

IFA Fact-Files "Inheritance Tax"

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Are you aware of your potential Inheritance Tax liability? In the tax year 2005/06, Inheritance Tax (IHT) is charged on the value of your Estate over **£270,000**. The tax rate charged is **40%**. We suggest that you take a couple of seconds to fill in the table below, which might help you determine whether or not you may have a liability to Inheritance Tax:

	£
Value of your house	
Value of any other property	
Value of cash savings	
Value of investments	
Approximate value of other assets (cars, home contents etc)	
Approximate value of your share of your business (if applicable)	
Approximate value of Life Insurance policies	
Approximate value of Pension policies	
Total	
Take off any loans you have in your personal name	
Grand total	

If the figure in the Grand Total box is more than £270,000 then on your death, your Estate may have to pay Inheritance Tax. The current rate of IHT is 40% of anything over £270,000. For an Estate valued at £500,000 then, the tax payable could be £90,000.

A voluntary tax?

There are many ways in which you can reduce or completely extinguish your IHT liability, which is why Inheritance Tax is commonly referred to as a "voluntary tax". The most important aspect though, is that you know what your liability is, and you know the best way for *you* to mitigate the liability.

What can be done about this?

There is simply no need to be in a position of having to pass part of your Estate value to the Inland Revenue on your death. There are a number of ways in which you might be able to mitigate the future IHT liability. Our knowledge and expertise in the area of Estate planning will help you to identify the best way of structuring your Estate, to minimise that impact of this tax.

The first step:

Firstly, we need to establish the size of the problem. As with all potential new clients or customers we will do this by offering to meet with you for an **initial meeting**, which will be **free of charge**. We will then agree with you a current valuation of your Estate.

Our service:

It is vitally important when looking at IHT mitigation, to receive totally impartial advice. In all areas of advice, we will charge fees for impartial advice in the first instance. Many individuals then have the requirement to implement some recommendations and additional fees will need to be charged, if you require our assistance with implementing the tax saving plans.

Our fee structure:

We will charge you an initial (fixed) fee for our research, report and recommendations. We will agree this with you before we commence our investigative work.

Some case studies:

These are some real life examples where our expertise has helped in reducing the IHT liability. We have not included names for reasons of confidentiality:

Case Study 1

A widowed client had an Estate value of £450,000. This gave them an approximate IHT liability of £75,000. They had investments which they were not drawing an income from. Their income was adequate for their needs, although they worried about the potential requirement for Long Term Care, if they were to be unable to look after themselves.

We used the investments that they were not currently drawing upon to purchase a Bond Trust for the benefit of their children. The Bond Trust pays our client an income for life of 5% of the value they invested, which then enables them to use their annual gift allowance, to pass the income onto their children. They can do this until they need the additional income for Long Term Care, at which point they keep the full income themselves.

The main Bond value is hoped to maintain it's value (as they are only drawing 5% income) so that when they die, the Bond is still worth about the same as they invested in it. If they die after 7 years of making the investment, the Estate saves the full £75,000 of IHT. If they die within 7 years of making the investment, the Estate still saves over £35,000 of IHT.

Case Study 2

A widowed client in their 70's has an Estate value of £1,100,000. The IHT liability on this Estate was calculated as £335,000. They wanted their money to be split between their partner (they were unmarried) and their children. (Unmarried couples do not have any spouses' exemptions.) They were not sure if they wanted to set up a Trust for the partner, as the relationship was a little rocky, although they wanted to mitigate the IHT liability. They wanted the children to inherit the main bulk of the Estate, with a Will provision for the partner (if the relationship were still intact).

Having reviewed all options open to them, we recommended a Life insurance policy be established to pay the IHT bill. The policy cost £3,000 per annum, but the potential benefit is that the Estate will be £335,000 better off – a fair exchange. This client used Dividend income from shares to pay for the premiums. Previously the Dividends had been reinvested, so they did not feel as though they were losing out on income for the benefit of everyone else! This was seen to be a short term measure which would need to be reviewed as the years passed, but it bought time, whilst other more difficult decision could be made.

Summary:

If you wish to take matters further, please contact us to arrange a meeting. At the first meeting, it would be useful if you could bring with you the following, if you have ready access to them. It is not essential to bring all of these items, but it will help us to make a good start in understanding your situation:

- A copy of your Will(s) – if you have made one
- A breakdown of your current assets value (you can use the table overleaf)
- A breakdown of your current income and expenditure
- Details of any gifts you have made in excess of £3,000
- Details of any Trusts you have set up, or that you are a beneficiary of
- Any life insurance policies (still in force) and pension policies (whether or not in payment)

If you have any questions or need an independent review of your investment arrangements, please contact Martin Andrews to discuss your situation further. Martin Andrews & Associates Ltd is an Independent Financial Adviser regulated by the Financial Services Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.