LEWIS BROWNLEE

CHARTERED ACCOUNTANTS & TAX ADVISERS
INDEPENDENT FINANCIAL ADVISERS

AUTUMN 2019 NEWSLETTER

Sarah Alexander
Managing Director

WELCOME TO THE AUTUMN 2019 NEWSLETTER

Those of you that know me may well know that I am reasonably active on social media. I have a LinkedIn page which I update regularly, and I do enjoy tweeting from time to time! Though I spend lots of my time shaking my head in disbelief because a lot of what you read on social media is total nonsense...

Earlier this year, I saw lots of comments on Twitter about Ken Dodd leaving his entire fortune to his wife and "avoiding Inheritance tax." Having had previous dealings with HMRC, many comments referred to him having "the last laugh." Actually, he didn't do anything particularly outrageous in terms of IHT planning, and ultimately all he achieved was making it somebody else's problem. IHT is always a hot topic in the office, and this newsletter is dedicated to that complex issue. We consider this topic so important that our next series of events are also dedicated to the subject (see the back page). We look forward to seeing you in November to delve deeper into the topic.

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Tom Foster
Tax Director

INHERITANCE TAX (IHT)

Tax is often overpaid out of inertia, ignorance or just due to not being well organised or understanding the rules. In particular, I have seen this a lot where IHT is concerned, and often thought with a little bit of planning and guidance it could have been possible for families to have avoided substantial tax liabilities in a legitimate and non-contentious manner.

That said, I generally find there are two schools of thought when it comes to IHT – those who are ambivalent to what happens after they die as ultimately it won't be their problem and those that are keen to do anything to avoid overpaying the tax man, or would prefer to leave as much as possible to their descendants. To effectively plan for IHT, firstly it helps to understand the basics, what exemptions (nil-rate band entitlement) and reliefs exist, and what potential exposure to tax there is. It, therefore, follows it would also be useful to know what the value of the relevant person's estate is likely to be. There are several rules and regulations to be wary of, and so it also helps to consider certain pitfalls, to ensure tax planning can be useful.

Once it is established there could be an exposure to tax, then options for mitigating the tax can be considered. IHT planning should usually be done in conjunction with financial planning, as solutions can often involve giving away assets of significant value. Consideration always has to be given to ensuring the individual concerned leaves themselves enough to comfortably cater for their own needs for the remainder of their lives, which could include providing for funding the costs of care, should that be required later in life.

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INHERITANCE TAX (IHT) *(continued...)*

THE BASICS

It can get a bit morbid planning for death, but we have to face facts that sooner or later, our time will come. When it does, essentially the executors of the deceased have to determine the value of the deceased's death estate. In a nutshell, this would be the value of their interest in assets held at the time of death, less their liabilities. The amount of any transfers made in the seven years prior to death also needs to be considered.

The executors then can deduct reliefs that might exist (for example if business property was owned), and deduct the value of exempt legacies, such as charitable gifts and donations to qualifying political parties.

The executors then determine what nil-rate band entitlement exists (the standard £325,000, although there could be additional entitlement to the main residence nil-rate band or the unused transferable entitlement of a pre-deceased spouse). A point worth noting here is you need to provide proof of entitlement to the unused nil-rate band of a predeceased spouse. HMRC ideally would want to see a copy of their Will.

The value of the estate in excess of the nil-rate band entitlement is then subject to IHT at the rate of 40% unless at least 10% of the net estate is left to charitable causes, in which case a lower rate of 36% applies.

The rules mean that there is a doubling up of nil-rate entitlement for married couples, meaning the value of their combined estate would need to exceed £650,000 before there is an exposure to IHT, a threshold that could be further extended by the main residence nil-rate band.

THE MAIN RESIDENCE NIL-RATE BAND

You might recall in 2015 George Osborne and David Cameron triumphantly proclaiming that they had achieved a conservative party objective of increasing the IHT threshold to £1 million. It was around a month before they confirmed there would be a referendum regarding leaving the EU!

Unfortunately, neither of these things were as simple as they made them sound in 2015; the additional nil-rate entitlement requires there to have been a qualifying interest in a residential property, and that the property (or assets of equivalent value) have to be left to a lineal descendant.

Full entitlement to the relief can only be claimed should the value of each individual's estates at the time of their respective deaths been less than £2m. Right to relief is tapered away by £1 for every £2 by which the threshold is exceeded.

Curiously when valuing the death estate of the surviving spouse for determining entitlement to the above threshold, the value of business property should be included, but the value of any assets gifted in the seven years prior to death does not have to be, therefore potentially giving rise to some late-life tax planning.

