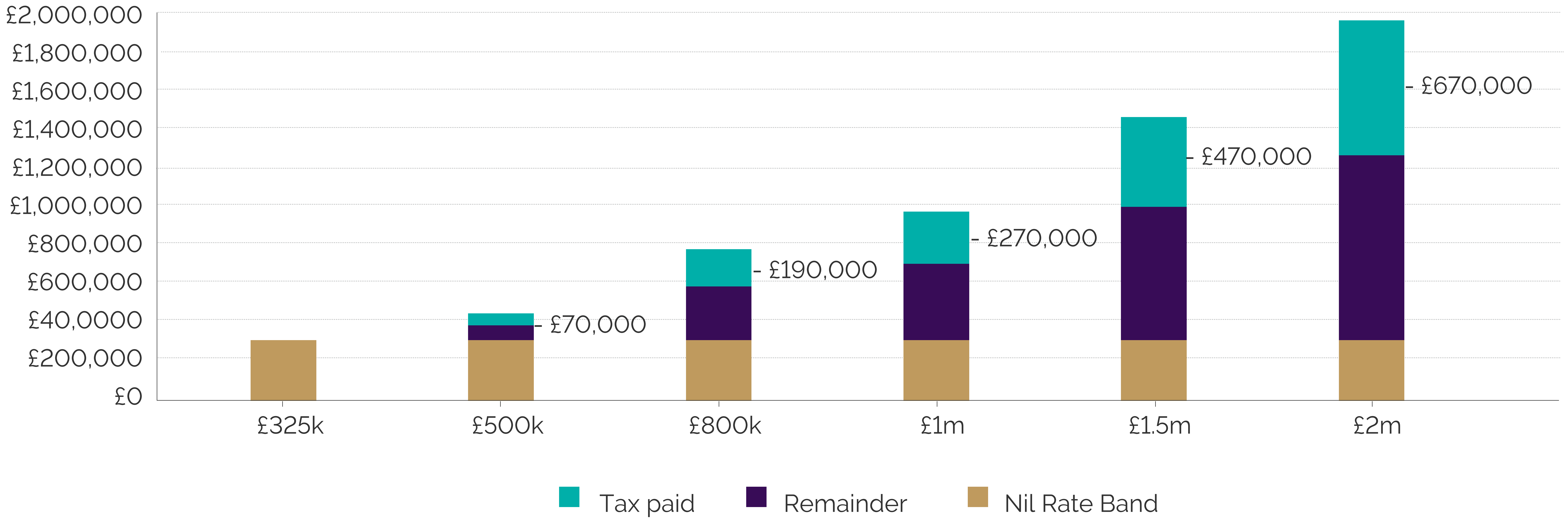
Why make gifts during your lifetime?

- Potentially more financial headwinds for young adults today
- Children often need money most in their late 20s to 40s
- You benefit from seeing them enjoy money
- You can exercise some control over how it is used
- Can create a safety net for the family
- Could reduce your inheritance tax (IHT) liability

Why don't people gift until later?

What if I need the money?	Children are too young	Child is in debt / about to become bankrupt / not good with money
Adult child / grandchild might get divorced	Child doesn't need the money	I don't want to remove their ambition to achieve on their own

How does inheritance tax work?



Based on 2024/25 tax rates. Assuming one full nil rate band is available. For illustrative purposes only

