



Inheritance Tax Planning Update

Presentation to Family Wealth Estate Planning
Conference on 21st May 2009 in Leeds

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Why use Vantis's Inheritance Tax, Trusts & Estates team

- Our usual "modus operandi"
- The one off fee of £350 plus VAT
- Likely fees/fee sharing arrangement
- Support/compliance/two yearly review
- Satisfaction of a job well done on your recommendation/repeat referrals from professional introducers
- Wider tax problems



The “Politics” of Inheritance Tax

- 18 years of Tory governments
- The Labour Party’s promises re business property relief and other Inheritance Tax rules
- The Labour government’s Finance Acts
- The future?



Inheritance Tax Planning - five client "drivers"

- tax savings
- income/capital retention for future financial security
- reliability of the planning
- flexibility
- control

80% of estates who ultimately paid IHT could have reduced/abolished that payment if planning steps taken during lifetime

"I would rather give assets to my children with a warm hand rather than a cold one"



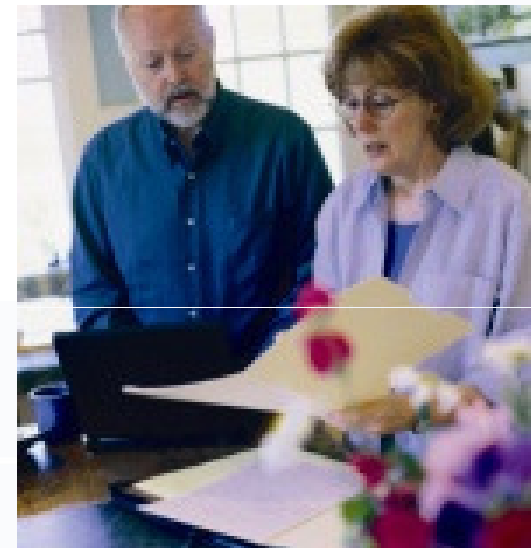
Avoiding a Capital Gains Tax Charge in an Estate Planning Exercise

- Gift assets not standing at a gain or exempt
- Raise a loan secured against assets to fund cash gift
- The section 260 TCGA route/IHT v CGT
- “Number crunching” exercise
- Sale by one spouse to the other at full value (no gain/no loss) taking IOU and gifting to children.
Stamp Duty/SDLT downside



Husband and Wife

- Individual nil rate bands (for tax effective Wills)
- Individual cumulative totals
- Both make p.e.t's, spread actuarial risk
- Annual and other exemptions





Tax Planning for Family Companies

- Business Property Relief
- Service Agreement
- Lose control
- Husband and Wife
- Trust
- Share re-organisation

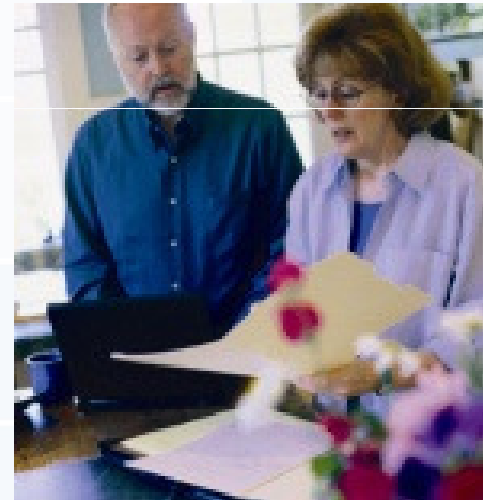
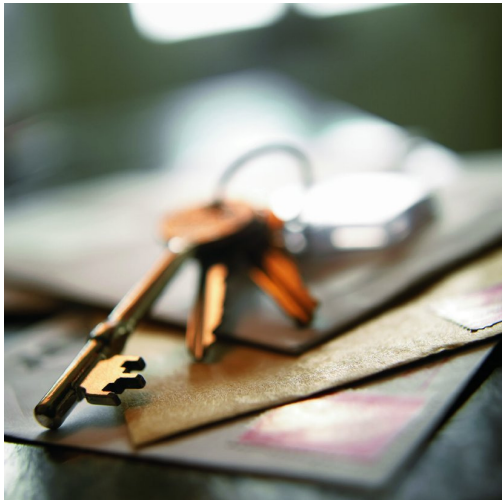


