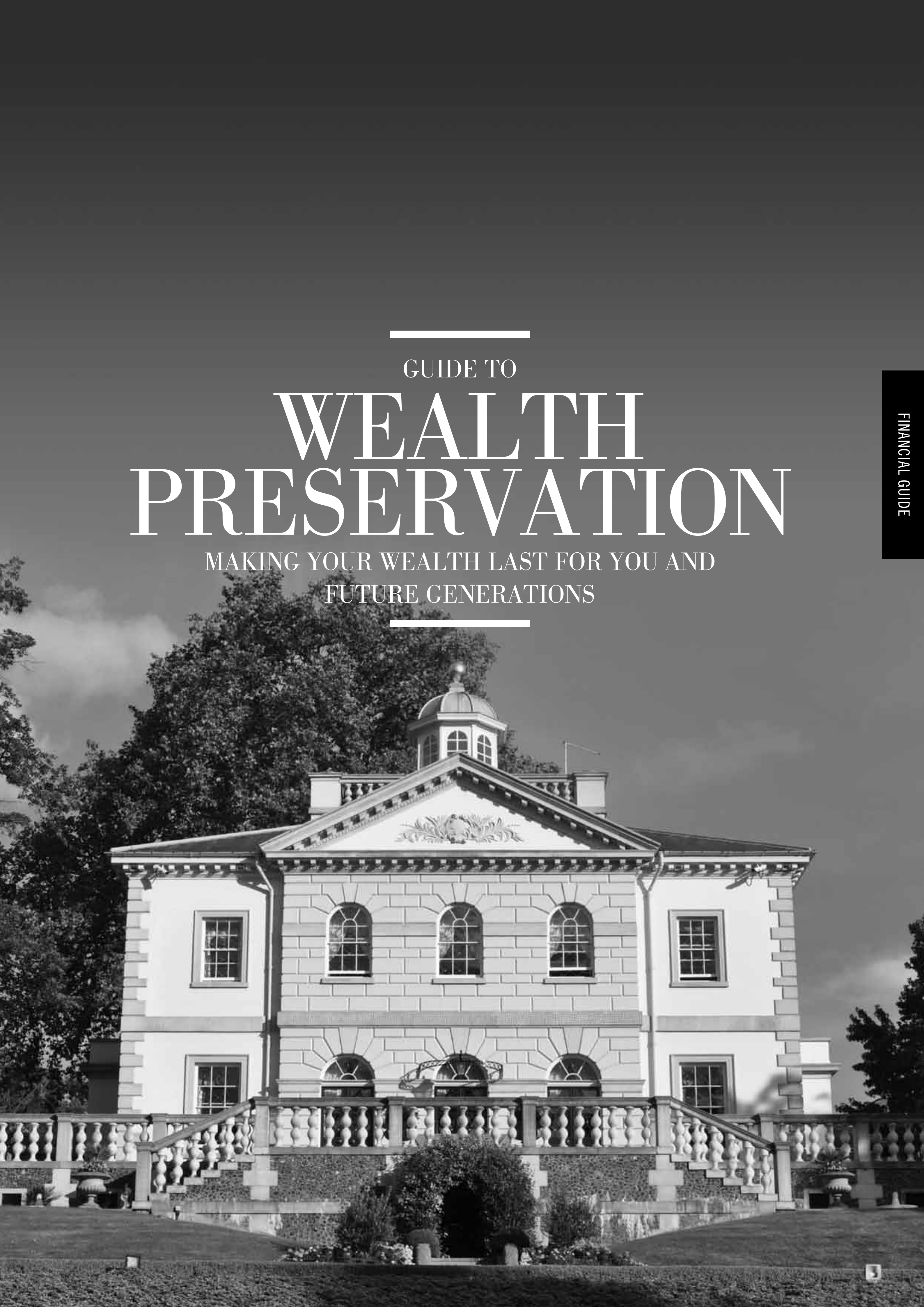
GUIDE TO

WEALTH PRESERVATION

MAKING YOUR WEALTH LAST FOR YOU AND FUTURE GENERATIONS

FINANCIAL GUIDE



WELCOME

Making your wealth last for you and future generations

Welcome to our *Guide to Wealth Preservation*. After a lifetime of hard work, you want to make sure you protect as much of your wealth as possible and pass it to those who you would like to receive it. Wealth, just like your health, must be carefully preserved, and the correct solution for you is the one that suits your personal circumstances.

The subject of wealth preservation can be an emotional and complex matter. By making use of lifetime planning opportunities and tailor-making Wills and trusts to your particular circumstances, you can ensure that your valuable assets are retained for future generations in the most financially prudent and effective way.

The preservation and constructive transfer of wealth are primary components of a successful wealth protection strategy. While assets can grow over a lifetime, so can the need to consider a variety of products and services to protect wealth for the future. A forward-looking, integrated wealth protection strategy will help ensure a lasting legacy for you and your loved ones.

With numerous options available when structuring and preserving your wealth, with our advice you can be confident of making the right decisions based on your financial and family situation to best meet your personal objectives. To review your situation and discuss your options, please contact us for further information.