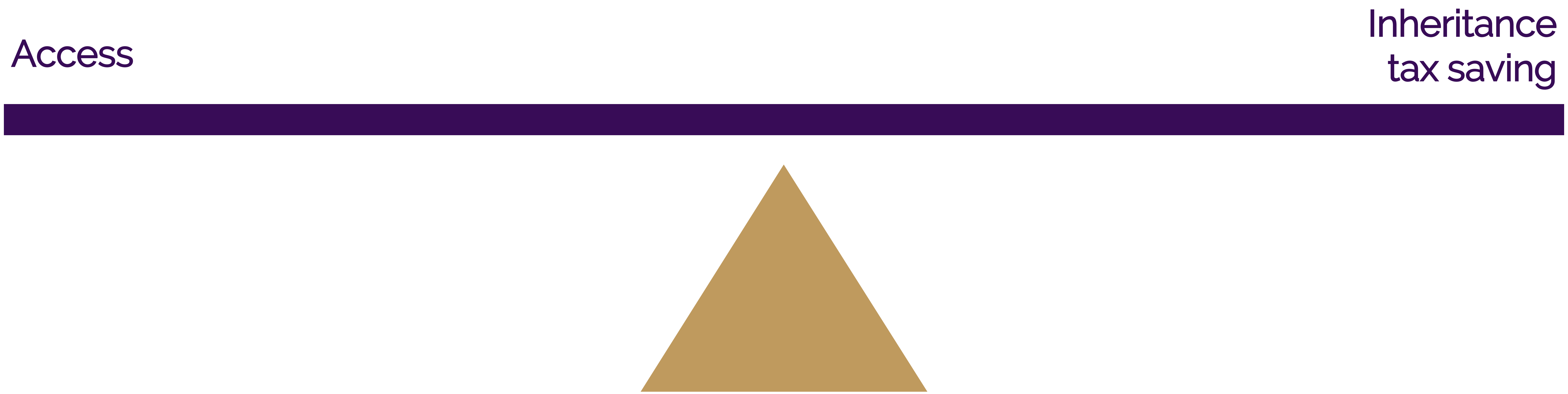
Residence nil rate band

£175,000 additional nil rate band in 2024/25

- Can only be used against a home of the deceased
- Can only be used if leaving money to a child or remoter issue
- Can be transferred if unused
- Additional allowance is reduced by £1 for every £2 that the estate exceeds £2m

Where does gifting fit in to estate planning?

A balancing act...



Four steps to effective estate planning

How much can you afford to gift?

The following is for
Illustrative purposes only

evelyn
PARTNERS

Lifetime cashflow analysis

Current income
£90k

Home
£750k

Deposits
£50k

Investment
£850k

Cash from pension
£160k

Inflation and volatility

Retire at 65 Income 40k

Pension Lump Sum

Sell home & buy flat

Help with university debt, house deposits
when grandchildren reach 25

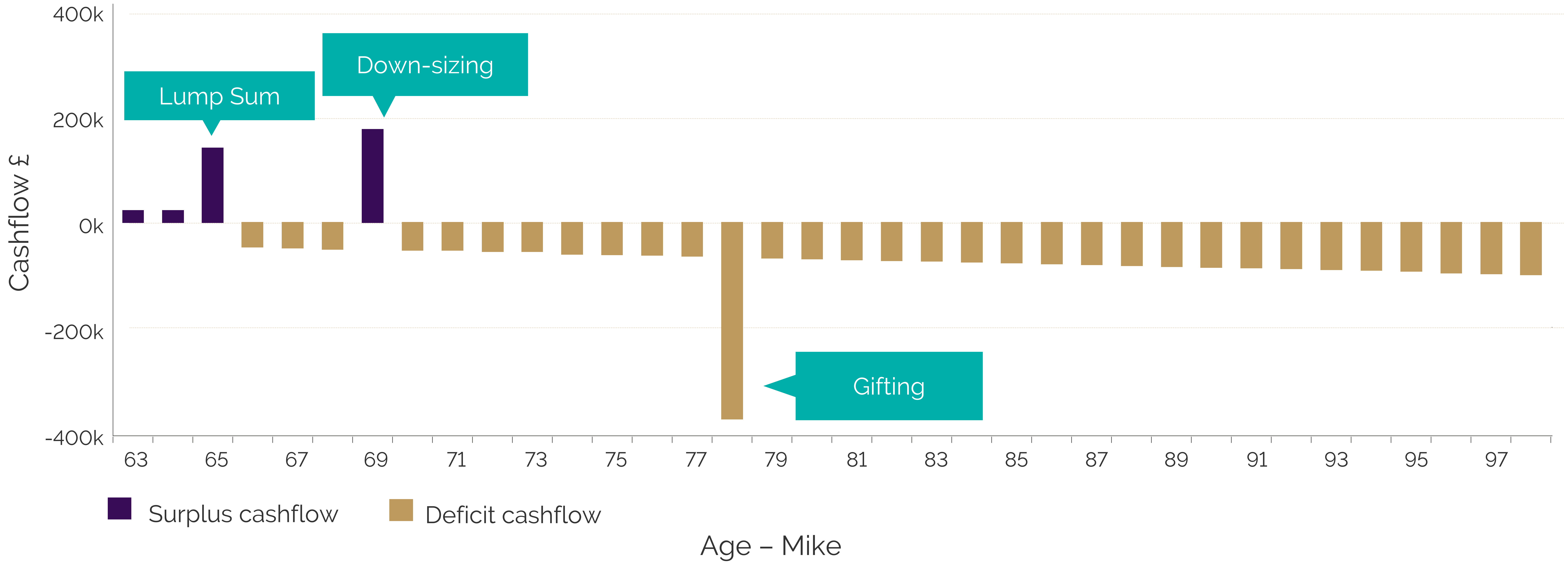
Want another £10k per annum to travel to New Zealand etc.

