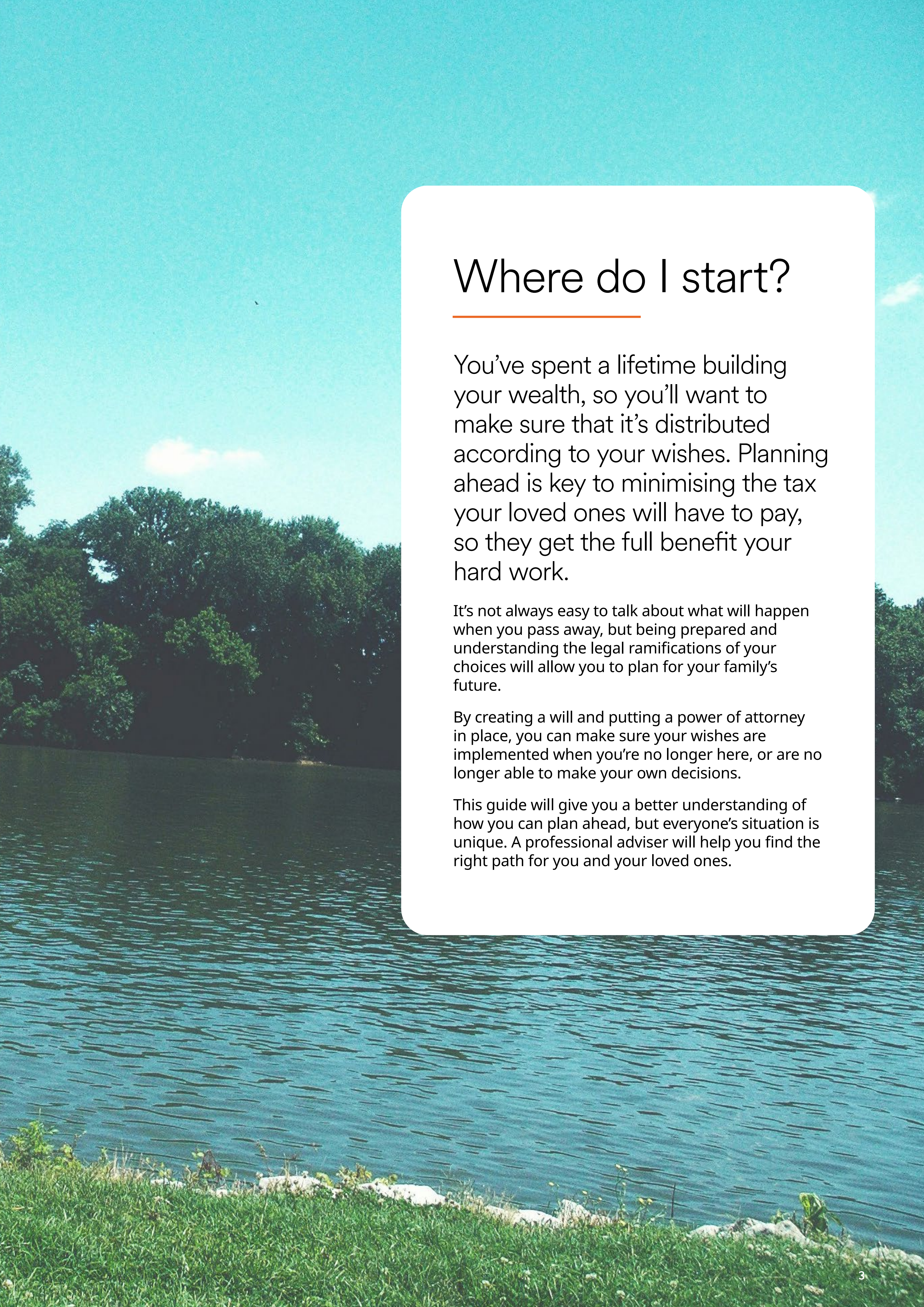
A guide to passing on wealth
For you and your loved ones

Marketing material

CARTESIAN WEALTH



Where do I start?

You've spent a lifetime building your wealth, so you'll want to make sure that it's distributed according to your wishes. Planning ahead is key to minimising the tax your loved ones will have to pay, so they get the full benefit your hard work.

