

# Estate Planning – saving tax while retaining flexibility and control

Dealers' Group Conference  
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27,29 October 2009



# The Presentation

- Objective
- IHT planning in difficult economic times
- Flexible Nil rate band planning
- Ultimate discounted planning
- IHT planning for cash

# Objectives

- Informative
  - Learn something (maybe)!
  - Increase recognition that IHT is a real business opportunity
  - Solutions can be flexible
- 
- *“Why put clients into financial straitjackets when there are flexible alternatives”*

# Economic Volatility

- UK taxation must go up in the medium term
- Wealthy are still wealthy, but taxed more
- CGT barriers reduced
- IHT planning need not mean giving up access or control

# Barriers to IHT planning

- Loss of capital / Loss of income
- Lack of flexibility during lifetime
- Lack of investment choice
- Complexity
- Change of circumstances – what if?

# Three Solutions

- Flexible reversionary trust
- Discounted reversionary trust
- Cash defined gift trust

# Flexible Reversionary Trust



# The Nil Rate Band

- Everyone gets an IHT allowance every seven years
- Few people use much of this free IHT “giveaway”
- A flexible reversionary trust helps people to embark on NRB planning

# Flexible Reversionary Trust

- Creates a Chargeable Lifetime Transfer
- Holds a series of offshore whole of life endowments, written on multiple lives assured
- Allows the Settlor to be paid monies flexibly
- Allows Appointments to Beneficiaries
- Open architecture (cash, unit trusts, OEICs, offshore funds)



# “Carve-out” Principle - FRT

Settlor retains:

Maturity value

Settlor gifts to trustees:

Death Benefit

Right to defer maturity  
dates

Surrender value



# Investors Estate

In any year some, all or none of a reversion can be taken

Chargeable gain assessable at settlor's marginal rate of income tax

# FRT

Year 1	Year 2	Year 3	Year 4	Year 5
£25,000	£25,000	£25,000	£25,000	£25,000
Year 6	Year 7	Year 8	Year 9	Year 10
£25,000	£25,000	£25,000	£25,000	£25,000

Postponement does not trigger tax events



# Flexibility for Beneficiaries too!

- Appointments can be made at anytime to beneficiaries – during or after settlor's life
- School fee planning, university fees, house deposit, wedding, new business etc...
- Assignment of segments moves chargeable gain tax point to beneficiary
- Assignments to minors can be done via a bare trustee

# Gift of Foresight

- 1986 NRB = £71,000
- Today's NRB = £325,00
- Gifting the NRB into a Will Trust is good practice however it only removes £325,000
- If 60 year old gifted NRB today and every 7 years, approx £6.8m could be removed from the estate if they survived 28 years\*
- Compare that to £732.8k which would be saved if the individual had simply used the NRB on death\*

\* It is assumed that Nil Rate Band allowances increase at 3% per annum from 2011 onwards. Investment values are assumed to grow at 7% per annum.



# FRT – client?

- Looking to save IHT
- Wants as much flexibility as possibility
- Wants ability to change beneficiaries
- Wants ability to advance inheritance but also to be paid monies themselves
- Wants a tailored but flexible investment portfolio

# Discounted Reversionary Trust



# Traditional Discounted Planning

- “Income” via 5% withdrawals
- Discount
- PET
- Beneficiaries receive inheritance post death



# Challenges

- “Income” static (*Potentially reducing in real terms*)
- Capital erosion
- Discount – Potentially none if ill and largely irrelevant if healthy
- Potential Income tax bill post death
- Little flexibility

# Discounted Reversionary Trust

- “Income” – increase, decrease, stop, start
- Capital erosion – controllable via “income”
- Discount – *tailored* due to flexible “income” options
- Removal of income tax issue post death



# “Carve-out” Principle - FRT

Settlor retains:

Maturity Value

Settlor gifts to trustees:

Death Benefit

Right to Defer maturity  
dates

Non-surrenderable  
*(single / joint lives)*



# Discounted Gift Trust

- Income tax deferred
- Money not spent in estate
- Fixed income - no flexibility

