LIGHTHOUSECARRWOOD

ESTATE **PLANNING**

Estate planning is a complex area and is often part of a wider financial planning exercise, as this example demonstrates.

Background

Mrs T: a retired widow aged 78 in good health with assets:

House	£530,000
Other property	£350,000
Share portfolio	£150,000
Total value	£1,030,000
Nile rate band:	-£312,000
Deceased husband's nil rate band	-£312,000
Estate liable to IHT	£406,000
IHT due @ 40%	£162,400

Requirement

Mrs T approached us as she was worried about her inheritance tax liability and wanted to explore the possibility of reducing it. However, a more important issue was that she needed to increase her income. She had no need for capital but did require an improvement in her standard of living by about £150 per month.

Her share portfolio was providing an average income of 3% a year (£4,500) through dividends alhotugh only some of the shares were providing dividends. As well as increasing her income, Mrs T wanted to reduce the risk she was taking by investing in shares. Her portfolio had recently fallen in value by £30,000, wiping out most of the growth it had made to date and this worried her. When we assessed her attitude to risk, her profile showed that she should have limited exposure to shares. Therefore we needed to review her portfolio to reduce inheritance tax and investment risk, and increase income. Mrs T also wanted to eliminate the need to complete a tax return in future as she found it complicated.

Recommendations

We recommended that she fully encash her share portfolio (the capital gains tax was within her annual allowance as the value had fallen recently) and invest the full proceeds in a discounted gift scheme. This was undertaken with full initial underwriting and resulted in £65,782.88 falling outside her estate immediately, and a further £88,217.12 after seven years. This saved £26,313.50 in inheritance tax liability immediately and a further £33,686.85 after seven years. The discounted gift trust was invested in a broad spread of funds with less than 20% in shares, thereby reducing the risk of reduction in capital value. Mrs T was able to withdraw 5% a year from the scheme on a tax-deferred basis.

In the first two years the portfolio has grown by an average of 6% a year after charges, leaving capital growth of 1% a year after taking 5% as income. The income taken does not need to be included on a tax return, although it can affect the age-related allowance.

	Before	After
Capital	£150,000	£150,000
Income	£4,500	£7,500
IHT liability	£60,000	£33,686.85
IHT after 7 years	£60,000	£0
Investment risk	High	Low
Income	Dividends	Stable
CGT liability	Yes	No
Tax return	Yes	No

We helped Mrs T save £60,000 of inheritance tax liability after seven years, increased her income by £3,000 a year and gave her a much simpler, lower risk investment.

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