It's not always easy to talk about what will happen when you pass away, but being prepared and understanding the legal ramifications of your choices will allow you to plan for your family's future.

By creating a will and putting a power of attorney in place, you can make sure your wishes are implemented when you're no longer here, or are no longer able to make your own decisions.

This guide will give you a better understanding of how you can plan ahead, but everyone's situation is unique. A professional adviser will help you find the right path for you and your loved ones.

Do I need a will?

Making a will means you can ensure that your wealth is shared the way you want it to be after you pass away. A will also makes it easier for your loved ones to deal with your affairs, relieving some pressure during a difficult time.

A will outlines who will inherit your wealth and property when you pass away (the beneficiaries). It also allows you to nominate who will be in charge of dealing with your estate and implementing your wishes (the executors).

A will is particularly important if you are in a relationship which is not legally recognised, as the law does not give unmarried partners the same rights as a spouse or civil partner. Without a will, your long-term partner could be left with nothing after your death.

Having a will may also reduce the amount of inheritance tax your loved ones have to pay.

Can I write my own will?

You can write your own will, but any legal mistakes may cause problems after your death, or may even invalidate the will. It's therefore best to get the guidance of a solicitor, who will ensure that there are no issues later on.

Where should I keep my will?

It's important that your executors know exactly where to find your will if you pass away and how they can access it, For example, keeping it in a safe or deposit box may make it difficult for them to retrieve. Copies can be retained by a solicitor or other professional adviser, or with the Probate Service, all of which are secure options.

Reviewing your will

Once a will has been written and is signed it should be reviewed regularly, even if you do not wish to change it. Reviewing your will is particularly important in the following circumstances:

— If you separate or get divorced

— If you have children or new family members
to support

— If you purchase or sell an expensive asset for example, a property

— If you get married or enter into a civil partnership

It's likely that any will you had previously would be invalidated on marriage, unless it specifically states that it was made 'in contemplation of marriage'.

Where can you find a solicitor to help?

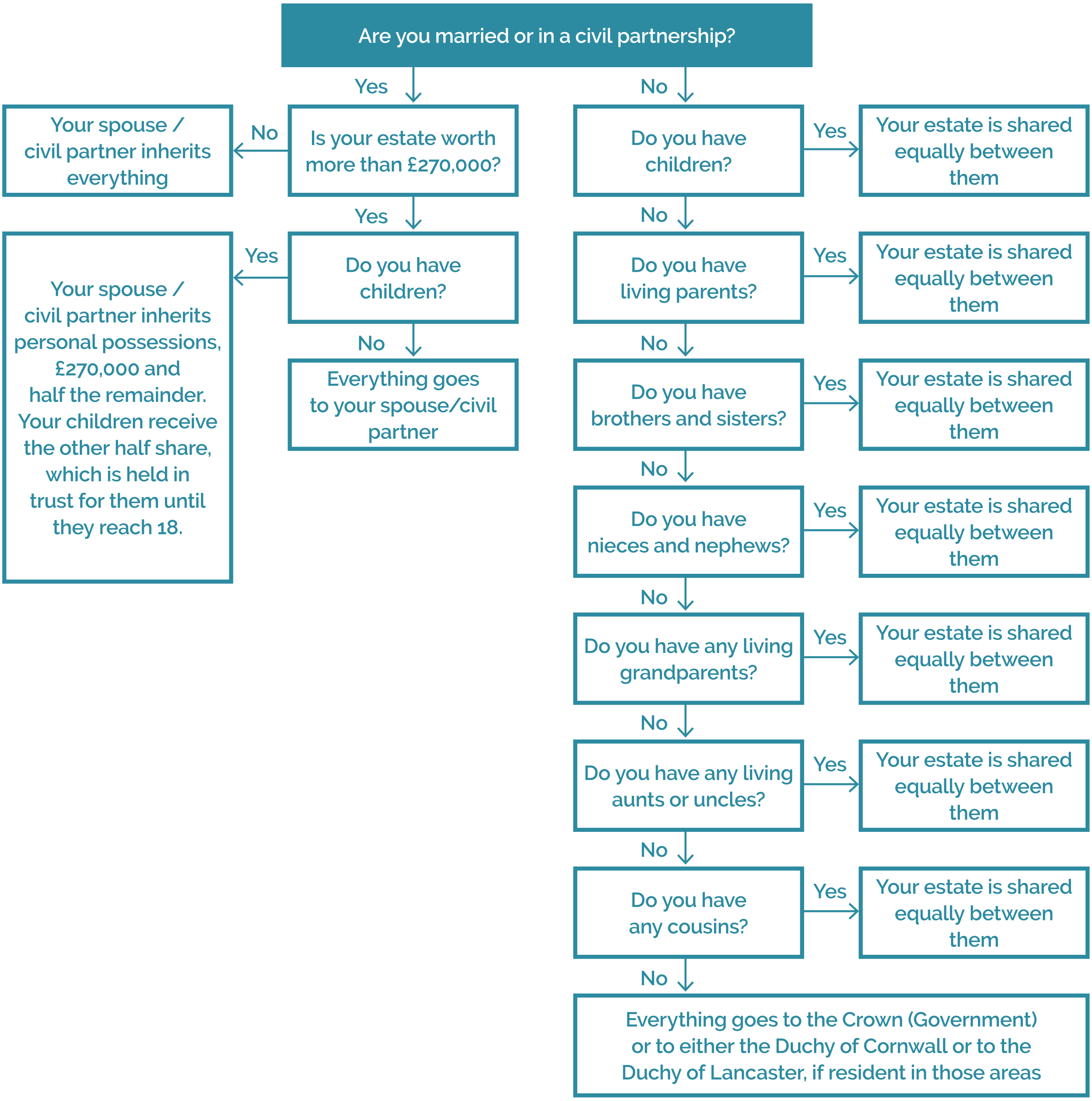
The Law Society can help you to find a solicitor to assist with your will. Solicitors with the Law Society should be regulated and insured, to give you added peace of mind. Alternatively, your friends or family may be able to recommend one.