Concern regarding
care costs

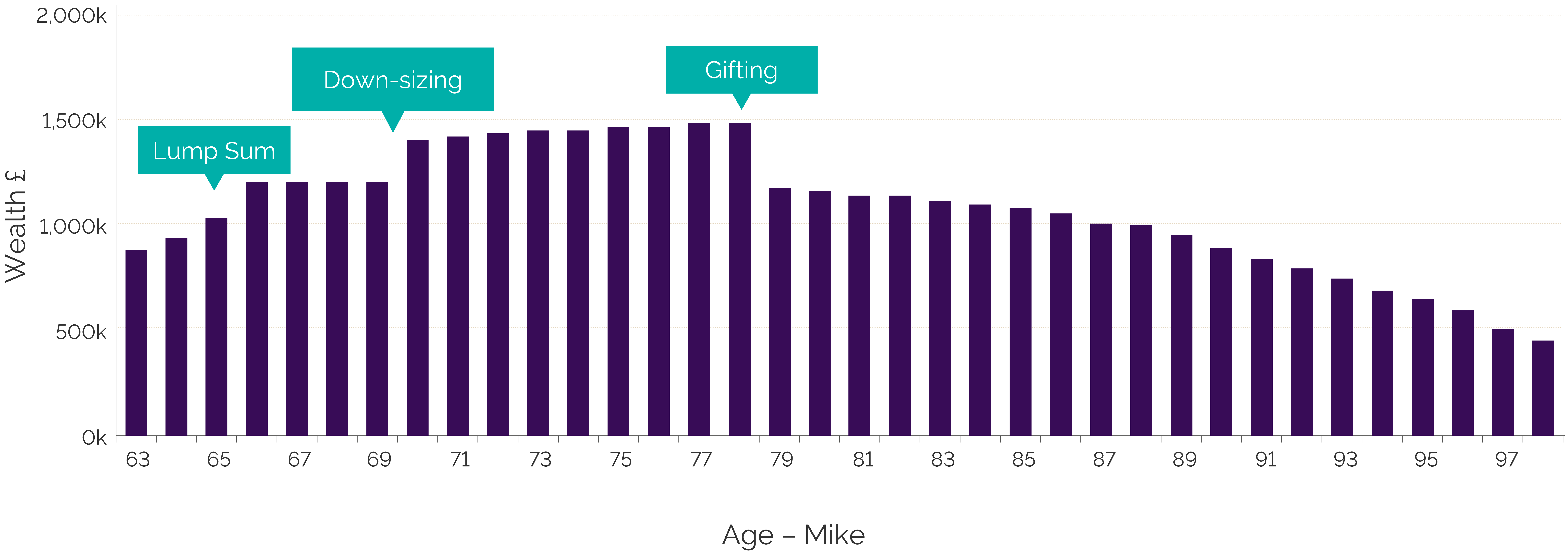
63 65 69 78 87 95

Age – Mike

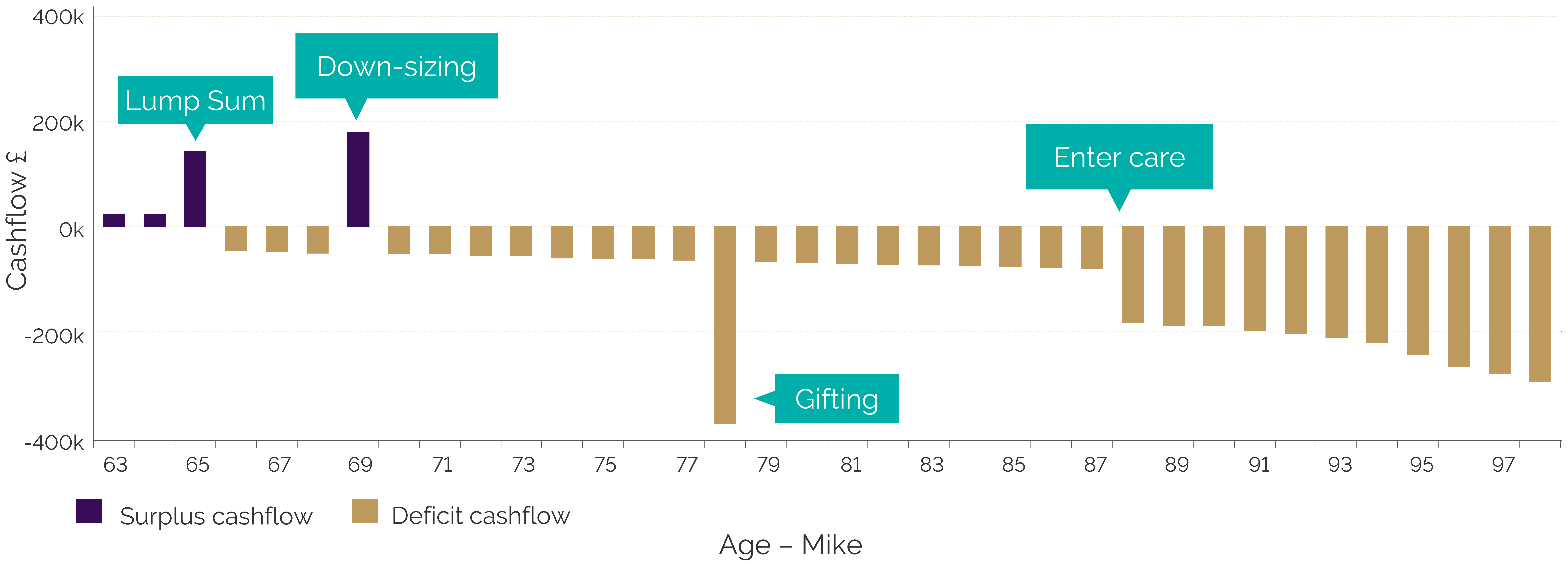
Cashflow if everything goes to plan



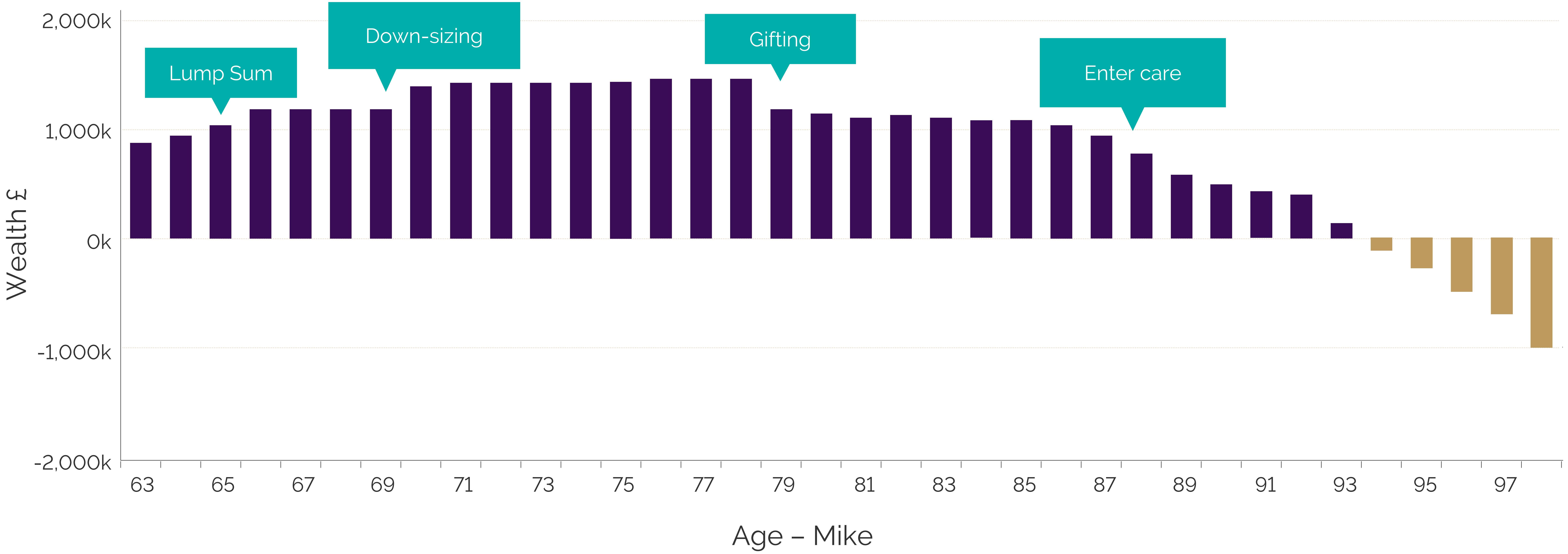
Net assets over retirement



Cashflow including care fees



Net assets during retirement including care fees



TAX TREATMENT OF GIFTS

Tax treatment of gifts

- Exempt gifts
- Potentially exempt transfers (PETS)
- Chargeable Lifetime Transfers (CLTs)

Be careful to avoid Gifts with Reservation of Benefit

Gifts with reservation of benefit

- Continuing to use or benefit from something you have gifted away
- Conditions attached saying that the gift can be recalled if required