SETTLOR



TRUST

# DRT

- Income tax on maturity gain (if taken)
- Money not required (deferred)
- Flexible income
- Money deferred creates a new discounted PET

SETTLOR



TRUST

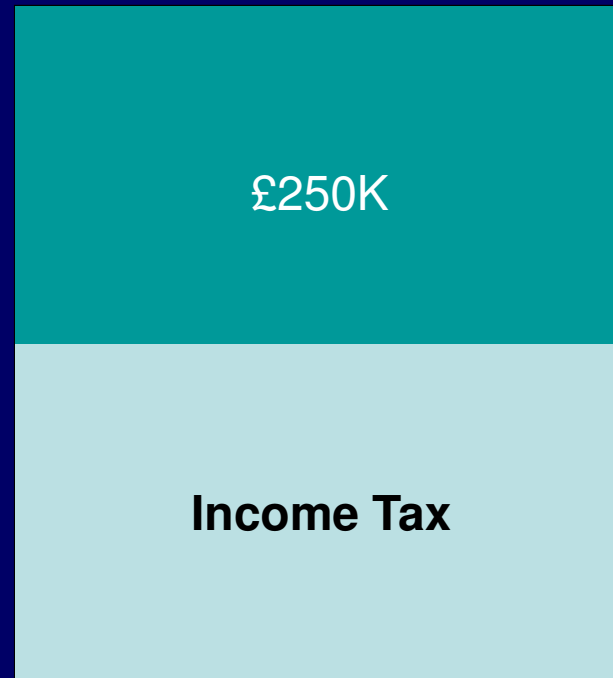
# “Income” Flexibility

- 5% per annum over 20 years
- 10% per annum over 10 years
- Defer “income” start date
- Increasing / decreasing reversions
- 7 year planning
- “Bespoke” to each HNW client needs



# Income Tax - DGT

SETTLOR



TRUST

# Income Tax - DRT

Income Tax

SETTLOR



£500K

TRUST

# Income Tax Calculations

Initial Investment £500,000

Assumed Growth of £50,000

Calculation (A+B)-(C+D)

*Discounted Gift Trust*

$(£550,000 + £250,000) - (£500,000 + £0) =$

*Discounted Reversionary Trust*

$(£0 + £0) - (£500,000 + £0) =$

A = Surrender Value

B = 5% Withdrawals

C = Premium

D = Excess Withdrawals

Tax: 40% of £300,000

Tax of £0



# DRT – client?

- Looking to save IHT
- Likes idea of getting an immediate discount
- Likes simplicity of PET regime
- Looking for an “income” from assets at some point
- Wants “income” to be flexible if not required
- Wants a tailored but flexible investment portfolio
- Does not want to saddle beneficiaries with tax or complexity

# Cash Defined Gift Trust



# The Customers

- Risk averse
- Need control of capital (to secure income)
- Cost conscious
- Like simplicity
- An IHT profile

