ESTATE PLANNING

Get started on planning for what you leave behind.

Integrity 365

WELCOME TO YOUR
ESTATE PLANNING GUIDE

The aim of this helpful guide is to assist you in getting started with the planning of your estate.

Like most people, you have probably spent a lot of time growing your savings, increasing your pension pot, and investing wisely. However, what you might not have done yet is think about what happens to all the money and possessions you've accumulated after you are gone.

Getting your affairs in order is a crucial part of your financial plan. If you wish to leave your money and valuables to the special people in your life and prevent an Inheritance Tax bill, planning is essential.

The following guide contains information based on our current understanding of taxation law and practice in the UK, which may change. The amount of tax you pay and relief you receive depends on your own personal circumstances, which may also change in the future.

Estate planning is a complex subject and this guide just scratches the surface. We recommend speaking to your financial adviser to learn about your particular options and what is best for you and your family.

WHY IS ESTATE PLANNING IMPORTANT?

It is crucially important to have an estate plan. Without one, there is no guarantee your money or valuables will be passed on to your loved ones in the way that you wish.

You might have heard the term ‘estate planning’ and wondered what it involves. The word ‘estate’ simply refers to everything you own, and estate planning refers to the plans you make so your money and valuable possessions are distributed in a certain way after you die.

It is crucially important to have an estate plan. Without one, there is no guarantee your money or valuables will be passed on to your loved ones in the way that you wish. Not having a plan might mean they receive less if Inheritance Tax is due on your estate.

Having an estate plan can help:

- make sure your money and possessions go to who you want
- reduce or possibly eliminate the tax your loved ones might need to pay on your estate
- ensure that all of the assets in your estate will be transferred as quickly as possible
- help reduce the costs associated with distributing your estate

WHAT IS IN YOUR ESTATE AND WHY IS IT IMPORTANT?

An estate can contain much more than just your savings and home. It is important that you understand exactly what it includes and how these assets may affect any IHT liability.

To find out if an Inheritance Tax bill might be due, you will need to calculate the value of your estate. Most people understand that their estate is made up of property, savings, investments and valuable possessions (e.g. cars, caravans and boats). Although, an estate could also include much more.

Imagine you could turn your house upside down and shake it. Anything that fell out would also be included in your estate, for example your TVs, laptops, furniture, antiques, jewellery and collections. Also, some trusts might need to be included in the value of your estate. You can see how quickly it would all add up.

Did you know?

Although your pension can be a very valuable asset, it is usually not counted with the other money and valuables in your estate when calculating Inheritance Tax. However, you still need to make plans to ensure any pension death benefits go to your loved ones.

UNDERSTANDING INHERITANCE TAX AND TAX-FREE ALLOWANCES

Once you have added up the value of your estate you can work out if IHT might be due. If the total value of your estate is more than the tax-free allowances, then IHT of 40% may be due on the amount that exceeds the allowances.*

The main tax-free allowances

The good news is that everyone is entitled to a tax-free allowance of £325,000* – this is often referred to as the nil-rate band but it's simpler to call it a tax-free allowance.

There is also a tax-free property allowance of up to £175,000* called the residence nil-rate band. However, this allowance has some conditions that must be met. Broadly, it applies if your home is left to your children or grandchildren (including any adopted children).

If you add the two allowances together (£325,000 and £175,000*) you can potentially leave your loved ones £500,000 tax-free, as long as you leave your home to your children or grandchildren.

If you are married or in a civil partnership, you can also leave everything to your partner completely free from IHT. Your husband/wife/civil partner will also inherit your unused allowances, so by using your tax-free allowances of up to £500,000 plus their own £500,000, a couple can potentially leave £1 million tax-free to their beneficiaries.

Making the most of your tax-free allowances can help you to avoid unnecessary tax, leaving more behind to help your loved ones when you have passed away.

Some important figures to keep in mind:

- £325,000 is your tax-free allowance*
- £175,000 is your tax-free property allowance*
- 40% tax applies above the tax-free allowances*
- £214,000 was the average IHT bill in 2020/21[1]

You can start planning early to help reduce or eliminate an IHT bill

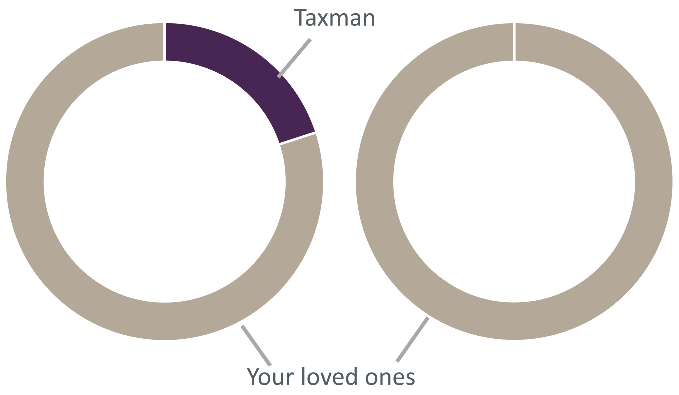
The general aim of IHT planning is to reduce the value of your taxable estate to bring it in line with your tax-free allowances. As you can see from the diagram, without IHT planning your loved ones may be liable for tax on what you leave behind.