MITIGATING EXPOSURE TO IHT

In truth, the key to effective IHT planning is to give things you no longer need away (but again do make sure that you definitely do no longer need it); this can be done steadily to take advantage of general allowances (£3,000 annually, £250 small gifts allowance and regular gifts out of surplus income).

If you have surplus wealth, give it away as soon as you can. If you want to retain a say in what happens to the wealth, consider using a trust. The main benefit of a trust is it provides the trustee with control over how an asset is used. The assets of a trust are also usually out of reach for a disenchanted spouse in the eventuality of a failed marriage.

There are potentially IHT consequences when settling assets into trust, and trusts are subject to the highest rates of income tax and CGT, and in some instances to 10 yearly IHT charges, so they will not suit everyone, but when used wisely they can be used to save significant amounts of IHT.

Check what happens with the payment of pension funds and life insurance policies; will these be paid to an estate that does not need the money? Could they be redirected in any way?

Might you receive an inheritance you don't need? Keep in mind the option of a deed of variation which has to be implemented within two years of the date of death (or two years from the issue of the Grant of Administration, where there was no valid Will).

If you are in business, will your business qualify for business property relief? If not, could a change be made to ensure it will? If it does, have you considered what happens to your potential exposure to IHT when you sell your business interest?

Could you benefit from specific investment based solutions, for example investing in companies listed on the AIM, or using life insurance bonds that are often written in trust? This might be more to the point should you have recently sold an interest in a business, as you could reinvest the proceeds into another qualifying asset and not lose entitlement to business property relief.

While typical business investments will be shares in qualifying trading companies; there are also land-based alternatives, particularly land upon which agricultural activity is undertaken, or is used to grow woodland on a commercial basis.

PITFALLS

There are anti-avoidance measures to be wary of. The main ones I come across are gifts with reservation of benefit or the pre-owned asset rules.

For gifts to be fully effective for IHT purposes, the donor should relinquish all benefit and enjoyment that the asset brings. With cash, this condition should be easy to satisfy, as the cash should then belong to the donee and be held in their bank account.

However, should this cash then be used to purchase something that the donor can benefit from using, such as a property, this would be caught under the pre-owned asset rules.

Similarly, if the donor gifted a property to a beneficiary, but continued to benefit from the use of the property (living there rent-free), then this would not be considered to have been an outright gift for IHT purposes as a consequence of the reservation of benefit. If there is a reservation of benefit, the gift is considered to be ineffective for IHT purposes.

If this is a subject matter of interest then again please do get in touch, or look out for details of our seminars in November, which will focus on Inheritance tax and estate planning (see back page).

Chris Page
Financial Services Director

INHERITANCE TAX

Taking the Bull by the Horns...

It's always nice to remember your loved ones in your will. It's important to remember though that inheritance tax could needlessly cost them dearly. It is possible to avoid large amounts of inheritance tax legally, and in some case to pay none at all. Furthermore, with Brexit on the horizon and the current state of economic uncertainty, we are being asked more than ever how to go about avoiding large inheritance tax bills.

The answer ultimately lies in getting past the discomfort of talking about 'death.' Many people miss out on inheritance tax savings because they don't want to consider the finality of the future; or because their loved ones are too scared to broach it with them for fear of seeming grasping. So, take the bull by the horns! For the brief discussions required to put saving measures in place, it's surely worth having the conversation?

When considering inheritance tax, your main concern will invariably centre around establishing how much tax will need to be paid. It's not always easy to work out when factoring in the many components that actually form your 'estate.' However, this is what the Government will go to great lengths to figure out. After all, it's as much in their interest to maximise tax as it is in your loved ones to minimise it.

You should remember that your assets will include any investments you have. Any cash hidden away in the attic (or under the mattress!) is also included. You can also add to that any properties you own or pay-outs from life insurance policies. Vehicles and any other expensive items you possess should also be factored in.

The inheritance tax threshold is £325,000. So anything above this amount will be taxed at 40% when you die – excluding 'main residence' allowance. If you are a couple wanting to leave your home to loved ones, your thresholds can be combined. This means you can leave a home of £650,000 before incurring inheritance tax.

You should also be aware that for the 2019/20 tax year, the additional main-residence allowance has increased to £150,000. To qualify for this, the bequeathed property has to be a 'main residence,' and the beneficiary has to be a direct descendant (step-children included!). When combined with the £325,000 threshold, this means you can potentially have a £475,000 total allowance before incurring inheritance tax.

