FINANCIAL PLANNING

A GUIDE TO
TAX & TRUST PLANNING

Interface

Independent Financial Advisers - Financial Life Planners

ISSUE 14 | DECEMBER '18

Interface

Independent Financial Advisers - Financial Life Planners

FINANCIAL PLANNING

A GUIDE TO TAX & TRUST PLANNING

CONTENTS

Protecting Your Family Assets

Many people, often without realising it, will come into contact with a trust of some sort during their lifetime. Yet trusts are widely misunderstood and often seen as the preserve of the wealthy.

This brochure aims to give a quick overview of how trusts work, what they are most commonly used for and to correct some of the misconceptions held about trusts.

Trusts are becoming a more widespread tool in the search to protect and preserve family assets.

The exact technical details of trusts, how they are set up and taxed vary from client to client, so this guide focuses only on some of the broader principles.

This brochure will help to outline the use and types of trusts available within our trust portfolio as well as their significant Asset Protection Qualities. Our bespoke planning service therefore gives you the peace of mind that the design and implementation of your new Family Trust Structure is in the best possible hands.

2016/2017 HMRC COLLECTED **£4.84 BILLION IN REVENUE FROM INHERITANCE TAX,** THIS FIGURE IS PREDICTED TO RISE...

Do I need a Family Trust?

If you answer yes to any of the below questions, a family trust may be appropriate for you.

Do you wish to protect some or all of your estate for future generations - e.g grandchildren?

Are you worried about your children losing their Inheritance from you via a marriage breakup or bankruptcy after you are gone?

Do you wish to protect your assets for your children from a previous marriage?

Could your estate receive funds from a life insurance or pension policy when you die? Do you wish to ensure they avoided unnecessary Inheritance Tax (IHT)?

Do you have vulnerable beneficiaries that you wish to protect from creditors, financial abuse, divorce claims or future care fees?

Would you like to ensure your money doesn't pay Inheritance Tax, possibly for the second time, when your children leave it to your grandchildren?

If you are not married, do you want to reduce your partner's future Inheritance Tax liability?

A probated will is a Public document. Do you wish to avoid disclosure of who gets what? A trust ensures this is not public knowledge.

Family Trust Specialists

The main reason to use trusts is to preserve, protect and provide longevity to the estates of individuals. Trusts help to achieve this through two main features:

1. The effectiveness of trusts to assist reducing second generation, third generation and beyond tax liabilities;
2. The ability to reduce exposure of assets to social impacts such as divorce, separation and bankruptcy

Trusts are extremely effective when planning how money and assets should pass from one generation to another, especially when family structures can be complicated by divorces and second marriages. This coupled with the growing frequency of marriage breakdowns, the increase in personal assets used in long term care costs and the number of individuals now liable to Inheritance Tax on their estates helps illustrate the need for effective trust planning and their rise in popularity.

Broadly, trusts can be used to:-

- protect death benefits on life cover policies from Inheritance tax, probate delays or remarriage of a partner
- provide for a husband or wife after death while protecting the interests of any children
- reduce the liability on the matrimonial home from care fees after the death of a partner/ spouse
- provide a protected Inheritance to children
- protect gifts to children when assisting them buying a house
- help succession planning in family businesses

Trusts have been used by families for centuries and are steeped in British history, dating back to Richard Whittington (the real-life inspiration for the pantomime character Dick Whittington), who bequeathed his fortune to trust which, nearly 600 years later, continues today.

Trusts are also common place in everyday life in the UK, for example, most company pension schemes are structured as trusts as well as many charitable organisations.

The type of trust though most relevant to you will be a trust established to arrange your family's financial affairs. This will allow you the significant confidence in knowing how assets will be used in the future as well as maintaining control in the interim. Essentially trusts provide a means of ring-fencing and looking after money, or property, for people who may not be ready or able to manage it for themselves. Trusts can even be created to assist people who are not even born yet i.e. future children, grandchildren or great- grandchildren.

Professional Trust Planning

Until recently, professional Trust Planning was the preserve of the very wealthy. This was due mainly to the lack of experts able to construct the intricate legal documentation required. There was a lack of expertise and knowledge required in advising the appropriate structures and the associated high costs that go hand in hand with rarity.

But why do these wealthy people spend so much to create Trust Structures? Quite simply it is for efficient preservation of family wealth, from all manner of deteriorating factors such as taxation, divorce, or simply bad relationships.