- For inheritance tax, a gift with reservation remains part of the estate indefinitely

Examples

- Gifting a property away but living in it rent free
- Gifting money to a trust where you are a potential beneficiary
- Gifting away artwork but continuing to have it hanging on your wall

Exempt gifts

Lifetime exemptions

- Up to £3,000 per annum per donor
- Up to £250 per annum per recipient
- Normal expenditure from income
- Gifts in consideration of marriage

Lifetime and on death

- Gifts to charities
- Gifts to political parties
- Gifts to spouse (transferable)

Potentially Exempt Transfers (PETs)

- Gifts which reduce one person's estate but increase the value of someone else's
- If donor dies within 7 years the gift reduces the donors nil rate band
- If donor survives 7 years the gift is exempt

Examples

- Outright gifts
- Gifts to bare trusts

Tax on trusts

Discretionary trust

- Gifts to most trusts are Chargeable Lifetime Transfers
  - Assets do not form part of beneficiaries' estates
  - Can gift up to nil rate band without inheritance tax (IHT)
  - Gifts in excess of nil rate band charged at 20% with further tax due if you die within 7 years
  - Potential inheritance tax charge of up to 6% every 10 years
- Income tax and Capital Gains Tax (CGT) treatment designed to be tax neutral, but depends on how they are run