Many people today consider gifting their money to loved ones before they die. While any such funds are still considered a part of your estate, it's only subject to inheritance tax if you die within seven years of making the gift. It's therefore a good idea to try and live longer if you're planning on doing this!

By no means is this the only exemption worth considering though. You can actually give away £3000 each tax year free from incurring any inheritance tax.

Another way of limiting inheritance tax is to give your loved ones £250 each tax year. Gifts of £250 to anyone recipient per tax year are not subject to inheritance tax. So you can gift your grandchildren £250 each year without it being counted as part of your estate. These seemingly small amounts can soon start whittling the tax bill down for when the time comes.

By the same token, if your children are getting married (or anyone else you feel like giving money too for that matter!), you can gift them money without it being subject to inheritance tax. There are caveats (as always!) though. As a parent, you can gift £5000. As a grandparent you can gift £2,500; for anyone else only(!) £1000. But, you need to make the gift as close to the day of the wedding/civil ceremony as possible!

Gifting money to charities and political parties are also a popular choice. Both are, unsurprisingly, inheritance tax-free. So, in the absence of any loved ones you want to leave your money to, you might want to consider a worthy course?

When all is said and done, there are many ways you can protect your loved ones from inheritance tax. In our current turbulent economic climate, the one absolute requirement is to think about it ahead of time. Having said that, you should remember that the most important thing is that you have the security you need in old age. There is little point in sacrificing everything planning for someone else's future without catering for one of your own first...

If you would like to review your financial plans or feel that a discussion around inheritance tax planning would be helpful, please email hello@lewisbrownlee.co.uk

The FCA does not regulate tax advice

Exciting News!

Our re-designed Financial Services website has been launched alongside our MoneyInfo client portal!

We are very excited to report that our Financial Services website has recently undergone a re-design and the finished product is now live. To see it in its full glory, please do visit us at www.lewisbrownleefinancial.co.uk. On the back of client feedback, we have modernised our approach with vibrant images that reflect the character of our team, while offering greater searchability and access to information.

With the new website comes increased customer functionality. We are especially pleased to announce the introduction of our new MoneyInfo client portal, which enables clients to have secure access to their financial life in one place. As this is facilitated by our Lewis Brownlee App, the hope is that the 'bigger picture' clarity and easier accessibility will give clients better control and understanding of their financial affairs.

In other news, we are delighted to announce that Chris Page has recently secured Chartered Financial Planner status. Also, Ian Barnett is now a Fellow of the Personal Finance Society – he has been affectionately dubbed the 'Gandalf' of the team!

We are also pleased to announce two new additions. Ben Griffiths joins us as a Financial Adviser and comes to us from Swallow Financial Planning. Kirsti Murphy joins us as a Paraplanner having previously worked for Coutts and latterly at an advisory firm in Southampton. Both will be working predominately out of our Whiteley office - we are excited to have them on board!

Meanwhile, for those of you who follow our financial planning blog 'Brownlee Bites,' you will be pleased to hear we are now posting 'Working Week Financial News Updates' every Friday. Also, we will be continuing to deliver content targeting key financial topics – so do keep posted!

Pension Scam Awareness Week: 4 - 9 November

We will be running a Pension Scam Awareness campaign from 4th-9th November. With scheduled talks around Inheritance Tax and Estate Planning; and a series of blogs to include 'Pension Scams... the Mechanics,' 'Pension Scams... Knowing the Warning Signs,' and 'Pension Scams... Tips for Protecting Yourself,' remember to visit and share our website at **www.lewisbrownleefinancial.co.uk**

OUR NEXT EVENT...

Think 'Tomorrow', Plan Today!

Our Financial Planners and Tax team will be running three identical seminars focusing on Inheritance Tax and Estate Planning.

They are all in November, and the dates and locations are:

- 7th at Chichester Yacht Club
- 12th at Cowdray Golf Club (Midhurst)
- 19th at Solent Hotel (Whiteley)

The doors are open from 8.30 am, with the talk to start at 9.00 am, plus there will be free pastries, tea, and coffee provided throughout.

There will also be time after the talk to speak to other like-minded attendees and members of our team, to discuss your financial planning needs, thoughts, and ideas!

HOW TO REGISTER:

- **Eventbrite:**
  http://LBLink.uk/Think-Tomorrow
- **By email:**
  events@lewisbrownlee.co.uk
- **Call the Chichester office:**
  01243 782 423

Registered Office: Appledram Barns, Birdham Road, Chichester, West Sussex, PO20 7EQ

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