We are now able to bring this level of planning to a much wider population, through consolidation of in- depth expertise and knowledge in trust planning, aggregating the legal paperwork to specialists in a centralised location thus allowing us economies of scale to bring the costs right down to affordable levels. We can therefore offer access to the establishment of personalised Family Trust Structures without the premium price.

Protecting Your Money

One of the rewarding things about accumulating your wealth for the future is knowing that one day it can be passed onto others. Your wealth might be built up from 40 years of work to clear the mortgage on your home, family businesses, property portfolio's, savings & investments, or even assets abroad, all of which will require individual considerations for it to pass intact to your loved ones.

We work closely with our clients spending time to understand your personal situation, motives and goals for your family in the future. This time and attention to detail ensures that each Family Trust has your family at its heart! It is set up by you for them. It is run by **your family** for the sole benefit of **your family**.

We offer a wide variety of different trust structures from helping to reduce your family's potential Inheritance Tax liability, the likelihood of the family home being used to pay for Care Home Costs, to removing delays to life cover proceeds being released.

By far the most popular reason for many of our Family Structures being implemented at present is more for the protection of assets and legacies from social and domestic risks. With divorce rates projected to reach 50% and following the death of a partner the rates of remarriage and new partners is more than 60%. So this presents a clear threat to any unprotected legacies that you leave.

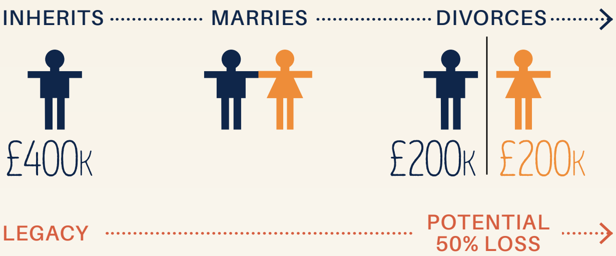
FINDING [IHT] MONEY... IS TRIGGERING MORE THAN 35,000 EMERGENCY PROPERTY SALES A YEAR, ACCORDING TO THE DEPARTMENT OF HEALTH

DAILY TELEGRAPH FEBRUARY 2015

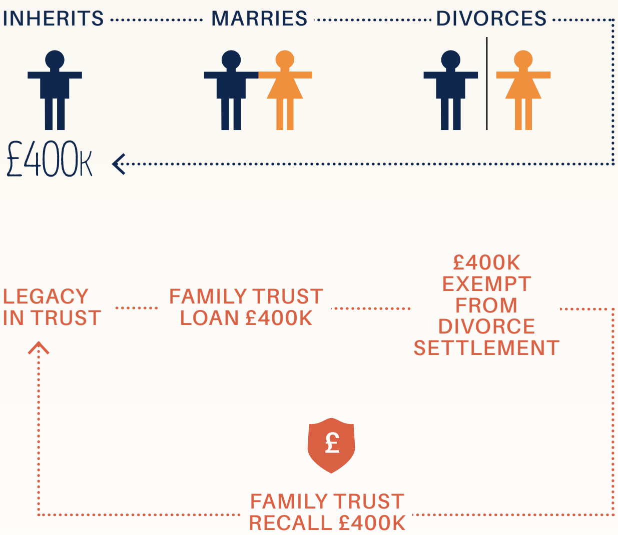
CASE STUDIES

Case Study A - Beneficiary Divorce

A legacy left to a child totalling £400,000, the child subsequently marries and later on divorces. The legacy could be successfully challenged as part of a 50% divorce settlement resulting in a loss to your legacy of £200,000.

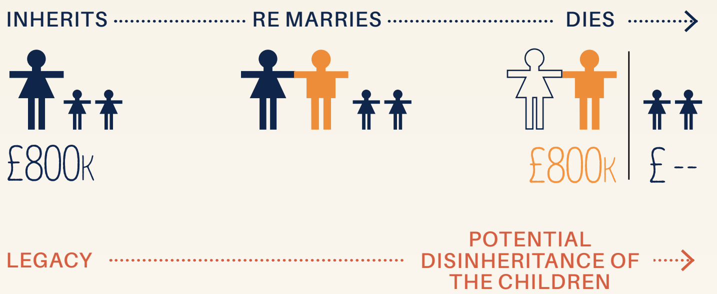


As you can see social risks can pose even more of a threat than the traditional tax issues and hence the increase in interest in such planning. Through a Trust structure, the legacy would come back into the family trust intact, with the £400,000 available for payment to the son after the divorce was finalised.