Visit lawsociety.org.uk to find out more about the Law Society.

Links to third-party websites or helpline numbers are to help you find information that may be relevant to you quickly and easily. Benchmark does not endorse or guarantee the external organisations included in these links nor do we control or guarantee the information provided in them. They are provided solely for information and convenience and are not intended to represent an exhaustive listing.

What are the next steps?

If you pass away without leaving a will, your estate will be automatically distributed according to the rules of intestacy. Follow the flow chart below to see who would inherit your wealth.



What is a power of attorney?

A Lasting Power of Attorney (LPA) is a legal document allowing people you trust to help you make decisions, or to make decisions on your behalf.

Many people don't consider a power of attorney until they are elderly, but it's a good idea to consider this while you are still fit and healthy.

Making a power of attorney means that you can plan how your health, wellbeing and financial affairs will be looked after once you can no longer make decisions for yourself. It means that you can choose in advance what decisions you want to be made on your behalf and who you want to make those decisions for you.

What happens if you don't have a power of attorney?

If you lose capacity before having an LPA in place, your family (including a spouse) will not be able to get access to, or deal with, your assets. The only exception will be for accounts that are jointly named. Your bank may freeze your accounts and not let anyone access them until an alternative form of authority is provided, which can take considerable time, effort and cost during a potentially very stressful and emotional period.

There are two kinds of LPA, both of which consitute an agreement between you (the donor) and someone you trust to handle your affairs (the attorney).

Property and Financial Affairs

This gives your 'attorney' permission to handle your financial affairs and property. It could simply mean paying bills, or it could entail selling your property or handling your investments. This type of power of attorney can be utilised whilst you still have the capacity to handle your own financial affairs and property, if you wish.

Health and Welfare

This can only be used once you are no longer able to make your own decisions. Your 'attorney' can make decisions on your behalf, including about your daily routine, where you stay, and about your medical care.

If you are interested in finding out more, discuss this with your adviser.

What is inheritance tax and who has to pay it?

Inheritance Tax is a tax on the property, money and possessions of someone who has passed away. It can cost your loved ones dearly if not organised effectively.

Careful financial planning can significantly reduce, or even avoid, inheritance tax so that your family reaps the full benefit of your hard work when you're no longer there.

Your loved ones shouldn't have to pay inheritance tax if your estate is below the nil rate band, or if you leave everything above the threshold to your spouse, civil partner, a charity or an amateur community sports club.

Who pays inheritance tax?

Funds from your estate are used to pay inheritance tax to HM Revenue and Customs (HMRC). This is undertaken by the person dealing with the estate (called the 'executor', if there's a will).