CONTENTS

02 **Welcome**
Making your wealth last for you and future generations

04 **Life insurance**
Helping dependants to cope financially in the event of your premature death

06 **Term life insurance**
The most basic type of life insurance

07 **Whole-of-life insurance**
Guaranteed financial protection that lasts for the rest of your life

09 **Critical illness cover**
Minimise the financial impact on you and your loved ones

11 **Income protection insurance**
No one is immune to the risk of illness and accidents

13 **Making a Will**
An essential part of your financial planning

14 **Power of Attorney**
Permitting someone to act on your behalf

15 **Inheritance Tax**
Passing your estate to the people that matter to you in the most effective way

17 **Trusts**
Control over your assets for the benefit of one or more people

20 **Glossary**
Understanding the jargon

LIFE INSURANCE

Helping dependants to cope financially in the event of your premature death

It may be the case that not everyone needs life insurance (also known as 'life cover' and 'death cover'). But if your children, partner or other relatives depend on your income to cover the mortgage or other living expenses, then the answer is yes – you probably do want life insurance, since it will help provide for your family in the event of your death.

Life insurance can make sure they're taken care of financially if you die. So whether you're looking to provide a financial safety net for your loved ones, moving house or a first-time buyer looking to arrange your mortgage life insurance – or simply wanting to add some cover to what you've already got – you'll want to make sure you choose the right type of cover. That's why obtaining the right advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential.

Coping financially

Life insurance helps your dependants to cope financially in the event of your premature death. When you take out life insurance, you set the amount you want the policy to pay out should you die – this is called the 'sum assured'. Even if you consider that currently you have sufficient life assurance, you'll probably need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

Own personal circumstances

As you reach different stages in your life, the need for protection will inevitably change. How much life insurance you need really depends on your circumstances, for example, whether you've got a mortgage, you're single or have children. Before you compare life insurance, it's worth bearing in mind that the amount of cover you need will very much depend on your own personal circumstances, such as the needs of your family and dependants.

There is no one-size-fits-all solution, and the amount of cover – as well as how long it lasts for – will vary from person to person.

These are some events when you should consider reviewing your life insurance requirements:

- Buying your first home with a partner
- Covering loans
- Getting married or entering into a registered civil partnership
- Starting a family
- Becoming a stay-at-home parent
- Having more children
- Moving to a bigger property
- Salary increases
- Changing your job
- Reaching retirement
- Relying on someone else to support you
- Personal guarantee for business loans

Individual lifestyle factors

The price you pay for a life insurance policy depends on a number of things. These include the amount of money you want to cover and the length of the policy, but also your age, your health, your lifestyle and whether you smoke.

Household to household

If you have a spouse, partner or children, you should have sufficient protection to pay off your mortgage and any other liabilities. After that, you may need life insurance to replace at least some of your income. How much money a family needs will vary from household to household, so, ultimately, it's up to you to decide how much money you would like to leave your family that would enable them to maintain their current standard of living.

Two basic types

There are two basic types of life insurance, 'term life' and 'whole-of-life', but within those categories there are different variations. The cheapest, simplest form of life insurance is term life insurance. It is straightforward protection: there is no investment element, and it pays out a lump sum if you die within a specified period. There are several types of term insurance.

The other type of protection available is a whole-of-life insurance policy, designed to provide you with cover throughout your entire lifetime.
The policy only pays out once the policyholder dies, providing the policyholder's dependants with a lump sum, usually tax-free. Depending on the individual policy, policyholders may have to continue contributing right up until they die, or they may be able to stop paying in once they reach a stated age, even though the cover continues until they die.

Tax matters

Although the proceeds from a life insurance policy are tax-free, they could form part of your estate and become liable to Inheritance Tax. The simple way to avoid Inheritance Tax on the proceeds is to place your policy into an appropriate trust, which enables any payout to be made directly to your dependants. Certain kinds of appropriate trust allow you to control what happens to your payout after death, and this could speed up a payment. However, they cannot be used for life insurance policies that are assigned to (earmarked for) your mortgage lender.

Remove the burden

Generally speaking, the amount of life insurance you may need should provide a lump sum that is sufficient to remove the burden of any debts and, ideally, leave enough over to invest in order to provide an income to support your dependants for the required period of time.

The first consideration is to clarify what you want the life insurance to protect. If you simply want to cover your mortgage, then an amount equal to the outstanding mortgage debt can achieve that.

To prevent your family from being financially disadvantaged by your premature death, and to provide enough financial support to maintain their current lifestyle, there are a few more variables you should consider:

- What are your family expenses, and how would they change if you died?
- How much would the family expenditure increase on requirements such as childcare if you were to die?
- How much would your family income drop if you were to die?
- How much cover do you receive from your employer or company pension scheme, and for how long?
- What existing policies do you have already, and how far do they go to meeting your needs?
- How long would your existing savings last?
- What state benefits are there that could provide extra support to meet your family's needs?
- How would the return of inflation to the economy affect the amount of your cover over time?

If you have a spouse, partner or children, you should have sufficient protection to pay off your mortgage and any other liabilities.

TERM LIFE INSURANCE

The most basic type of life insurance

With term life insurance, you choose the amount you want to be insured for and the period for which you want cover. This is the most basic type of life insurance. If you die within the term, the policy pays out to your beneficiaries. If you don't die during the term, the policy doesn't pay out, and the premiums you've paid are not returned to you.

There are two main types of term life insurance to consider: level-term and decreasing-term life insurance.