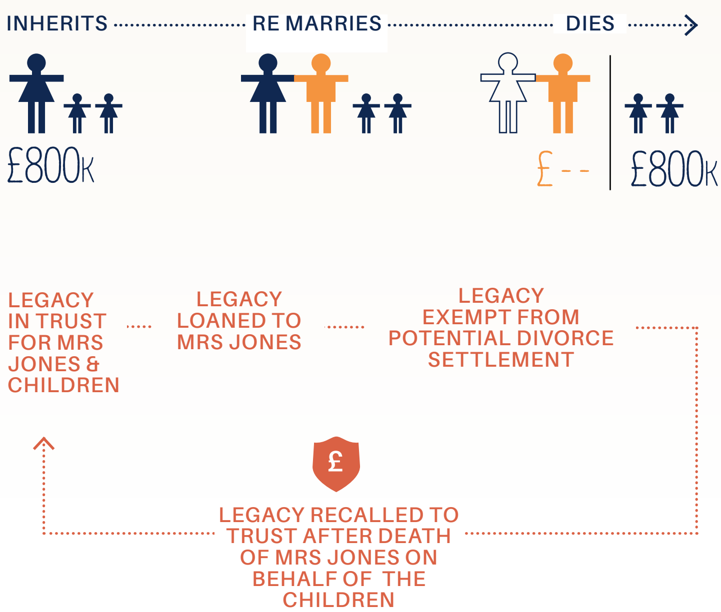


Case Study B - Death & Remarriage

A legacy is left to Mrs Jones with 2 children following the death of Mr Jones, with a total value of £800,000. Mrs Jones subsequently remarries but then dies leaving everything to the new husband. Potentially the new husband could walk away with the whole £800,000 and the 2 children could be left with nothing!



With the benefit of a Family Trust Structure the legacy becomes protected against the social risks and potential disinheritance of the children. Whether it be through death or subsequent divorce of Mrs Jones, under this example the Family Trust would look to recall the legacy. This would help to ensure its bloodline protection, passing it on to support the children which no doubt would have been Mr Jones' dying wish.



Case Study C - The Double Inheritance Tax Trap

A parent leaves a legacy to their daughter of £700,000 (assuming all allowances used). Following the deduction of Inheritance Tax the daughter benefits from a £550,000 legacy.

£700K

LEGACY

£550K

Daughter inherits £700,000

Inheritance Tax due at 40%

£700,000 – £325,000 = £375,000

£375,000 x 40%

= **£150,000** IHT Bill

Daughter Recieves

£700,000 - £150,000 = **£550,000**

In the unfortunate event that the daughter subsequently dies and is single with assets in her own right totalling £325,000, then the above legacy is subject to Inheritance Tax for a second time depleting the estate by a further £220,000.

£875K

LEGACY

£655K

Daughter dies with own assets

Assets of £325,000 + £550,000 Legacy

£875,000 – £325,000 = £550,000

£550,000 x 40% = **£220,000** IHT Bill

Beneficiaries receive **£655,000**

TOTAL TAX REDUCTION
£150K + £220K = **£370,000**

Without the benefit of effective Legacy Planning the original £700,000 inheritance has seen a reduction of £370,000 in tax. That's over 50% after only having passed down one additional generation.

As you will see below, the potential benefits in effective Will writing combined with a Family Trust structure can provide significant future generational tax planning.

Through the use of a Family Trust structure, the trust has the potential to recall the £550,000 legacy back into the trust on the death of the daughter. This helps to avoid the second incidence of Inheritance Tax, thus saving up to £220,000. Significantly increasing the residual estate to the beneficiaries.

£700K

LEGACY IN TRUST

£550K

£325K

LEGACY RECALLED TO TRUST

£550K

£875K

Daughter inherits £700,000

Inheritance Tax due at 40%

£700,000 – £325,000 = £375,000

£375,000 x 40%

= **£150,000** IHT Bill

Daughter Recieves via Family Trust

£700,000 - £150,000 = **£550,000**

Daughter dies with own assets

Assets of £325,000 Legacy recalled to trust

£325,000 – £325,000 = £0

No IHT Bill

Trust makes £550k available to beneficiaries

Beneficiaries receive £325k + £550k

=**£875,000**

TOTAL TAX SAVING
£220,000

Protecting Your Business for Your Family

The establishment of Business Trusts as part of your overall estate planning framework is key to protecting your business for your family.