Maximise Exemptions

- Gift to political parties and charities
- Transfers between spouses
- Annual exemptions of £3,000 and £250 (**not** increased since 1981!)
- Wedding gifts
- Normal gifts out of income



Inheritance Tax Planning and the Family Home



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Tax Planning involving the family home

- GROBs
- Full consideration/gift and rent
- Co-ownership/co-habitation
- Gift and buy back right to occupy for life
- Raise loan to fund gift
- Sale by one spouse to the other in return for IOU which can then be gifted
- Children to buy freehold reversion



Tax Planning involving the family home

House worth £650,000(?)

HUSBAND



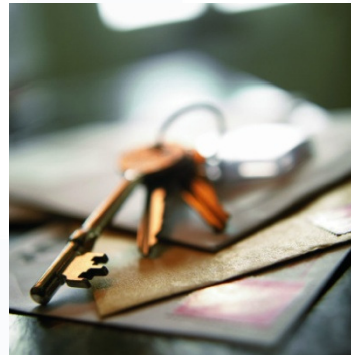
half share



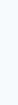
by Will



to children



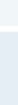
WIFE



half share



by Will



to children



Tax Planning involving the family home

House worth £650,000(?)

HUSBAND



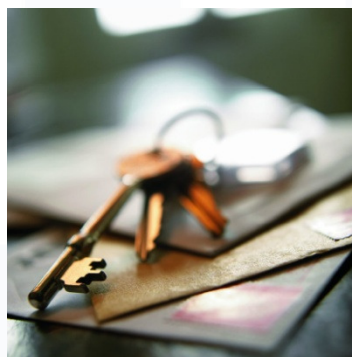
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by Will



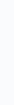
to children



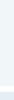
WIFE



half share



by Will



to children

Children settle $\frac{1}{2}$ share on mother for life (chargeable event for IHT covered by their tax free thresholds), trust terminates on mother's death and absolute appointment to children – modest/non existent exit charge



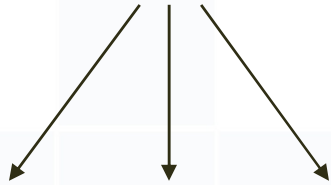
Gift and Purchase Back of Right to Occupy

- The concept
- The Inheritance Tax advantage
- The need for full value to be paid
- The Section 34 downside on vendor
- Gift to children, purchase back triggers Income Tax charge

F (85 years old)