Level-term life insurance policies
A level-term policy pays out a lump sum if you die within the specified term. The amount you're covered for remains level throughout the term – hence the name. The monthly or annual premiums you pay usually stay the same, too.

Level-term policies can be a good option for family protection, where you want to leave a lump sum that your family can invest to live on after you've gone. It can also be a good option if you need a specified amount of cover for a certain length of time, for example, to cover an interest-only mortgage that's not covered by an endowment policy.

Decreasing-term life insurance policies
With a decreasing-term policy, the amount you're covered for decreases over the term of the policy. These policies are often used to cover a debt that reduces over time, such as a repayment mortgage.

Premiums are usually cheaper than for level-term cover, as the amount insured reduces as time goes on. Decreasing-term assurance policies can also be used for Inheritance Tax planning purposes.

Family income benefit policies
Family income benefit life assurance is a type of decreasing-term policy. However, instead of a lump sum, it pays out a regular income to your beneficiaries until the policy's expiry date if you die.

You can arrange for the same amount of your take-home income to be paid out to your family if you die.

Whole-of-life insurance policies can be a useful way to cover a future Inheritance Tax bill.

WHOLE-OF-LIFE INSURANCE

Guaranteed financial protection that lasts for the rest of your life

As the name suggests, whole-of-life insurance policies are ongoing policies that pay out when you die, whenever that is. Because it's guaranteed that you'll die at some point (and therefore that the policy will have to pay out), these policies are more expensive than term assurance policies, which only pay out if you die within a certain time frame.

Paying Inheritance Tax

Whole-of-life insurance policies can be a useful way to cover a future Inheritance Tax bill. If you think your estate will have to pay Inheritance Tax when you die, you could set up a whole-of-life insurance policy to cover the tax due, meaning that more is passed to your beneficiaries. However, to ensure the proceeds of the life insurance policy are not included in your estate, it is vital that the policy be written in an appropriate trust. This is a very complicated area of estate planning, and you should obtain professional advice.

A whole-of-life policy has a double benefit: not only are the proceeds of the policy outside your estate for Inheritance Tax purposes, the premium paid for the policy will reduce the value of your estate while you're alive, further reducing your estate's future Inheritance Tax bill.

Providing financial security

These policies provide financial security for people who depend on you financially. As the name suggests, whole-of-life insurance helps you protect your loved ones financially with cover that lasts for the rest of your life. This means the company providing the cover will have to pay out in almost every case, and premiums are therefore higher than those charged on term assurance policies.

Different types of policy

There are different types of whole-of-life insurance policy – some offer a set payout from the outset while others are linked to investments, and the payout will depend on performance. Investment-linked policies are either unit-linked policies, linked to funds or with-profits policies which offer bonuses.

Some whole-of-life policies require that premiums are paid all the way up to your death. Others become paid-up at a certain age and waive premiums from that point onwards.

Whole-of-life policies can seem attractive because most (but not all) have an investment element and therefore a surrender value. If, however, you cancel the policy and cash it in, you will lose your cover. Where there is an investment element, your premiums are usually reviewed after ten years, and then every five years.

Whole-of-life policies are also available without an investment element and with guaranteed or investment-linked premiums from some providers.

Reviews

The level of protection selected will normally be guaranteed for the first ten years, at which point it will be reviewed to see how much protection can be provided in the future. If the review shows that the same level of protection can be carried on, it will be guaranteed to the next review date.

If the review reveals that the same level of protection can't continue, you'll have two choices:

- Increase your payments
- Keep your payments the same and reduce your level of protection

Maximum cover
Maximum cover offers a high initial level of cover for a lower premium until the first plan review, which is normally after ten years. The low premium is achieved because very little of your premium is kept back for investment, as most of it is used to pay for the life insurance.

After a review, you may have to increase your premiums significantly to keep the same level of cover, as this depends on how well the cash in the investment reserve (underlying fund) has performed.

Standard cover
This cover balances the level of life assurance with adequate investment to support the policy in later years. This maintains the original premium throughout the life of the policy. However, it relies on the value of units invested in the underlying fund growing at a certain level each year. Increased charges or poor performance of the fund could mean you'll have to increase your monthly premium to keep the same level of cover.

After a review, you may have to increase your premiums significantly to keep the same level of cover, as this depends on how well the cash in the investment reserve (underlying fund) has performed.

Critical illness cover could help to minimise the financial impact on you and your loved ones.

CRITICAL ILLNESS COVER

Minimise the financial impact on you and your loved ones

We never think a critical illness is going to happen to us, especially when we feel fit and healthy, but it can and does. If the worst does happen, it's important to make sure you're financially protected against the impact a critical illness could have on you and your family.

Critical illness cover could help to minimise the financial impact on you and your loved ones. For example, if you needed to give up work to recover, or if you passed away during the length of the policy, the money could be used to help fund the mortgage or rent, everyday bills, or even simple things like the weekly food shop – giving you and/or your family some peace of mind when you need it most.

Surviving financial hardship

After surviving a critical illness, sufferers may not be able to return to work straight away (or ever), or may need home modifications or private therapeutic care. It is sad to contemplate a situation where someone survives a serious illness but fails to survive the ensuing financial hardship. Preparing for the worst is not something we want to think about when feeling fit and healthy, but you never know what life is going to throw at you next.

