Case Study:
Inheritance Tax Planning

Investment and Inheritance Tax Planning

David

THE BACKGROUND

David is a retired teacher who at the age of 85 has recently moved into residential care. He is a widower, his wife, Ann, having passed away 3 years ago leaving all of her assets to him. David is in receipt of pension income totalling some £50,000 p.a. and he also qualifies for attendance allowance. His net monthly income of £3,750 is sufficient to meet the cost of his residential care and personal expenditure. David moved into residential care as he suffers from severe mobility issues however he remains in overall good health for his years. David has cash savings totalling £160,000 in various savings accounts and a further £150,000 invested in ISA's. He has three grown up children and four grandchildren.

Following his move into residential care David's property is in the process of being sold and he is due to receive net sale proceeds of £700,000. David has requested our assistance in advising on the most appropriate investment solutions for the sale proceeds. He is concerned about the potential effects of Inheritance Tax (IHT) on his estate however he does not wish to gift any money to his family at this stage as he wishes to retain overall control and access in case his long term care costs increase in the future. After their Inheritance Tax allowances of £325,000 each, a net sum of £360,000 is currently liable to IHT. David wishes to make his own financial decisions however he has asked that his children are involved in the process.

OUR SOLUTIONS

Invest £360,000 in IHT exempt investments – This includes investment into an AIM portfolio and a Business Property Relief (BPR) qualifying scheme. Provided these assets are held by David for a minimum of 2 years and continue to qualify for BPR they will no longer be liable to IHT under current legislation. This type of investment carries a higher degree of risk and David is happy to accept this for this element of his investment planning. This enables David to reduce his overall IHT liability whilst keeping full control and ownership of his capital.

Invest £340,000 into a Gift and Loan Trust - The Loan Trust provides for David to lend an amount of capital to the trustees. The trustees invest this money in an investment bond, but the loan is repayable on demand to the David at any time (hence the David can access the full amount of the outstanding loan at any time). David may take regular withdrawals from the bond which will act as regular loan repayments. All of the growth of the loan remaining invested will be outside the David's estate from day one. Additionally, David's estate can waive the requirement of the loan to be repaid on death therefore allowing the Trust assets to be passed to the beneficiaries efficiently.

Utilise Annual Gift Allowance of £3,000 p.a. – David should make full use of his annual gift allowance which enables him to give up to £3,000 per annum which is immediately exempt from IHT.

FEES

The fee for our research, recommendation and implementation was £9,625. The fee covered

- A thorough investigation of David's circumstances,
- A full assessment of David's investment risk requirements,
- A full review of the market place for the most appropriate solutions,
- A detailed report of our recommendations,
- The implementation of our findings.

VALUE ADDED

- Our recommended solution provided a potential IHT saving of £144,000 provided David lives for at least 2 years and the IHT exempt investments continue to qualify for BPR.
- The remaining funds can benefit from the investment growth potential with any growth falling outside of David's estate for IHT purposes.
- David retains overall control and access over his investments.

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