Bare trust

- Gift to the trust is a Potentially Exempt Transfer – no IHT if you live 7 years
- Taxable against the beneficiary (but take care if parents are the settlors)

Capital gains tax (CGT)

Gifting assets to someone other than a spouse /civil partner triggers CGT

CGT is chargeable at 10% / 20% (or 18% / 28% on residential property)

There is currently no CGT on death

Danger of paying both CGT and IHT

It may be possible to defer tax on gifts into and out of trusts (Holdover Relief)

Other tax issues to consider

- Stamp duty
- Anti-avoidance legislation
  - Pre-owned Asset Tax (POAT)
  - Non-deductible loans
    - Loans used to purchase assets qualifying for Business Relief/Agricultural Relief
    - Loans of assets previously gifted away
    - Loans not repaid on death

DIFFERENT GIFTING OPTIONS

Factors to consider

Access

IHT implications

Asset protection

Financial needs of the recipient

Different methods of gifting

- Pay for something on behalf of children
- Make regular gifts
- Make a one-off outright gift
- Gift money to a trust
- Deeds of Variation (DoV)

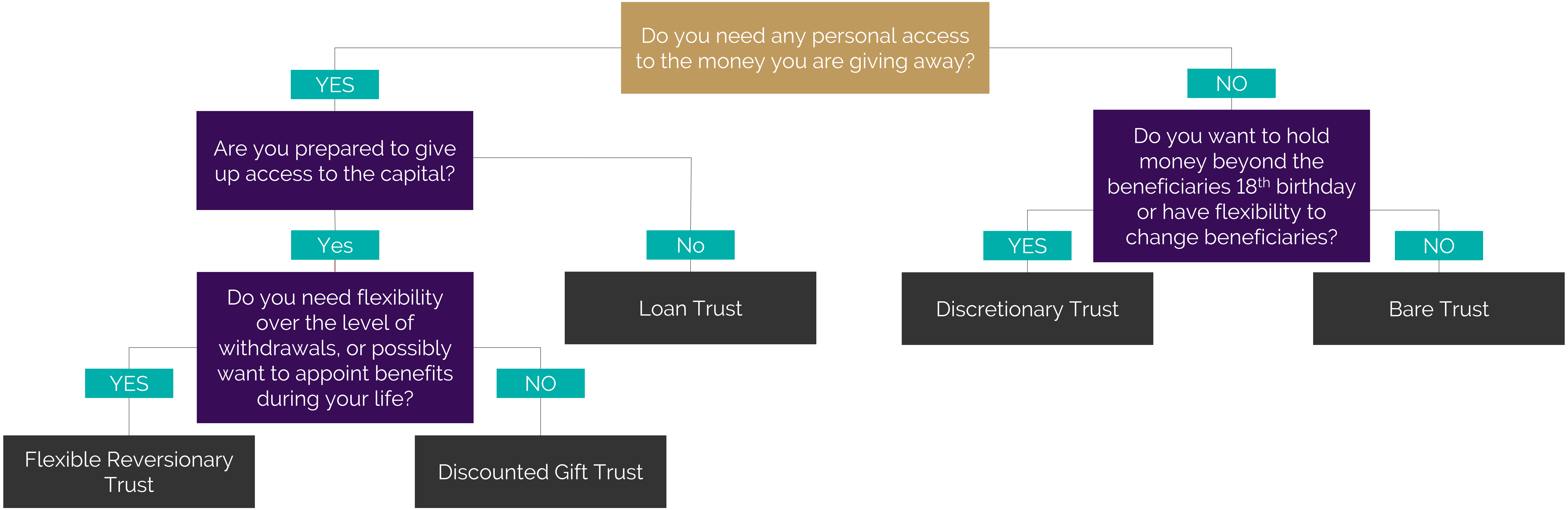
Deeds of Variation

- Must be executed within 2 years of death
- Signed by all those who might have benefited
- Original beneficiaries must all be over 18 and of sound mind
- No consideration in money or money's worth

