

Your wealth. Your legacy

Families shying away from difficult conversations

IF YOU HAVE SIGNIFICANT ASSETS, YOU MAY BE WONDERING WHETHER INHERITANCE TAX (IHT) AFFECTS YOU. WORRYINGLY, SOME FAMILIES APPEAR TO BE SHYING AWAY FROM DIFFICULT CONVERSATIONS, AS ALMOST HALF (47%) OF UK ADULTS SAY THEY HAVE NEVER DISCUSSED INHERITANCE MATTERS, ACCORDING TO NEW RESEARCH^[1].

IHT receipts increased by 22.9% in the first quarter of this tax year, according to data from the Office for National Statistics. The figures show that more than £2 billion has been taken from people's estates in IHT since March.

Extremely emotional subject

Talking about estate planning is an extremely emotional subject, as people generally don't like talking about money or death. However, the research shows that around one in ten people would like to talk about it but haven't found the right time, and some people just don't know where to start (7%).

When someone dies, the value of their estate becomes liable for IHT. Everyone is entitled to pass on assets of up to £325,000 IHT-free. This is called the 'nil-rate band'. It hasn't changed since 2009 and will remain frozen until 2021. Any excess above £325,000 is taxed at 40%.

Residence nil-rate band

The new £100,000 residence nil-rate band was introduced in April 2017. It will increase in steps to £175,000 in April 2020, so married couples or registered civil partners with children will be able to pass on up to £1 million IHT-free. The residence nil rate band is only available when passing on the family home, or the value from the sale of it, to a direct descendent, so it is important to consider structuring your estate to make the most of these allowances.

The research of 4,000 UK adults shows that a quarter (26%) of people say they haven't discussed the subject with loved ones because they're not old, so it's not a priority. However, age isn't the only factor preventing people from talking about inheritance, as one in seven (14%) say they don't like talking about death, and one in ten (11%) say they avoid it because it's a morbid subject.

Talking to loved ones

While more than a third (36%) of people say they don't feel comfortable talking about their legacy, there are some life events that may prompt

people to talk to loved ones about this important subject, such as a health scare (52%), a near-death experience (46%) and getting older (46%).

There are also some people who hold the key to unlocking inheritance conversations. After their partner or spouse (32%), people feel most comfortable talking to their mum (8%) or a financial adviser (8%) in the first instance.

Passing on wealth

Of those who have broached the subject, most (36%) have talked about passing on wealth when they die, a quarter (26%) have discussed Will writing, and one in five (18%) have discussed passing on personal items such as jewellery and photos. One in ten (10%) say they have talked about which belongings they want to give to loved ones while alive.

The research suggests that as people live longer and have healthier lives, many may be torn between the desire to help loved ones while also maintaining their own financial independence. Those who have a plan estimate that 65% of their wealth will be needed to cover their 'cost of living', leaving them able to pass on a quarter (25%) to loved ones in a Will and to share 10% with their family as a 'living legacy' while they are alive.

Retirement or later-life care

Gifting wealth – whether it is money, property or family heirlooms – is important to Britons, with half (45%) hoping to pass on a legacy to loved ones. The research shows that the most common reason over-50s choose to pass on wealth after they have died is because they are worried their loved ones won't have enough money to fund retirement or later-life care (52%). Other reasons include wanting to help family members even if they're not here to see them receive it (47%), and leaving younger family members something to remember them by (26%).

Those over 50 opting for a living legacy are motivated by the thought of being around to watch loved ones benefit from their wealth

(49%) and thinking that younger family members need the money more than they do (23%). One in eight (12%) also see the financial benefits of gifting money while they're alive and plan to do so for tax reasons.

Providing financial support

In fact, more people are stepping in and providing financial support to family members this year, compared to last year. For instance, 59% intend to fund family weddings and deposits for first homes in 2017, compared to 52% of people in 2016^[2].

5 conversational topics about inheritance to have with your loved ones

1. The importance of an up-to-date Will

When you are making a Will, this is a good time to talk to your family about your wishes. The research found just four in ten (40%) of over-55s have an up-to-date and valid Will.

2. Take advantage of the gift allowance

You can give away £3,000 each year, and this will not be subject to IHT. In addition, parents can gift £5,000 to each child as a wedding gift, while grandparents can give £2,500. However, the research shows one in three people don't know how much you can gift each year without having to pay IHT.

Gifting money regularly throughout the year can be a great way to financially help loved ones, and it can also reduce your IHT liability. Some people will find it hard asking for money, so try and speak to your children and grandchildren to find out if you can help them with something specific, such as a new car or school fees.

3. Let life events help you start a conversation

The research shows that some life events, such as a health scare, could prompt people to talk to their loved ones about inheritance matters. However, there are some positive events, like a birth in the family or getting married, that can also make people evaluate their plans. Use these opportunities as a way of talking to relatives about how you would like to pass on your wealth.

4. Talk about later-life care

Social care is a much-talked-about topic, and many people are worried about how they will pay for care when they get older. As a result, people may



be starting to plan for this earlier than previous generations. It's important to talk to your family about the care you want so they stay true to your wishes. This could be the perfect time to introduce the subject of inheritance, as estate planning and later-life care go hand in hand.

5. Talk about family heirlooms

If you find it hard to approach the subject of estate planning with your family, then a good place to start could be talking about family heirlooms. People love to hear stories about older relatives, even if they never had the chance to meet them. Talking about items that are important to you or were important to other family members can be a great way to start a conversation about estate planning. ◀

Looking to secure more of your wealth for your loved ones?

Planning for what will happen after your death can make the lives of your loved ones much easier. To discuss putting in place an estate plan to reduce or mitigate Inheritance Tax, please contact us – don't leave it to chance.

TAX ADVICE WITH NO INVESTMENT ELEMENT IS NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

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 VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

Source data:

[1] Brewin Dolphin

[2] YouGov surveyed 10,951 UK adults online between 10 and 16 August 2016

Key Action Points

Joint tenants or tenants in common?

- How you own your property can have a significant impact on the legacy you leave and the IHT your heirs have to pay. Joint tenants own equal shares in a property. If you die, the other owner automatically inherits your share of the property. This overrides anything you say in your Will, so you cannot leave your share of the property to anyone else
- If you want to be able to leave your share of joint asset to someone else, you should seek professional advice on whether tenants in common is appropriate, and the alternative options for your estate if not

Pensions as an estate planning tool

- Pensions are one of the most tax-efficient ways to pass on your wealth
- If you die before the age of 75, benefits left in a money purchase pension can be paid as a lump sum or income to any beneficiaries, with absolutely no tax to pay. After age 75, benefits will be taxed at the beneficiaries' marginal Income Tax rate
- Your beneficiaries get to choose how they take the benefits
- You should seek advice to make sure you are making use of the allowances available to pay money into a pension. Alternatively, you should consider and seek advice on the best ways to structure your retirement plans so that you can preserve the IHT-friendly pension funds

More complicated planning

Once you have explored simpler forms of planning, you may want to consider more complex schemes that can be very effective in reducing an IHT bill:

- Using trusts as a tool to pass wealth down the generations
- Using life insurance as a cost-effective IHT planning tool
- Investing in small companies* – tax relief is available to encourage investment in certain small and growing unquoted UK enterprises, but such businesses are extremely high risk

**These are generally considered higher-risk investments and may not be considered suitable for all types of investors. You could lose some or all of your capital.*