Business planning for clients requires a combination of specialist Legal advice, Accountancy advice and Financial Planning advice.

The estates of the majority of small and medium sized business owners are quite often neglected. What was once an Inheritance Tax exempt asset via Business Property Relief can suddenly attract 40% tax as it passes down the generations. Even worse still, half the business could suddenly belong to a future spouse, or to your children's future spouses! Common shortfalls include a total lack of bloodline protection planning, no controlled succession planning and the omission of additional legitimate tax planning.

A good accountant will advise you on the best way to set up your business (e.g. sole trader, partnership, limited company) to meet your needs. A good accountant will also help you build the business value up and maximise profit.

The Accountant and Financial Planner together will identify shortfalls in your business - The "What happens if?" question:

- What does your family need if something happens to you?
- How do you ensure that your family inherit your share of the business without your business partner closing things down, or devaluing your share of the business?
- What if your children come into the business after you are gone and then go through a divorce?
- How will your business partners cope financially if you pass away?

The financial planner will crunch the numbers and recommend the appropriate insurances e.g. shareholder protection, keyman cover. The financial planner will recommend the appropriate trusts. The solicitor will arrange the cross option agreements and ensure that they tie in with your company Articles of Association. With the three working in tandem you can rest assured that your family and business partner/s will be protected as best they can be.

ESTATE PLANNING FOR BUSINESS REQUIRES SPECIALIST ACCOUNTANTS, SOLICITORS AND FINANCIAL PLANNERS TO WORK TOGETHER WITH THE BUSINESS OWNER

Consider

Mr P owns Widget & Son Ltd, and dies unexpectedly. Mrs P decides to sell the business for £500,000. Mrs P passes away 2 years later. The children may lose 40% Inheritance Tax - that is £200,000 in tax.

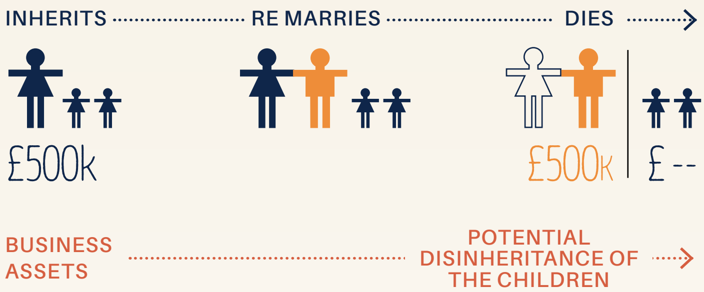
Solution

Mr P creates the Trust during his lifetime. On his demise the Business shares pass to the trust. As the shares qualified for Business Property Relief at the time of his death there is no Inheritance Tax to pay. Mrs P sells the business for £500,000, and the £500,000 passes to the trust.
Mrs P receives the £500,000 from the Business Trust, but signs a loan agreement to show she is “borrowing” the money.
On Mrs P’s demise the £500,000 loan is recalled by the Business Trust, saving £200,000 Inheritance Tax.

If Mrs P had remarried, her new husband would have no claim on Mr P’s business value. When the children inherit they will also receive a loan from the trust. Should they divorce or go bankrupt themselves, their share of the £500,000 will not end up in a future ex partner’s hands.

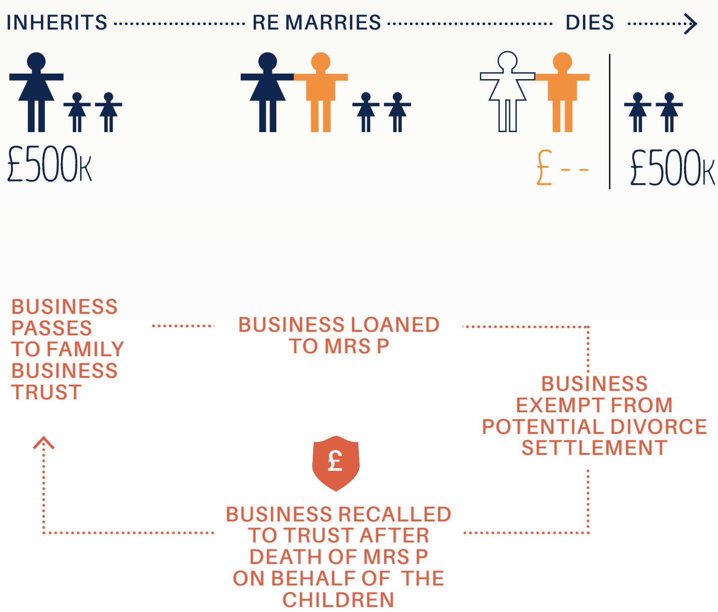
Case Study - Mr & Mrs P.