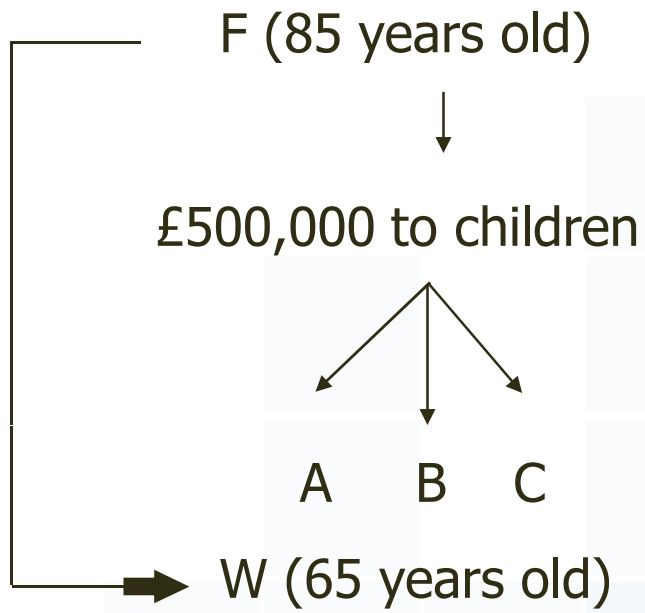
£500,000 to children

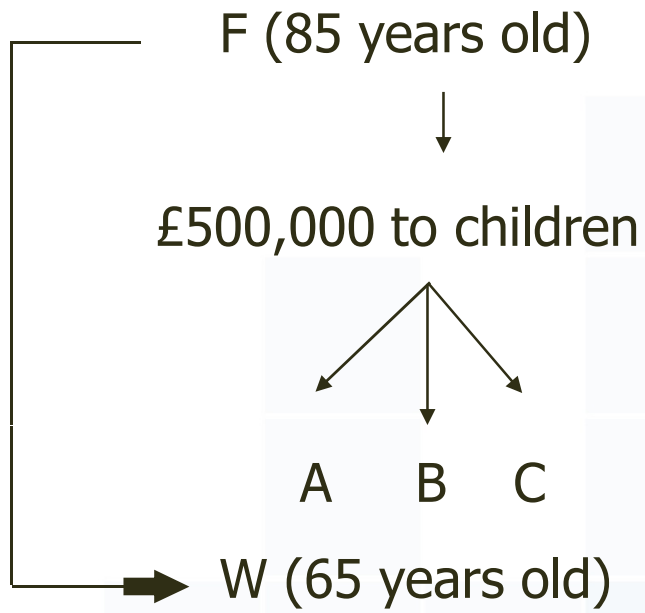


A

B

C





Associated operations



Agricultural Property Relief





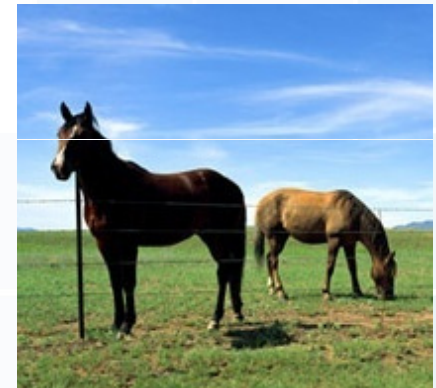
Agricultural Property Relief

- Agricultural property
- UK, Channel Islands and Isle of Man only
- Farmhouses and farm cottages but



Agricultural Property Relief

- Assets covered
- No development potential (but query business property relief)
- Farmhouse (CTO's attitude)
- Minimum period of ownership test 2 years (owned and occupied by transferor for purposes of agriculture) 7 years (owned by transferor and occupied by him or another for purposes of agriculture)





Agricultural Property Relief

- Two year's occupation
- Seven years' ownership
- Occupied "throughout" for agricultural purposes



Tax effective Wills

- Intestacy provisions - do you know the new rules?
- Do you have Wills?
- What are the problems with the intestacy rules?
- Do your children have Wills?



Tax effective Wills post 9th October 2007

- The new rules
- Estate of deceased spouse to survivor for life
- Nil rate band of deceased spouse unused (or %?)
- Any unused nil rate band on death of first spouse can be utilised on death of survivor



Why keep nil rate band trusts in Wills?

- flexibility (surviving spouse would otherwise have to make potentially exempt transfers and survive seven years)
- Deeds of Variation may go
- shelter for assets likely to appreciate in value or lose APR/BPR
- for anyone previously widowed, enables use of previous spouse's nil rate band in addition
- Protection from care home fees/the family



Nil rate band discretionary Will Trusts - advantages

- if growth of assets outstrips growth of nil rate band then lower IHT liability
- protects your ultimate beneficiaries against events during the lifetime of the survivor eg.,
 - change of Will
 - remarriage
 - care fees
 - bankruptcy



Nil rate band discretionary Will Trusts - advantages

- offers protection to vulnerable beneficiaries, eg.,
 - disabled beneficiaries
 - those dependent upon means tested benefits
 - those who struggle to manage monies for other reasons
 - those subject to divorce or bankruptcy proceedings