Benefits of trusts

- Potentially protects assets from divorce or bankruptcy of a beneficiary
- Allows you to maintain control over who benefits and when
- Allows you to control how the money is invested
- Allows you flexibility over the beneficiaries
- May allow you some access to regular withdrawals from the trust depending on trust

Types of trust



Bare Trust

Advantages	Disadvantages
All assets outside donor's estate after 7 years	Beneficiaries can't be changed
Can take advantage of beneficiary's income tax and CGT position	Beneficiaries can demand money at 18
Assets do not form part of beneficiary's estate for IHT or other purposes	No access for donor
Money can be appointed to beneficiaries during donor's life if trustees choose to do so	Assets form part of beneficiaries' estates
	If donor is parent, then income may be taxable against parent

Discretionary Trust

Advantages	Disadvantages
All assets outside donor's estate after 7 years	No access for donor
Range of potential beneficiaries	Potentially liable to periodic and exit charges for IHT
Assets do not form part of beneficiary's estate for IHT or other purposes	Income and CGT potentially taxable at trustee rates
Assets can be held in the trust after the donor's death to provide ongoing protection of the assets	
Money can be appointed to beneficiaries during settlor's life if trustees choose to do so	

PROTECTING THE TEMPORARY LIABILITY

Covering the recipient's liability

£200,000	Creates an IHT liability for the recipient if the settlor dies within 7 years. Liability tapers over time
£325,000	Reduces the nil rate band to zero, creating a greater liability for the estate if settlor dies within 7 years. No taper relief

PASSING ON ASSETS ON DEATH

Gifting beyond the exemptions

"

THE GOVERNMENT WISHES TO ENSURE THAT PEOPLE DO NOT EXHAUST SAVINGS PREMATURELY IN RETIREMENT AND FALL BACK ON THE STATE, OR USE PENSION SAVING AS A TAX PRIVILEGED MEANS FOR PASSING ON WEALTH.

HM Treasury July 2010

Removing the requirement to annuitise by age 75

Passing on your pension

Autumn Statement 2014

Death before 75	No inheritance tax or income tax on pension fund, whether benefits have been taken or not.
Death after 75	No IHT, income taxed at recipient's rate as it is withdrawn.

Leaving assets via a discretionary trust

Assets do not form part of beneficiaries estate, but they can still potentially benefit from the trust

Assets are protected from divorce, care fees assessment, bankruptcy

If you have been widowed and remarried, you may be able to capture an additional nil rate band

Potentially a small IHT charge (up to 6%) occurs every 10 years

If the trust ends within 2 years for IHT it is as though it never existed

KEY POINTS TO REMEMBER

1. Plan early
2. Define your goals
3. Look at whole picture
4. Systematically review all options
5. Be sensible
6. Don’t forget the investment considerations
7. Review regularly
8. Take advice

Follow up

Your Questions

evelyn PARTNERS

Contacts

FINANCIAL PLANS | INVESTMENTS | TAXES

Evelyn Partners Client
Please contact your usual adviser with any queries.

Non Evelyn Partners Client
Please contact us online at https://www.evelyn.com/contact-us/ where you can request a call back, book an appointment or send us an email or call on 0207 189 2400.

evelyn PARTNERS

Important information

FINANCIAL PLANS | INVESTMENTS | TAXES

This presentation is solely for information purposes, and is not intended to be, and should not be, construed as financial advice.

The value of investments, and the income derived from them, can go down as well as up and investors can get back less than the amount originally invested.

Prevailing tax rates and reliefs depend on individual circumstances and are subject to change.

Advice in relation to Accountancy, trusts, tax and inheritance tax planning is not regulated by the Financial Conduct Authority (FCA). However, the products used in relation to trusts and to mitigate tax and inheritance tax may be regulated.

This information is for UK residents only

Thank you

evelyn
PARTNERS