Consider the following situation where a business is left to Mrs P with 2 children following the death of Mr P, with a total value of £500,000.
Mrs P subsequently remarries but then dies leaving everything to the new husband, who could walk away with the whole £500,000 and the 2 children could be left with NOTHING!



With the benefit of a Family Trust structure the business becomes protected against the social risks and potential disinheritance of the children.

Whether it be through death or subsequent divorce of Mrs P, under this example the Family Trust would look to recall the business value. This would help to ensure its bloodline protection, passing it on to support the children, which no doubt would have been Mr P’s dying wish.



Wills Only Direct... Trusts Protect!

Don't leave your loved ones with additional costs and complications. People who die without a valid will, or intestate, leave costs and complications to their loved ones and often lose thousands of pounds to the State in what may be avoidable Inheritance Tax (IHT). The Law Society says that anyone with assets and family or friends should make a will, regardless of their age. It is especially important if you are not married to your partner, because the law does not accord partners the same automatic rights of inheritance as spouses. Under the current intestacy rules, an unmarried partner has no rights to any assets that were not jointly owned. Making a will is also vital if you have children, as you can nominate guardians to care for them.

Many people may be tempted to take the DIY approach with many high-street shops selling "write your own will" packs for about £10. Yet a badly-made will could land relatives with huge legal fees, dwarfing those charged to draw up a will correctly by a professional. You also miss the opportunity to implement some of the significant estate protection measures that we specialise in.

We can look to protect your residual legacy against the remarriage of your surviving spouse, the value of your legacy that could be used towards Long Term Care Costs, protecting your legacy against the divorce, separation or unfortunate death of your children. We can assist in removing the likelihood of your estate being liable to Inheritance Tax twice. All through the effective use of our Trusts.

Divorce rates are steadily increasing in England. In 2010 an equivalent of half the number of people who were married got divorced. According to estimates from the Office for National Statistics up to 60% of second marriages end in divorce.

We recommend that you update your will every two years or so and whenever your circumstances are changed by a significant life event, such as marriage, divorce or a birth or death in the immediate family, or after a house purchase or move.

Making A Will

How to leave the maximum amount to your family and not the tax man or even someone else's family... Integral to any estate planning is also making a will.

Why do I need a Will?

The vast majority of people put off making a Will for a variety of reasons, either believing that the people they would wish to inherit will automatically do so, or because they don't think it is relevant to them at this particular time. The reality is that you can put off making a Will until it is too late and this poses all sorts of problems for the people left behind and could mean that some or all of your inheritance either goes to the wrong person or to the state.

Affording you Peace of Mind

Firstly and most importantly is the peace of mind making a Will provides. Making a Will enables you to plan exactly what will happen to your property (estate) following your demise. This ensures that those you would like to benefit actually do so in accordance with your wishes, and at the same time avoiding any possible disputes between relatives.

Who needs to make a Will?

The answer is Everyone. In particular, anyone with dependant relatives (children under the age of 18, elderly relatives or relatives with disability who have special needs), anyone who owns property or has any type of asset which they would wish relatives, friends or charities to benefit from.

But won't everything go to my husband/wife/civil partner/parents/children etc. automatically?

This is a common misconception and dependant on the size of your estate, there are set rules which will be applied to determine who inherits and how much if you do not make a Will.

So what happens if I don't make a Will?

This is called having died Intestate. There are specific rules of intestacy which set out who will inherit and by how much if you do not leave a valid will, this may not be what you would have wished and in the worst case scenarios where relatives cannot be traced, your assets will be taken by the Crown.