Figures applicable to 2024/25 allowances.
1. HMRC, 2023

Who do you want to leave your estate to?

Without IHT planning the taxman might take a bite:

With IHT planning your loved ones could get more:



USING GIFTS AND TRUSTS TO REDUCE IHT

IHT planning is a complex subject and there are lots of different strategies that can be adopted. While we cannot cover all of these in depth, we can look at two key approaches: gifts and trusts.

Gift-giving can reduce your IHT liability by decreasing the size of your estate. On an emotional level, gifts also let you experience the pleasure of giving and bring joy to your loved ones at the same time.

However, with tax, it is never simple. There are rules around gifts that need to be considered. For example, in some instances it takes a full seven years for a gift to become tax-free. It is worth thinking about giving earlier rather than later, as giving when you are younger can increase the chances of surviving seven years after the gift was given.

This table shows how IHT could decrease over time, however this is only where lifetime gifts have already exceeded the tax-free allowance.

Years between gift and death	Tax paid
less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Other gifting rules

There are some exceptions to this seven-year rule. You can gift the following without attracting IHT:

- up to £3,000 each year.
- up to £250 to as many people as you like each year, if you have not used any other gift allowance.
- gifts to charities and political parties.
- wedding gifts of up to £5,000 for children, £2,500 for grandchildren and £1,000 for anyone else.
- regular gifts out of surplus income, subject to meeting the qualifying conditions

Gift-giving checklist

To establish whether or not IHT is due, you will need to show what gifts have been given. For example a bank statement can provide evidence that a gift of money was given. So when giving gifts, make a record and keep the list with other important papers. Take note of: who each gift was given to; what gift they were given; the date the gift was given; and the value of the gift.

Using trusts to reduce or eliminate IHT

Trusts are another tool frequently used to reduce or eliminate Inheritance Tax. There are many different types of trusts. This is a complex subject that is best explored with a financial adviser.

In general, you may choose to use a trust when you wish to leave property, investments or money for loved ones but keep some control over how the money is spent. A trust can ensure that the money you leave is used for a certain purpose, for example, school fees or to buy a house.

CASE STUDY:
THE WILSONS

Understanding IHT with the help of an Independent Financial Adviser can help more of your estate be passed down to the ones your love, just like this family did.

Meet the Wilsons

The Wilsons are in their mid-50s and have two adult children, Jack and Alicia. They are in good health, but are thinking about the future. The Wilsons are concerned about leaving an IHT bill to Jack and Alicia. They set up a call with their adviser to discuss their options, who then asks them for a list of their assets to establish the value of their estate.

The Wilsons also have pensions worth £500,000. However, their adviser checked with the pension provider and as their pensions are not liable for IHT they are excluded from the list of their assets.

The Wilson's assets

House	£500,000
ISAs	£250,000
Cash	£100,000
Investments	£300,000
Household contents	£50,000
Total value of assets	**£1,200,000**

HOW ONE FAMILY SAVED £80,000 ON IHT

How this family saved £80,000 on IHT using a trust, with the help of the skills and expertise of an Independent Financial Adviser.

Assessing the Wilsons' potential IHT liability

After reviewing the list of everything the Wilsons own, the adviser asks about their Wills. They say they plan to leave everything to each other. After they both pass away, whatever is left will be split equally between their two adult children.

This means there would not be any IHT due when the first of them dies because a married couple can leave everything to each other tax-free. Their unused allowances will then pass to the surviving spouse, giving them a tax-free allowance of £1 million.

The Wilsons' estate is valued at £1.2 million. This means when they have both passed away the portion of their estate exceeding the allowance is £200,000. This would be subject to tax of 40%, leaving Jack and Alicia with a tax bill of £80,000. The Wilsons ask the adviser what they can do to avoid this outcome.

Talking to the Wilsons about their priorities

Through their discussion, the adviser knows the Wilsons will have a good level of pension income to cover their own needs for the remainder of their lives. They are not interested in building up a large estate simply for the sake of it.

They would consider giving money to Jack and Alicia now to gain the benefit of seeing them enjoy it, but it is also important to them that their hard-earned money is used responsibly.

How the adviser saves the Wilsons £80,000

Taking this all into consideration, their adviser suggests the Wilsons set up a Discretionary Trust. This type of trust allows the Wilsons to specify how their money is used. In their case, they would like the money to be put towards buying a house.