Your beneficiaries (the people who inherit your estate) do not normally pay tax on their inheritance. They may, however, have related taxes to pay, for example if they receive rental income from a house left to them in a will.

The nil rate band

The nil rate band is the value of an estate that does not attract inheritance tax. It is currently £325,000 (Tax year 2023/24), with 40% tax payable on the value of the estate above that level.

If at least 10% of the net value of the estate has been left to a registered charity, a reduced rate of inheritance tax will apply.

This reduced rate provides a 10% discount off the standard 40% rate of inheritance tax, so a reduced rate of 36% rather than 40%.

The residence nil-rate band

There is also another allowance, the residence nil rate band. This additional allowance applies when a main residence is passed to a direct descendant. It adds a further £175,000 per person to the tax-free allowance.

Summary

If your estate is worth more than the threshold, you'll only be taxed on the surplus amount.

For example, if your estate is worth £500,000 and your total allowance is £325,000, then £175,000 will be subject to inheritance tax.

If your estate is worth £500,000 and you also qualify for the residence nil-rate band you will have no inheritance tax liability (Nil rate band: £325,000 + residence nil-rate band: £175,000 = £500,000).

This means a married or civil partnership couple can potentially pass on up to £1 million between them without attracting inheritance tax.

Estates that are worth more than £2 million will lose some or all of the residence nil rate band. For every £2 of estate over £2 million, £1 of the allowance is forfeited.

Working out the value of your estate

To value an estate your adviser will need to know about all of your assets, so they can be valued when you pass away. If you have an accountant, your adviser will work with them to value your estate.

Assets include items such as money in a bank, property or land, jewellery, cars, shares or a pay-out from an insurance policy. Some of your assets may be jointly owned by someone else, such as your spouse.

If you're not sure if something is an asset, seek your adviser's guidance.

Any gifts you give are also included in the value, including cash gifts. Most gifts only need to be included if they are given in the seven years immediately before you pass away. You'll only need to include gifts given before this period if the person who died continued to benefit from the gift. These are known as 'gifts with reservations of benefit'. An example of this is if you gift your house to your children, but continue to live in it.

To find out more about gifts and inheritance tax, see pages 10-11.

If you have any debts or liabilities when you pass away, these will be deducted from the value of the estate. This includes things like mortgages, household bills, credit card debts and possibly funeral expenses. However, costs incurred after you have passed away, such as solicitor and probate fees, won't be deducted.

Once all of this has been worked out, whatever remains can be passed onto your loved ones. To make sure they reap the benefit of your hard work, it's sensible to plan your finances so they don't pay more tax than they need to.

Example inheritance tax calculation:

House	**£600,000**
Possessions	£100,000
Savings and investments	£300,000
Total estate value	**£1,000,000**
Less nil rate band	-£325,000
Less residence nil rate band	-£175,000
Net estate subject to tax	£500,000
Tax payable (40%)	**£200,000**

Are gifts exempt from inheritance tax?

The short answer is 'no,' but the reality is a little more complicated. Up to £3,000 can be given away in gifts each tax year without being added to the value of an estate, and £325,000 can be given away from an estate before any of it is liable for inheritance tax. You should tell your adviser about any gifts you give, so they can keep a record.

What is the seven year rule?

The most generous exemption from inheritance tax is the seven year rule.

Currently, you can legally give a gift of any size to your loved ones and pay no inheritance tax, just as long as it is given seven years before you pass away.

After seven years have elapsed, gifts will not be counted towards the value of your estate.

Gifts to certain types of trust do not qualify for this exemption – your adviser will be able to tell you more about this.

If you give a gift within the seven years prior to your death, it may be subject to a tapered rate of inheritance tax, depending on the value and time frame between the gifting and your passing.

Transfers between spouses

Any assets you transfer to your spouse or civil partner are exempt from inheritance tax, as long as you are both resident in the UK. This applies both during your lifetime and when you have passed away.

If your spouse lives outside of the UK, up to £325,000 is exempt from inheritance tax.

Gift given	Tax rate[1]
Up to 3 years prior	40%
3-4 years prior	32%
4-5 years prior	24%
5-6 years prior	16%
6-7 years prior	8%
Over 7 years prior	0%

Example[2]

Sally passed away on 1 July 2018. She was not married or in a civil partnership when she died.