Tax-free lump sum

Critical illness cover, either on its own or as part of a life assurance policy, is designed to pay you a tax-free lump sum on the diagnosis of certain specified life-threatening or debilitating (but not necessarily fatal) conditions, such as a heart attack, stroke, certain types/stages of cancer and multiple sclerosis. A more comprehensive policy will cover many more serious conditions, including loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs. But not all conditions are necessarily covered, which is why you should always obtain professional advice.

Much-needed financial support

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

Exclusions and limitations

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually only pay out once so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a critical illness or you die, whichever happens first.

Pre-existing conditions

If you already have an existing critical illness policy, you might find that by replacing a policy, you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

Lifestyle changes

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just to 'top up' your existing cover.

Policy definition

A policy will provide cover only for

conditions defined in the policy document. For a condition to be covered, your condition must meet the policy definition exactly. This can mean that some conditions, such as some forms of cancer, won't be covered if deemed insufficiently severe. Similarly, some conditions may not be covered if you suffer from them after reaching a certain age, for example, many policies will not cover Alzheimer's disease if diagnosed after the age of 60.

Survival period
Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy, and most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

Range of factors
How much you pay for critical illness cover will depend on a range of factors including what sort of policy you have chosen, your age, the amount you want the policy to pay out and whether or not you smoke.

Permanent total disability is usually included in the policy. Some insurers define 'permanent total disability' as being unable to work as you normally would as a result of sickness, while others see it as being unable to independently perform three or more 'activities of daily living' as a result of sickness or accident.

Activities of daily living include:
- Bathing
- Dressing and undressing
- Eating
- Transferring from bed to chair and back again

Make sure you're fully covered
The good news is that medical advances mean more people than ever are surviving conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose. Don't leave it to chance – make sure you're fully covered.

No one can guarantee that they will not be the victim of an unfortunate accident or be diagnosed with a serious illness. The bills won't stop arriving and the mortgage payments won't stop being deducted from your bank account, so going without income protection insurance could be tempting fate.

INCOME PROTECTION INSURANCE

No one is immune to the risk of illness and accidents

No one likes to think that something bad will happen to them, but if you couldn't work due to a serious illness, how would you manage financially? Could you survive on savings or sick pay from work? If not, you may need some other way to keep paying the bills – and you might want to consider income protection insurance.

You might think this may not happen to you (and, of course, we hope it doesn't), but it's important to recognise that no one is immune to the risk of illness and accidents.

No one can guarantee that they will not be the victim of an unfortunate accident or be diagnosed with a serious illness. The bills won't stop arriving and the mortgage payments won't stop being deducted from your bank account, so going without income protection insurance could be tempting fate.

Providing monthly payments
Income protection insurance is a long-term insurance policy that provides a monthly payment if you can't work because you're ill or injured, and typically pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner.

Unable to work

- **It replaces part of your income** if you can't work because you become ill or disabled
- **It pays out until you can start working again**, or until you retire, die or the end of the policy term – whichever is sooner
- **There's a waiting period before the payments start**, so you generally set payments to start after your sick pay ends, or after any other insurance stops covering you. The longer you wait, the lower the monthly payments
- **It covers most illnesses that leave you unable to work**, either in the short or long term (depending on the type of policy and its definition of incapacity)
- **You can claim as many times as you need to** while the policy lasts

Generous sickness benefits
Those in very good jobs may receive generous sickness benefits through the workplace, and these can extend right up until the date upon which they had intended to retire. The majority of employees with long-term health problems could, on the other hand, find themselves having to rely on the state, which is likely to prove hard.

Tax-free monthly income
Without a regular income, you may find it a struggle financially, even if you were ill for only a short period, and you could end up using your savings to pay the bills. In the event that you suffered from a serious illness, medical condition or accident, you could even find that you are never able to return to work. Few of us could cope financially if we were off work for more than six to nine months. Income protection insurance provides a tax-free monthly income for as long as equired (up to retirement age) should you be unable to work due to long-term sickness or injury.

Profiting from misfortune
Income protection insurance aims to put you back to the position you were in before you were unable to work. It does not allow you to make a profit out of your misfortune. So the maximum amount of income you can replace through insurance is broadly the after-tax earnings you have lost, less an adjustment for state benefits you can claim. This is typically translated into a maximum of 60% of your before-tax earnings, but the actual amount will depend on the company that provides your cover.

Self-employment
If you are self-employed, then no work is also likely to mean no income. However, depending on what you do, you may have income coming in from earlier work, even if you are ill for several months. The self-employed can take out individual policies rather than business ones, but you need to ascertain on what basis the insurer will pay out. A typical basis for payment is your pre-tax share of the gross profit (after deduction of trading expenses) in the 12 months immediately prior to the date of your incapacity. Some policies operate an average over the last three years, as they understand that self-employed people often have a fluctuating income.

Cost of cover
The cost of your cover will depend on your gender, occupation, age, state of health and whether or not you smoke. The 'occupation class' is used by insurers to decide whether a policyholder is able to return to work. If a policy will pay out only if a policyholder is unable to work in 'any occupation', it might not pay benefits for long – or indeed at all. The most comprehensive definitions are 'Own Occupation' or 'Suited Occupation'. 'Own Occupation' means you can make a claim if you are unable to perform your own job; however, being covered under 'Any Occupation' means that you have to be unable to perform any job, with equivalent earnings to the job you were doing before not taken into account.