Our Trust Portfolio includes:

- The Beneficiary Protection Plan
- The Education Trust
- The Protective Gifting Trust
- The Legacy Plan
- The Pension Trust
- The Guardianship Trust Fund
- The Protective Property Trust
- The Business Preservation Trust
- The Inheritance Tax Trust

All of which provide bespoke estate planning and legacy protection for your families future and generations to come.

Why Choose Us?

- We have a substantial in-depth knowledge and expertise in Trust Planning
- Significant experience dealing with complex and diverse family situations and estates
- Society of Trust & Estate Practitioners affiliate members (STEP)
- A co-ordinated point of contact for all your estate planning needs from Personal Wills, Trusts and Lasting Powers Of Attorney to Business Trusts and Cross Option Agreements
- An award winning firm
- Peace of mind through the use of professionally drafted documentation
- Ongoing trustee/estate advice & guidance packages
- Availability of professional trustees
- Ability to store all documents safely and securely
- Offer a confidential, professional and simple trust planning process
- Complex Family Trust Structures at competitive prices

History, structure, and expertise

Interface Financial Planning started providing independent financial advice in 1992. From the beginning it had the aim of providing professional advice and quality service to people with modest income and wealth.

Its key value was putting people before profit, and contribution before reward. This mission statement has been our torch to light the path ahead and has been the reason that we have endured for over 24 years.

Alan has lead the company with his personal values of: Integrity, Compassion, Respect, & Loyalty, and he is proud that over the years he has worked with clients who share similar values. Like him they want to help others and make the world a little better.

Client care and service is important and he is proud that his first two clients from January 1990 remain his clients today.

We believe that every client should have access to highly qualified advice and expertise.

Technology is used to the full to maximise efficiency and engage expertise from throughout the UK. The business has been paperless for 10 years and for over 5 years has been 'cloud' based. This structure reduces costs and allows support staff to operate anywhere - from Colchester to Honiton to Leicester and elsewhere.

Clients are encouraged to access their online account where they can exchange messages and documents securely. They can view their investments and reports, and they have immediate access to their paper file. Clients love the transparency and openness of being able to view and print paperwork going back for years and many clients use it as a source of reference.

ALAN MORAN
Owner, Director
Interface Financial Planning

Alan Moran is one of the most highly qualified advisers in the UK. He became a Certified Financial Planner in 1995 and he was one of the first Chartered Financial Planners in 2005.

He is a Chartered FCSI, a holder of the IMC certificate and member of CFA UK. His expertise has been called upon by The CII, The IFP, The Kinder Institute, and others, where he has trained and examined other financial advisers.

Alan Moran B.Sc. M.Soc.Sc. Cert.Ed. FPFS FSWW IMC CFP^{CM} RLP®
Chartered Financial Planner - CERTIFIED FINANCIAL PLANNER^{CM} professional – Chartered FCSI
Registered Life Planner® - Affiliate of STEP
Certified to ISO 22222 by Standards International
Independent Financial Adviser
A member of The Ethical Investment Association and The Sustainable Investment and Finance Association UKSIF

Interface Financial Planning Limited
Chartered Financial Planners - Accredited Financial Planning Firm^{TM} - Certified to BS 8577 by Standards International
Financial Life Planning - Life Planning, Financial Planning, & Independent Financial Advice
Company Registration Number 2644317
Authorised and regulated by the Financial Conduct Authority

Interface

Independent Financial Advisers - Financial Life Planners

Compliance

Readers should not rely on, or take any action or steps, based on anything written in this guide without first taking appropriate advice. Interface Financial Planning Ltd cannot be held responsible for any decisions based on the wording in this guide where such advice has not been sought or taken.

The information contained in this guide is based on legislation as of the date of preparation and this may be subject to change.

Interface Financial Planning Limited is authorised and regulated by the Financial Conduct Authority.

(https://register.fca.org.uk) Financial Services Register No: 424729 Registered Address: 122 Hamstead Hall Road, Handsworth Wood, Birmingham, B20 1JB Registered in UK, No. 2644317

Content supplied by: Independent Check Ltd
www.independentcheck.co.uk 2018
Design by: Rae Shirley Photography & Design
Ref: TTP V1 DEC 2018

CONTACT US

Alan Moran
0121 554 4444

enquiries@interface-ifa.co.uk

To book an appointment, schedule a call by telephone/Skype or arrange an online meeting, visit:
www.interfacefinancialplanning.co.uk