# What is it ?

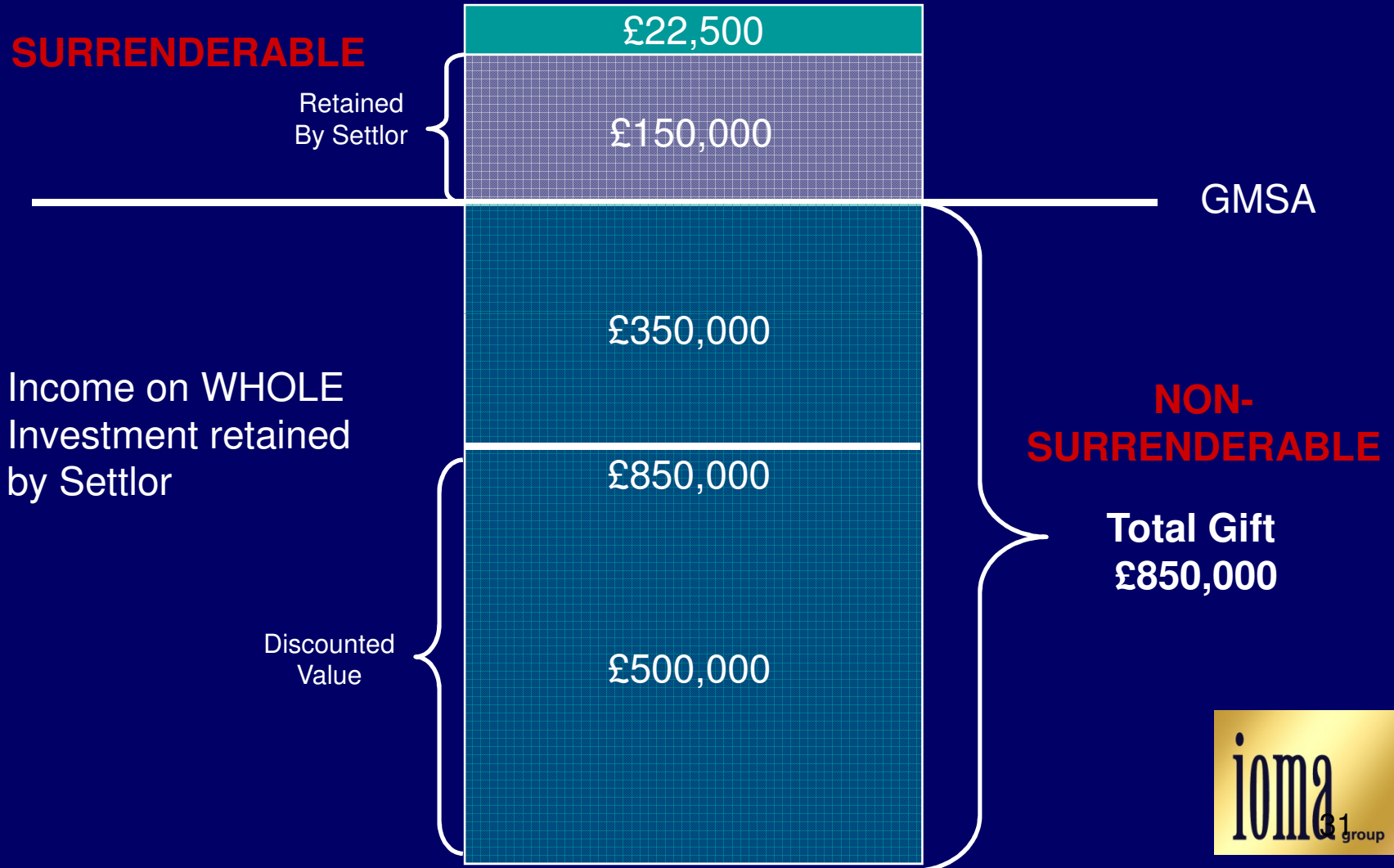
- Bare Trust PET or IIP CLT
- Discounted
- Cash based
- Income tax efficient

# Case Study

- 70 year old widow
- Home value - £350k (downsized already)
- Inheritance from husband plus proceeds of home sale has left £1 million in cash
- 2 daughters to inherit (BUT £400k to HMRC)
- Current yield after tax of 1.8% - £18k p.a.



# £1 million 70 year old widow



# Income Tax on Death

Initial Investment £1,000,000

GMSA £850,000

Assumed Growth of £225,000

Calculation (A+B)-(C+D)

A = Surrender Value

B = 5% Withdrawals

C = Premium

D = Excess Withdrawals

*Cash Defined Gift Trust*

$(£150,000 + £225,000) - (£1,000,000 + £0) =$

Tax of £0



# Case Study

- £18k income increased 25% to £22.5k (no self assessment)
- Immediate discount of £350,000
- After 7 years £850k gone from estate, saving £340k
- Cash available, income tax free, on death
- Gross yield equivalent to 3.75% (40% tax-payer)

# What has been achieved?

- *“...so what you’re telling me is you’ll give me a better return than where I currently am and save me some inheritance tax...”*
- Tax efficient and flexible income
- IHT saving in first seven years
- Greater IHT saving after seven years
- Appropriate cautious investment approach
- Monies available post death
- Adviser gets paid for IHT advice on cash

# Summary

- *“Why put clients into financial straitjackets when there are flexible alternatives?”*
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