You can also usually choose for your cover to remain the same (level cover) or increase in line with inflation (inflation-linked cover):

- **Level cover** – with this cover, if you made a claim, the monthly income would be fixed at the start of your plan and does not change in the future. You should remember that this means if inflation eventually starts to rise, the buying power of your monthly income payments may be reduced over time

- **Inflation-linked cover** – with this cover, if you made a claim, the monthly income would go up in line with the Retail Prices Index (RPI)

When you take out cover, you usually have the choice of:

- **Guaranteed premiums** – the premiums remain the same all the way throughout the term of your plan. If you have chosen inflation-linked cover, your premiums and cover will automatically go up each year in line with RPI

- **Reviewable premiums** – this means the premiums you pay can increase or decrease in the future. The premiums will not typically increase or decrease for the first five years of your plan, but they may do so at any time after that. If your premiums do go up or down, they will not change again for the next 12 months

Making a claim
How long you have to wait after making a claim will depend on the waiting period. You can typically choose from between 1, 2, 3, 6, 12 or 24 months. The longer the waiting period you choose, the lower the premium for your cover will be, but you'll have to wait longer after you become unable to work before the payments from the policy are paid to you. Premiums must be paid for the entire term of the plan, including the waiting period.

Innovative new products
Depending on your circumstances, it is possible that the payments from the plan may affect any state benefits due to you. This will depend on your individual situation and what state benefits you are claiming or intending to claim. This market is subject to constant change in terms of the innovative new products that are being launched. If you are unsure whether any state benefits you are receiving will be affected, you should seek professional advice.

MAKING A WILL

An essential part of your financial planning

Your Will lets you decide what happens to your money, property and possessions after your death. If you make a Will, you can also make sure you don't pay more Inheritance Tax than you need to. It's an essential part of your financial planning. Not only does it set out your wishes, but die without a Will, and your estate will generally be divided according to the rules of intestacy, which may not reflect your wishes. Without one, the State directs who inherits, so your loved ones, relatives, friends and favourite charities may get nothing.

Same-sex partners
It is particularly important to make a Will if you are not married or are not in a registered civil partnership (a legal arrangement that gives same-sex partners the same status as a married couple). This is because the law does not automatically recognise cohabitants (partners who live together) as having the same rights as husbands, wives and civil partners. As a result, even if you've lived together for many years, your cohabitant may be left with nothing if you have not made a Will.

A Will is also vital if you have children or dependants who may not be able to care for themselves. Without a Will, there could be uncertainty about who will look after or provide for them if you die.

Peace of mind
No one likes to think about it but death is the one certainty that we all face. Planning ahead can give you the peace of mind that your loved ones can cope financially without you and, at a difficult time, helps remove the stress that monetary worries can bring. Planning your finances in advance should help you to ensure that when you die, everything you own goes where you want it to. Making a Will is the first step in ensuring that your estate is shared out exactly as you want it to be.

If you leave everything to your spouse or registered civil partner, there'll be no Inheritance Tax to pay because they are classed as an exempt beneficiary. Or you may decide to use your tax-free allowance to give some of your estate to someone else or to a family trust. Scottish law on inheritance differs from English law.

Good reasons to make a Will
A Will sets out who is to benefit from your property and possessions (your estate) after your death.

There are many reasons why you need to make a Will:

- You can decide how your assets are shared – if you don't have a Will, the law says who gets what
- If you're an unmarried couple (whether or not it's a same-sex relationship), you can make sure your partner is provided for
- If you're divorced, you can decide whether to leave anything to your former partner
- You can make sure you don't pay more Inheritance Tax than necessary
- Several people could make a claim on your estate when you die because they depend on you financially
- You want to include a trust in your Will (perhaps to provide for young children or a disabled person, save tax, or simply protect your assets in some way after you die)
- Your permanent home is not in the UK or you are not a British citizen
- You live here but you have overseas property
- You own all or part of a business

Before you write a Will, it's a good idea to think about what you want included in it.

You should consider:

- How much money and what property and possessions you have
- Who you want to benefit from your Will
- Who should look after any children under 18 years of age
- Who is going to sort out your estate and carry out your wishes after your death (your executor)

Passing on your estate
An executor is the person responsible for passing on your estate. You can appoint an executor by naming them in your Will. The courts can also appoint other people to be responsible for doing this job.

Once you've made your Will, it is important to keep it in a safe place and tell your executor, close friend or relative where it is.

Review your Will
It is advisable to review your Will every five years and after any major change in your life such as getting separated, married or divorced, having a child, or moving house. Any change must be by 'codicil' (an addition, amendment or supplement to a Will) or by making a new Will.

When making an LPA, you are permitting someone to act on your behalf when you are no longer mentally capable of making decisions on your behalf.

POWER OF ATTORNEY

Permitting someone to act on your behalf

A Power of Attorney is a legal document that allows you to give someone else the legal authority to act on your behalf. There are several different types of Power of Attorney. A Lasting Power of Attorney (LPA), previously called an 'Enduring Power of Attorney', allows your attorneys to make decisions for you when you no longer wish to, or when you lack the mental capacity to do so.

When making an LPA, you are permitting someone to act on your behalf when you are no longer mentally capable of making decisions on your behalf.