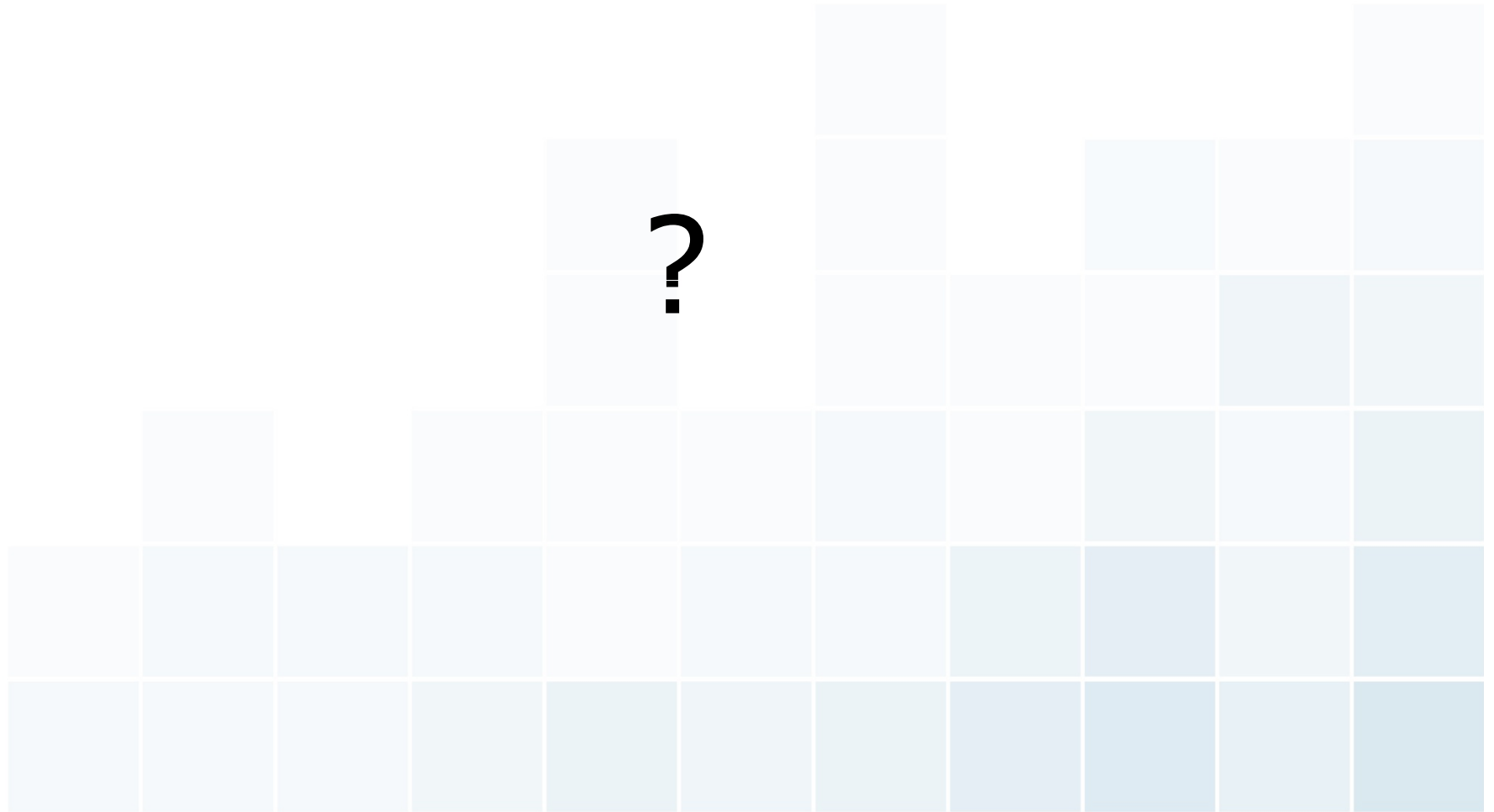


Nil rate band discretionary Will Trusts - advantages

- offers flexibility, including:
 - the ability to transfer assets to the surviving spouse/
Civil Partner within two years of death and reclaim
the nil rate band of the first to die
 - the ability to prolong the trust following the survivor's
death or to alter the intended distribution at that time



Tax Planning for terminally ill clients



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Settlor interested trust

(for clients who cannot afford to lose access to income)

- Life interest trust in favour of settlor, segregation of income and capital (no entitlement ever to the latter)
- No hold over available so **cash** or assets not standing at a gain to be transferred
- Better solution (IOU debt structure/conventional discretionary trust)



What to do next ?

After reflection of the relevance of our comments today, please feel free to arrange a meeting with Peter Legg or any members of his team.

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