

# Pennymatters

THE MODERN APPROACH TO  
FINANCIAL ADVICE

GUIDE TO

## PROTECTING YOU & YOUR ESTATE

PROVIDING YOUR FAMILY WITH LASTING BENEFITS  
MEANS TAKING PREVENTATIVE ACTION NOW

FINANCIAL GUIDE



**Pennymatters Ltd**, Building 329, Doncastle Road, Bracknell, Berkshire RG12 8PE  
**T:** 01344 988390 **F:** 01344 988394 **E:** [enquiries@pennymatters.co.uk](mailto:enquiries@pennymatters.co.uk)

Pennymatters Ltd is authorised and regulated by the Financial Conduct Authority. It is entered on the FCA register ([www.fca.org.uk/register/](http://www.fca.org.uk/register/)) under reference 530681. Registered office: Pennymatters Ltd, Doncastle House, Doncastle Road, Bracknell, Berkshire RG12 8PE. Registered in England and Wales Number: 07331832.

# GUIDE TO PROTECTING YOU & YOUR ESTATE

*Providing your family with lasting benefits means taking preventative action now*

Protecting your estate is ultimately about securing more of your wealth for your loved ones and planning for what will happen after your death to make the lives of your loved ones much easier.

**M**aking sure that you've made plans for after you're gone will give you peace of mind. It's not nice to think about, but it means that your loved ones can carry out your wishes and be protected from Inheritance Tax (IHT).

You don't have to be wealthy for your estate to be liable for IHT, and it isn't something that is paid only on death – it may also have to be paid on gifts made during someone's lifetime. Your estate will be liable if it is valued over the current IHT threshold on your death. The IHT threshold, or Nil Rate Band (NRB), is fixed until 2020/21 at £325,000.

Your estate includes any gifts you may have made within seven years of your death. Anything under the IHT threshold is not taxed (the 'Nil Rate Band'), and everything above it is taxed – currently at 40%. Where a person dies and leaves at least 10% of their net estate to a qualifying charity, a reduced rate of 36% IHT can be payable.

Any unused proportion of the NRB belonging to the first spouse or registered civil partner to die can be passed to the surviving spouse or registered civil partner.

## ADDITIONAL NIL RATE BAND

From 6 April 2017, the Government will be introducing an Additional Nil Rate Band (ANRB). This will start at £100,000 and increase

by £25,000 each tax year until it reaches £175,000 in 2020/21, when it will increase each tax year by the Consumer Price Index (CPI).

The ANRB will be available where you pass your house to your children, grandchildren or great-grandchildren. It will also be available if you downsize or cease to own a home as long as the replacement is passed to your children, grandchildren or great-grandchildren. It will start to reduce if your net estate is more than £2 million and will reduce by £1 for every £2 it is over. As with the NRB, the ANRB is transferable between spouses and registered civil partnerships if unused on first death.

## EXEMPTIONS

Moving ownership of assets to your spouse or registered civil partner may help reduce the IHT liability on your estate. However, don't forget that this can cause an increased IHT liability when they die. There are also exemptions if you make a donation to a charity.

## MAKING GIFTS

If you can afford to make gifts during your lifetime, this will also reduce the value of your estate, and so your ultimate IHT liability. You can make a gift of up to £3,000 a year without any IHT liability, and if you don't use this whole allowance it can be carried forward to the next tax year. You can also give gifts of up to £250 a year to any number of people with no IHT liability.

There are two types of gift which currently have tax implications. The first is Chargeable Lifetime Transfers (CLTs). The most common chargeable transfers are lifetime gifts into Discretionary Trusts. A transfer will be charged if (together with any chargeable transfers made in the previous seven years) it exceeds the IHT NRB (currently £325,000). Tax is paid at 20% on excess over the NRB.

The other type of gift to be aware of is Potentially Exempt Transfers (PETs). Gifts between individuals or into a bare trust arrangement are examples of PETs. These gifts are free from IHT provided you survive more than seven years beyond the date of the gift. The other area to be aware of is that if you are making a gift but try to reserve any of the benefit for yourself, for example, retaining dividend income from shares you have gifted or living rent-free in a property you have.

## LIFE INSURANCE POLICY

Taking out a life insurance policy written under an appropriate trust could be used towards paying any IHT liability. Under normal circumstances, the payout from a life insurance policy will form part of your legal estate and may therefore be subject to IHT. By writing a life insurance policy in an appropriate trust, the proceeds from the policy can be paid directly to the beneficiaries rather than to your legal estate, and will therefore not be taken into account

when IHT is calculated. It also means payment to your beneficiaries will probably be quicker, as the money will not go through probate.

## SETTING UP A TRUST

The structures into which you can transfer your assets can have lasting consequences for you and your family, and it is crucial that you choose the right ones. The right structures can protect assets and give your family lasting benefits. A trust can be used to reduce how much IHT your estate will have to pay on your death.

Broadly speaking, there are two types of trust to choose from: a Discretionary Trust and Bare Trust. A trust, in principle, is a very simple concept. It is a legal arrangement where the ownership of someone's assets (such as property, shares or cash) is transferred to someone else (usually a small group of people or a trust company) to manage and benefit a third person (or group of people). An appropriate trust can be used to reduce how much IHT your estate will have to pay on your death.

## DISCRETIONARY TRUSTS

A discretionary trust offers flexibility when it comes to deciding who you would like to be the beneficiaries. The appointer can appoint benefits to the beneficiaries of the discretionary trust. With a discretionary trust, there are possible tax liabilities to be aware of. On creation of the trust, IHT might be payable. IHT may also become payable if you die within seven years of the creation of the trust. Depending on the value of assets in the trust, there could be further charges to consider during the lifetime of the trust.

## BARE TRUSTS

A bare trust ensures that, once named, the beneficiaries cannot be changed or added to in the future. Once a beneficiary has reached the age of 18, they can ask for the trust to pay their share to them directly. The major advantage of bare trusts over discretionary trusts is that they are classed as potentially exempt transfers (PETs) with no immediate or ongoing IHT charges, provided the creator of the trust survives more than seven years from the date of the transfer.

## MAKE A WILL

By making a Will, you are detailing what you want to happen to your assets after you die. A Will also nominates someone to be in charge of carrying out your wishes. If you die without making a Will, the Government could keep everything if a suitable heir is not found.

The rules of intestacy (dying without making a valid Will) can be very complicated, and it should be noted that only your spouse or registered civil partner is assured of any inheritance.

### THE SOONER YOU START PLANNING, THE MORE YOU CAN DO

Whether you want to provide for the next generation or leave a charitable legacy when you die, or you simply want to minimise an IHT bill, the sooner you start thinking about this the more you can do. If you would like to discuss your situation, or to find out more, please contact us – we look forward to hearing from you.

“

Protecting your estate is ultimately about securing more of your wealth for your loved ones and planning for what will happen after your death to make the lives of your loved ones much easier.

”



# PASSING YOUR ASSETS ON TO THE BENEFICIARIES THAT YOU CHOOSE TO RECEIVE THEM

For most of us, our financial affairs are constantly changing, and we believe that your financial strategy needs to adapt similarly to changes in your situation. To ensure that you pass your assets on to the beneficiaries that you choose to receive them, either during your lifetime or on your death, or to discuss your situation, please contact us for further information.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2016/17 tax year, unless otherwise stated.