There are two different types of LPA:

- Health and welfare
- Property and financial affairs

Making decisions
A property and financial affairs LPA allows your attorneys to make decisions regarding your finances. This could include decisions about paying bills, operating your bank accounts or even selling your home.

A health and welfare LPA allows your attorneys to make decisions for things such as medical treatment, accepting or refusing types of health care, and whether or not you continue to live in your own home. You can also give your attorneys the power to make decisions about life-sustaining treatment for you. Your attorneys can be the same as those appointed under the property and financial affairs LPA.

Financial affairs
If you decide not to make an LPA and subsequently lack the mental capacity to understand the nature and effect of the document, you may no longer be able to create an LPA. In those circumstances, if you are no longer mentally capable of dealing with your financial affairs, someone will have to make an application to the Court of Protection to be appointed as what is called your 'Deputy'. This process applies even if the person incapacitated is your spouse or registered civil partner.

To avoid the Court making decisions on your behalf, it is therefore beneficial to create an LPA because it allows you to decide in advance:

- The decisions you want to be made on your behalf if you lose the capacity to make them yourself
- The people you want to make these decisions
- How you want the people to make these decisions

INHERITANCE TAX

Passing your estate to the people that matter to you in the most effective way

Few taxes are quite as emotive or as politicised as Inheritance Tax, which was once confined to the very wealthy but today is no longer the case. Even families and individuals with a relatively moderate level of wealth may need to plan ahead to ensure that their assets are passed on to their loved ones as efficiently as possible.

The term 'estate planning' can be defined as passing your estate to the people that matter to you in the most effective way. In order to protect the future wealth of your family and loved ones, it is essential to have provisions in place after you're gone, and one of the simplest ways to prevent unnecessary tax payments such as Inheritance Tax is to organise your tax affairs by obtaining professional advice and having a valid Will in place to ensure that your legacy does not involve just leaving a large Inheritance Tax bill for your loved ones.

Size matters

Effective Inheritance Tax planning could save your beneficiaries thousands of pounds, maybe even hundreds of thousands depending on the size of your estate. At its simplest, Inheritance Tax is the tax payable on your estate when you die if the value of your estate exceeds a certain amount.

Inheritance Tax is payable on everything you have of value when you die, including:

- Your home
- Your jewellery
- Your savings and investments
- Your works of art
- Your cars
- Any other properties or land – even if they are overseas

Inheritance Tax threshold

Inheritance Tax is currently paid on amounts above £325,000 (£650,000 for married couples and registered civil partnerships) for the current 2015/16 tax year, at a rate of 40%. If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds the Inheritance Tax threshold, tax will be due on the balance at 40%.

Without proper planning, many people could end up leaving a substantial tax liability on their death, considerably reducing the value of the estate passing to their chosen beneficiaries.

Assets held in trust

Your estate includes everything owned in your name, the share of anything owned jointly, gifts from which you keep back some benefit (such as a home given to a son or daughter but in which you still live), and assets held in some trusts from which you receive an income.

Against this total value is set everything that you owed, such as any outstanding mortgages or loans, unpaid bills, and costs incurred during your lifetime for which bills have not been received, as well as funeral expenses.

Potentially exempt transfers

Any amount of money given away outright to an individual is not counted for tax if the person making the gift survives for seven years. These gifts are called 'potentially exempt transfers' and are useful for tax planning.

Money put into a 'bare' trust (a trust where the beneficiary is entitled to the trust fund at age 18) counts as a potentially exempt transfer, so it is possible to put money into a trust to prevent grandchildren, for example, from having access to it until they are 18.

Chargeable lifetime transfers

However, gifts to most other types of trust will be treated as chargeable lifetime transfers. Chargeable lifetime transfers up to the threshold are not subject to tax but amounts over this are taxed at 20%, with a further 20%

payable if the person making the gift dies within seven years.

Some cash gifts are exempt from tax regardless of the seven-year rule. Regular gifts from after-tax income, such as a monthly payment to a family member, are also exempt as long as you still have sufficient income to maintain your standard of living.

Exempt from Inheritance Tax
Any gifts between husbands and wives, or registered civil partners, are exempt from Inheritance Tax whether they were made while both partners were still alive or left to the survivor on the death of the first. Inheritance Tax will be due eventually when the surviving spouse or registered civil partner dies if the value of their estate is more than the combined tax threshold, currently £650,000.

If gifts are made that affect the liability to Inheritance Tax and the giver dies less than seven years later, a special relief known as 'taper relief' may be available. The relief reduces the amount of tax payable on a gift.

Calculating tax payable
In most cases, Inheritance Tax must be paid within six months from the end of the month in which the death occurs. If not, interest is charged on the unpaid amount. Inheritance Tax on some assets, including land and buildings, can be deferred and paid in instalments over ten years. However, if the asset is sold before all the instalments have been paid, the outstanding amount must be paid. The Inheritance Tax threshold in force at the time of death is used to calculate how much tax should be paid.

Inheritance Tax is a complicated area with a variety of solutions available, and without proper tax planning, many people could end up leaving a huge tax liability on their death, considerably reducing the value of the estate passing to chosen beneficiaries. So without Inheritance Tax planning, your family could be faced with a large tax liability when you die. To ensure that your family benefits rather than the Government, it pays to plan ahead. As with most financial planning, early consideration and planning is essential.