Putting £200,000 into a trust could completely remove their IHT liability. This will stop the taxman taking £80,000, leaving more for Jack and Alicia. The Wilsons are happy with their adviser's recommendation as it offers the IHT relief they seek, and also provides a way to ensure the money left to the children is used wisely.

Of course, the Wilsons and their adviser will be periodically reviewing things to make sure everything is on track. If the value of their estate rises above £1 million, they may need to take more action to prevent an IHT bill.

This example is for illustrative purposes only. Please remember that it is just one of many approaches that can be taken to remedy IHT. Your adviser can tell you more about the best options for your particular circumstances.

IMPORTANT DOCUMENTS
YOU SHOULD HAVE

Why you should make a Will

You may already know that your Will sets out what you want to happen with your money and valuables after you die. It is a very important document for estate planning, so if you have not already done so, make a Will and review it regularly.

Nevertheless, it is not enough to just have a Will – it is also important that your family and your executor (the person you have appointed to carry out your wishes) know that you have a Will and where they can find it. You do not need to tell them what you have written in your Will if you do not want to.

A Will can be used to:

- Clearly identify loved ones or charities you want to leave your estate to.
- Reduce or possibly eliminate tax that your loved ones might need to pay.
- Specify who should look after any younger children you may have.

A Will is a very important document for estate planning, as this can ensure that the estate you have worked hard to build up is passed on to the ones you loved as you wish.

If you do not have a Will, you will have no say over who gets everything you leave behind. What happens to your estate will be dictated by special rules called 'intestacy rules'. These rules are complex and can work in ways that might surprise you. The important thing to remember is that who receives what you leave may not be in line with your wishes.

Your adviser can tell you more about how this might apply to you, and can arrange for you to make a Will should you not have one in place. The main point is to ensure that you have a Will in place and that it is up to date to reflect your wishes.

Here are a few examples:

- If you and your partner are not married or in a legal civil partnership, your partner may not be entitled to any of your estate.
- If you are separated but not legally divorced, your ex can still inherit – even if the relationship is over.
- Your step-children cannot inherit – even if you want them to.

WHY A POWER OF ATTORNEY MATTERS

There may come a moment when something happens to you that prevents you from looking after your own affairs. You can nominate someone responsible for making important decisions when you are

A Power of Attorney, or POA, lets a family member or friend represent your interests and make important financial or medical decisions for you.

Some make the mistake of thinking that the POA means they have automatically handed over control to another person. This is not true. The POA can start immediately or can kick in when you are no longer able to act in your own best interest, and can be a temporary measure.

If you have not yet set up a POA, do not wait. If you become unable to make your own decisions, the court may appoint someone to manage your affairs for you. This may not be the person you would have chosen yourself to make decisions on your behalf.

Did you know?

It can help to think about the Will as something you do to help those you leave behind, whereas a Power of Attorney is something that helps you while you are alive.

DO NOT FORGET ABOUT PLANNING YOUR PENSION

Your pension is likely to be one of your most valuable assets, and can provide income for your loved ones once you are gone. It is, therefore, really important to plan what happens to your pension.

Locate your pensions and tell your loved ones

Most of us have held multiple jobs in our lifetimes and may have pensions attached to each one. It is easy to lose sight of them and tracking down pensions can be a minefield. If the information about your pensions is not available, your loved ones might not get the money they are entitled to. So make sure your family has this information.

Make sure your pension goes to the right people

Usually, your pension will be passed onto your beneficiaries in line with any nomination you made in lifetime. Over time it is easy to forget whose name is on your form(s). Make sure your money is going to the right people by keeping those forms up to date.

Understand your pension's death benefit

Each pension has rules that dictate how it can be passed on to your loved ones. The rules can be complicated. If you do not understand how they work before you take your money, you may make an irreversible mistake. For instance, in some cases, once you have started to take your money you cannot change what happens to your pension when you die.

If you require further support, Integrity365's Independent Financial Advisers can help you to understand your pension better and make sure that this is all set up correctly as you wish.

THE NEXT STEPS TO TAKE

It is always a good idea to take steps to get your affairs in order, and it can be a relief to know that you've taken the action needed to take care of those you leave behind.

Although deciding how to transfer your money and possessions in the event of your death can seem daunting, the process itself does not have to be difficult for you.

Your adviser can help. They have the knowledge and experience to steer you in the right direction. Your adviser will listen to your needs and goals, assess your situation and set up a plan that is best for you and your family.

Get in touch with an Integrity365 adviser today to start your estate planning journey and make sure that your assets are left as you wish for your loved ones.

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Please note: this guide was updated in April 2024 and all information is correct as at this date.

This document is intended for information purposes only and in no circumstances should be taken as advice. If you do require personal financial advice please contact your financial advisers.

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