FINANCIAL FOCUS

PAVEY GROUP NEWSLETTER

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Safeguarding wealth for future generations

New Inheritance Tax rules apply from 6 April 2017

Unforeseen life events and circumstances can potentially impact your finances in a number of ways. We can help you to safeguard your wealth for future generations.

Although often in the news, Inheritance Tax (IHT) is still not widely understood. That's worrying, because it affects thousands of families every year. If you thought IHT was just for extremely wealthy people to worry about, think again. The amount of IHT collected has doubled over the last five years[1].

Money and possessions

If your estate has an IHT liability, IHT must be paid prior to probate and therefore prior to the beneficiaries receiving their legacy. This may not be the kind of legacy most people think of leaving behind. IHT is payable on assets such as property, money and possessions that are passed on when you die. IHT is payable at 40% (or 36% if 10% of the net estate is left to a registered charity) on assets that exceed the threshold 'nil rate band', which is currently at £325,000.

The good news is that there are things you can do – in your lifetime – to take care of a potential problem. But finding the right options for you will depend on your personal circumstances and receiving appropriate advice.

New IHT rules

Under the new IHT rules, more estates are likely to pass free of IHT post–5 April 2017. By 5 April 2021, some estates worth £1 million will pass free of IHT. This is the good news, but it's far from the whole picture. For many, in particular the childless, the IHT could in fact (with the effect of inflation) be higher post–5 April 2017.

For deaths from 6 April 2017, an additional IHT-free 'residence nil rate band' (RNRB) will be available. This will begin at £100,000 in the tax year 2017/18 and will increase by £25,000 each tax year, reaching £175,000 by tax year 2020/21. Based on the current information, from tax year 2020/21 onwards, the RNRB will increase each year in line with increases in the consumer prices index.

This RNRB is available where the deceased leaves a property (or the proceeds of sale of a property) in which they have lived at some point to their direct descendents or the spouse or civil partner of a direct descendent (children and their issue).

Residence nil rate band

The residence nil rate band is available on top of the existing IHT nil rate band of £325,000, so that in 2020/21 an individual will potentially be able to leave £500,000 free of IHT. As is now the case with the standard nil rate band, where the first of a married couple to die leaves their estate to their spouse, the IHT nil rate band can effectively be 'passed on' to the surviving spouse.

For those with a conventional family, a modest home and savings (and subject to the rate of house price increases in the coming years), it is therefore likely that no IHT will be payable on their estate.

Downsized or sold up

The new rules are designed to ensure that the elderly are not encouraged to retain family homes they would otherwise have sold. Where the deceased has downsized or sold up, it will still be possible to pass on the proceeds of the family home. The rules provide only that the deceased must have lived in the property in question at some point, and that assets of an equivalent value are passed on to direct descendents.

The additional RNRB will not be available to the most valuable estates. This is because where the value of the deceased's estate (after deducting liabilities but before deducting any reliefs and exemptions) exceeds £2 million, the RNRB will be reduced by £1 for every £2 that this £2 million threshold is exceeded. If, therefore, death was to occur in the 2020/21 tax year when the RNRB will be £175,000, this would mean that no RNRB will be available for estates with a value of £2.35 million or more (or £2.7 million on the death of a surviving spouse where a full RNRB is available to be transferred to the survivor).

Eroded by inflation

The nil rate band of £325,000 is now frozen until at least April 2021. This means that for the unmarried, and for those who leave no children or grandchildren, the IHT-free band will continue to be eroded by inflation. A single person owning property in London, for example, is highly likely to leave an estate subject to IHT. The number of single and childless persons of even modest means who will fall within the IHT bracket will inevitably continue to increase.

The actions you need to take depend on your family's needs for capital and income, as well as your current assets and your intended beneficiaries, so it's important to speak with us for expert advice on the best options for your circumstances. ■

DON'T LEAVE LOVED ONES WITH A LARGE AND UNNECESSARY IHT BILL TO PAY

Estate planning can be complicated, and talking to us about your situation can make a real difference. Our experience is that too many people are leaving their loved ones with a large and unnecessary IHT bill to pay. To review your situation, please contact us.

Source data:

[1] HM Revenue & Customs (HMRC) collected £4.7 billion from thousands of bereaved families in 2015/16. Source: Office for National Statistics, 2016

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Origins of wealth

Turning a vision into reality

We understand that no two people are alike and that each of us will have a unique set of objectives. As professional advisers, our starting point is therefore always to take the time to truly understand your goals and aspirations and to turn your vision into a reality that creates sustainable solutions for your aspirations.

You may have accumulated wealth after many years in a successful career, from the sale of a business or through receiving a substantial inheritance. Whatever the origins of your wealth, it now provides for even greater growth opportunities.

You may have specific goals that reflect your risk tolerance, time horizon or asset class preferences. Whatever your needs, we can help you develop an investment strategy that works for you. When it comes to building an investment portfolio, collective investment schemes should also be considered as part of a well-diversified portfolio.

Unit trusts

Unit trusts pool funds together under one umbrella and then manage them en masse. Investors pay into the unit trust, which then buys assets such as equities or bonds on their behalf.

The monetary value of these assets is divided by the number of units issued when the fund is created to give an initial unit value. This value then fluctuates as the underlying assets trade daily and investors put money in or take money out. As there is no limit to how many units can be created or redeemed on an ongoing basis, unit trusts are known as 'open-ended funds'.

Open-ended Investment Company (OEIC)

An OEIC is a type of company or fund in the United Kingdom that is structured to invest in other companies with the ability to constantly adjust its investment criteria and fund size. The company's shares are listed on the London Stock Exchange, and the price of the shares is based largely on the underlying assets of the fund. These funds can mix different types of investment strategies such as income and growth, and small cap and large cap.

Investors' money is pooled and spread across a wide range of investments, such as equities or fixed-interest securities. This diversification helps reduce risk of losing an investor's principal. OEIC funds offer the potential for growth or income as medium to long-term investments for five to ten years, or longer.

Investment trusts

An investment trust works along the same principle of raising money from investors to buy assets that it manages on behalf of them all. The main difference is that the investment trust is created by selling a fixed number of shares at the outset. As no new shares are created, investment trusts are known as 'closed-end funds'.

Types of investment funds

There are a few broad categories of funds available via a unit trust and investment trust. The type of fund or funds you choose will depend on your investment goals and attitude to risk.

Equity funds invest in a range of company shares that offer capital gains when share prices rise, along with an opportunity to receive the dividends that some companies pay periodically. However, share values may fall – sometimes dramatically – and dividends can be cut if companies run into cash problems.

Equity income funds specifically target the companies that pay strong dividends or have the potential to raise their pay-outs. This has proved a particularly successful strategy during a recessionary environment, as the dividends can act as a cushion against lower returns from falling share prices.

Multi-asset funds invest in a range of equities, bonds, commodities (including gold), money markets and real estate. These can be an efficient means of reducing risk by investing across a wide range of assets so that you don't have all your eggs in one basket.

Specialist funds target countries or sectors that require expert knowledge by their fund managers to avoid the riskiest areas of the market and to maximise returns. Many have sprung up covering emerging markets such as Asia and Latin America, to sector-based funds such as commodities.

Absolute return funds aim to produce a positive return over time, regardless of the prevailing market conditions. The ability to produce positive returns is typically assessed on a rolling 12-month basis. ■

SOLUTIONS DESIGNED AROUND YOU AND YOUR FAMILY

We provide tailored professional advice and solutions designed around you and your family to enable you to build a goal-based financial plan that reflects what's most important to you. To discover how we can help grow your wealth, please contact us.

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

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 652030.