If gifts are made that affect the liability to Inheritance Tax and the giver dies less than seven years later, a special relief known as 'taper relief' may be available. The relief reduces the amount of tax payable on a gift.

TRUSTS

Control over your assets for the benefit of one or more people

Putting your savings, investments, life policies or assets into a trust can play an important part in estate planning. A trust is a legal entity that has control over assets for the benefit of one or more people, and there are different types of trust which can be set up according to what you intend to achieve.

When you set up a trust, you will choose one or more trustees to be responsible for the assets. You will also choose one or more beneficiaries who will receive the assets at a time specified by you. Setting up a trust can ensure that, for example, your estate is passed to the right people at the right time, and may be able to reduce Inheritance Tax liability.

Trusts may be set up for a number of reasons, for example:

- To control and protect family assets
- When someone is too young to handle their affairs
- When someone can't handle their affairs because they are incapacitated
- To pass on money or property while you are still alive
- To pass on money or assets when you die under the terms of your will – known as a 'will trust'
- Under the rules of inheritance that apply when someone dies without leaving a valid Will (England and Wales only)

What is a trust?
A trust is an obligation binding a person called a 'trustee' to deal with property in a particular way for the benefit of one or more 'beneficiaries'.

Settlor
The settlor is someone who puts assets into the trust.

Trustee
The trustee is someone who holds, manages and makes the decisions about the assets (such as money, land or buildings) in the trust.

Beneficiary
The beneficiary is someone who benefits from the assets in the trust.

The main types of private UK trust

Bare trusts
With bare trusts, the beneficiary (the person who benefits from the trust) has an immediate and absolute right to both the capital and income in the trust. Beneficiaries will have to pay Income Tax on income that the trust receives. They might also have to pay Capital Gains Tax and Inheritance Tax.
A bare trust is one where the beneficiary has an immediate and absolute right to both the capital and income held in the trust. Bare trusts are sometimes known as 'simple trusts'.

Someone who sets up a bare trust can be certain that the assets (such as money, land or buildings) they set aside will go directly to the beneficiaries they intend. These assets are known as 'trust property'. Once the trust has been set up, the beneficiaries can't be changed.

The assets are held in the name of a trustee – the person managing and making decisions about the trust. However, the trustee has no discretion over what income or capital to pass on to the beneficiary or beneficiaries.

Bare trusts are commonly used to transfer assets to minors. Trustees hold the assets on trust until the beneficiary is 18 in England and Wales, or 16 in Scotland. At this point, beneficiaries can demand that the trustees transfer the trust fund to them.

Interest in possession trusts
For Income Tax purposes, an 'interest in possession' trust is one where the beneficiary is entitled to trust income as it arises. From an Income Tax perspective, an interest in possession trust is one where the beneficiary has an immediate and automatic right to the income from the trust after expenses. The trustee (the person running the trust) must pass all of the income received, less any trustees' expenses, to the beneficiary.

The beneficiary who receives income (the 'income beneficiary') often doesn't have any rights over the capital held in such a trust. The capital will normally pass to a different beneficiary or beneficiaries in the future. The trustees might have the power to pay capital to a beneficiary even though that beneficiary only has a right to receive income. However, this will depend on the terms of the trust.

Mixed trusts
Mixed trusts are a combination of more than one type of trust. For tax purposes, the different parts of a mixed trust are treated according to the tax rules that apply to each part of the trust. A mixed trust is one where the income is taxable on more than one basis. This may be because there are distinctly different parts to the trust fund from the start so that the income is always held in different trusts. However, they may also be the result of changes in the beneficiaries' circumstances.

Settlor-interested trusts
If you set up a trust from which you or your spouse/registered civil partner can benefit, it counts as 'settlor-interested'. In this case, you will have to pay Income Tax on any income received by the trust, even if it's not paid out to you or your spouse/registered civil partner. A settlor is someone who 'makes a settlement'. They do this by placing assets such as money, land or buildings in a trust. This is known as 'settling property'. Settlors can do this directly or indirectly by giving the funds to someone else to set up a trust. They normally place assets in a trust when the trust is created, but can also do so later on.

Parental trusts for children
Some trusts are set up to give benefits to the minor unmarried child of the person who put the assets into the trust – the 'settlor'. These types of trusts are known as 'parental trusts for minors'. The income from the trust is taxed as the income of the settlor.

Mixed trusts are a combination of more than one type of trust. For tax purposes, the different parts of a mixed trust are treated according to the tax rules that apply to each part of the trust.

Non-resident trusts

The tax rules for non-resident trusts are very complicated. Non-resident trusts are usually ones where:

- None of the trustees are resident in the UK for tax purposes
- Only some of the trustees are resident in the UK, and the settlor of the trust wasn't resident, ordinarily resident or domiciled in the UK when the trust was set up or funds added

Trusts for vulnerable people
Some trusts for disabled people and children get special tax treatment, which means they may pay less tax. These trusts are known as trusts for 'vulnerable beneficiaries'.

A beneficiary is anyone who benefits from a trust. A 'vulnerable beneficiary' is either:

- A person who is mentally or physically disabled
- Someone under 18 – called a 'relevant minor' – who has lost a parent through death

Generations to come
By using trusts, you have control over what happens to your estate, both immediately after your death and for generations to come.

Placing assets in trust also ensures that they pass smoothly to your heirs without the delays, costs and publicity often associated with probate. That's because the assets in a trust are legally owned by the trustees, not the settlor. Trusts are very complicated, and you may have to pay Inheritance Tax and/or Capital Gains Tax when putting property into the trust. If you want to create a trust, you should seek professional advice.

GLOSSARY

Understanding the jargon

Assured
A person or persons who are insured under the terms of a protection policy.

Convertible Term Assurance
A term assurance plan that gives the owner the option to convert the policy to a whole-of-life contract or endowment without the need for medical checks.

Critical Illness Cover
Critical illness cover is an insurance plan that pays out a guaranteed tax-free cash sum if you're diagnosed as suffering from a specified critical illness covered by the plan. There is no payment if you die. You can take out the plan on your own or with someone else. For joint policies, the cash sum is normally payable only once, on the first claim.

Decreasing Term Assurance
A term assurance plan designed to reduce its cover each year, decreasing to nil at the end of term. Decreasing term assurance cover is most commonly used to cover a reducing debt or repayment mortgage.

Deferred Period
A period of delay prior to payment of benefits under a protection policy. Periods are normally 4, 13, 26 or 52 weeks – the longer the period, the cheaper the premium.

Family Income Benefit
A term assurance policy that pays regular benefits on death to the end of the plan term.

Guaranteed Premiums
This means the premiums are guaranteed to remain the same for the duration of the plan, unless you increase the amount of cover via 'indexation'.

Income Protection
This insurance provides you with a regular tax-free income if, by reason of sickness or accident, you are unable to work, resulting in a loss of earnings. Income protection is also known as 'permanent health insurance' (PHI).

Indexation
You can arrange for your insurance benefit and premiums to increase annually in line with inflation or at a fixed percentage. Premiums are normally increased in line with RPI (Retail Prices Index) or NAEI (National Average Earnings Index).

Inheritance Tax
Not everyone pays Inheritance Tax. It's only due if your estate – including any assets held in trust and gifts made within seven years of death – is valued over the current Inheritance Tax threshold (£325,000 in 2015/16). Married couples and registered civil partners can effectively increase the threshold on their estate when the second partner dies to as much as £650,000. The tax is payable at 40% on the amount over this threshold, or 36% if the estate qualifies for a reduced rate as a result of a charitable donation.

Insurable Interest
A legally recognised interest enabling a person to insure another. The insured must be financially worse off on the death of the life assured.

Joint Life Second Death
A policy that will only pay out when the last survivor of a joint life policy dies.

Level Term Assurance
A life assurance policy that pays out a fixed sum on the death of the life assured within the plan term. No surrender value is accumulated.

Life Assured
The person whose life is insured against death under the terms of a policy.

Life Insurance
An insurance plan that pays out a guaranteed cash sum if you die during the term of the plan. Some term assurance plans also pay out if you are diagnosed as suffering from a terminal illness. You can take out the plan on your own or with someone else. For joint life insurance policies, the cash sum is normally payable only once, on the first claim.

Mortgage Protection
'Mortgage life assurance' or 'repayment mortgage protection' is an insurance plan to cover your whole repayment mortgage, or just part of it. The policy pays out a cash sum to meet the reducing liability of a repayment mortgage. You can take out the policy on your own or with someone else. For joint policies, the cash sum is normally payable only once, on the first claim.

Paid-up Plan
A policy where contributions have ceased, and any benefits accumulated are preserved.

Permanent Health Insurance
Cover that provides a regular income until retirement should you be unable

to work due to illness or disability. Also known as 'Income Protection'.

Renewable Term Assurance
An ordinary term assurance policy with the option to renew the plan at expiry without the need for further medical evidence.

Reviewable Premiums
Plans with reviewable premiums are usually cheaper initially; however, the premiums are reviewed regularly and can increase substantially.

Surrender Value
The value of a life policy if it is encashed before a claim due to death or maturity.

Sum Assured
The benefit payable under a life assurance policy.

Term Assurance
A life assurance policy that pays out a lump sum on the death of the life assured within the term of the plan.

Terminal Illness
Some life policies include this benefit free of charge, and this means the life insurance benefit will be paid early if you suffer a terminal illness.

Total Permanent Disability Cover
Also known as 'permanent health insurance' or 'income protection' and sometimes available as part of a life assurance policy, this pays out the benefit of a policy if you are unable to work due to illness or disability.

Trusts
Many insurance companies supply trust documents when arranging your policy. Placing your policy in an appropriate trust usually speeds up the payment of proceeds to your beneficiaries and may also assist with Inheritance Tax mitigation.

Waiver of Premium
If you are unable to work through illness or accident for a number of months, this option ensures that your cover continues without you having to pay the policy premiums.

Whole-Of-Life
Unlike term assurance, whole-of-life policies provide life assurance protection for the life of the assured individual(s). Cover may either be provided for a fixed sum assured on premium terms established at the outset or flexible terms which permit increases in cover once the policy is in force, within certain pre-set limits, to reflect changing personal circumstances.

WE KNOW THAT YOU'RE BUSY, SO CHOOSE THE WAY THAT'S CONVENIENT FOR YOU

With numerous options available when structuring and preserving your wealth, with our advice you can be confident of making the right decisions based on your financial and family situation to best meet your personal objectives. To review your situation and discuss your options, please contact us for further information – we look forward to hearing from you.

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