Sally made three gifts in the 7 years before her passing:

- 6 years and 8 months before her passing she gave £50,000 to her brother
- 4 years and 2 months before her passing she gave £275,000 to her sister
- 3 years and 6 months before her passing she gave £100,000 to her friend

Sally is not entitled to any other gift exemptions or reliefs.

There is no inheritance tax due on the value of the gifts up to the nil rate band (£325,000).

The combined value of the two earlier gifts equals the nil rate band so no tax is due on those. They do however use up Sally's £325,000 nil rate band so there is no nil rate band left to use against the remaining estate.

Tax is due on the gift of £100,000 to Sally's friend made 3 years and 6 months before her death. Since the nil rate band has been 'extinguished' by the value of the two earlier gifts, tapered relief will apply to the third gift.

That gift was made 3 years and 6 months before Sally's death, so by referring to the table on this page, we can see that the rate will be 32%. Sally's friend will therefore need to pay £32,000 in inheritance tax.

[1]Tapered rate applicable only after the £325,000 nil rate band is used.

[2]Example from www.gov.uk/inheritance-tax/gifts

There are a few other scenarios in which you can give gifts without it counting towards the value of your estate, even if they are given in the seven years before you pass away.

Gifts on marriage

Each tax year £5,000 can be given by each parent on the marriage of their children and £2,500 by each grandparent. Wedding gifts by brides and grooms are also exempt up to a value of £2,500.

Small annual gifts

There's no limit to the number of gifts of up to £250 per person that can be given during the tax year, as long as you have not given the same individuals any other gifts which were exempt from inheritance tax.

For example, if you gave a gift to your daughter when she got married, and then gave her another gift of £250 in the same year. The £250 would
be taxable, as she's already benefitted from an exemption.

You could however give your son £250 tax-free, as long he hasn't received any other gifts from you that year.

Regular gifts out of surplus income

Regular gifts out of surplus taxed income of any size, such as funds towards school fees, are exempt from tax as long as they do not affect the donor's normal standard of living. HMRC is vigilant in ensuring that these conditions are satisfied and it is therefore very important to maintain an accurate record of the donor's income and expenses and the sums transferred.

Gifts to charities

You can gift any amount to a UK charity and it will be exempt from inheritance tax, so it won't count towards the value of your estate.

You can even benefit from giving some of your estate to charity; if the gift is 10% of the net estate, the rate of inheritance tax payable on the whole estate is reduced from 40% to 36%.

It is important to note that this doesn't mean 10% of your total estate should pass to charity, just 10% of the excess over the threshold.

For example, if your estate was valued at £500,000 and your tax allowance threshold was £325,000, you could gift 10% of the excess value (£175,000) to charity. The charity would receive £17,500, and the taxable portion of your estate would be taxed at 36% instead of the standard 40%.

Take control with trusts

Trusts are a valuable tool for planning your legacy. They can be used to reduce inheritance tax and pass on your wealth, but they also give you the opportunity to influence how your loved ones use the wealth you pass on.

There are many reasons you may wish to have a little more control over your legacy. Trusts can protect your loved ones in the future, even when you are no longer around.

If your surviving spouse remarries after you're gone, you may wish to ensure your wealth is passed onto your descendents by creating a trust. You can even protect their inheritance from any future marital disputes, in case your children or grandchildren face divorce.

Another common reason for creating a trust is to keep their inheritance safe for a little while longer after you've passed away. You may believe that your loved ones are not ready to inherit a certain sum, and wish to protect it so they can enjoy it in the future. It's not uncommon to impose age requirements, to make sure the money you leave them is spent wisely.

Alternatively, you may simply wish to keep a lump sum outside of your estate to ensure it is not subject to inheritance tax.

Don't forget life assurance

You can potentially use life assurance to either pay or reduce an inheritance tax bill, or to pass money on to a loved one to support them in the event of your death.

You could set up a whole-of-life assurance policy, which lasts for as long as you live. If you place this policy into a trust, any proceeds will not be included in your estate.

When you pass away the policy will pay out into the trust. This could be used to pay all or part of any inheritance tax bill that arises.

These are all scenarios in which a trust can be a good solution, but trusts can also be quite complex. For example, if you pass away within seven years of making a transfer into a trust, it may still be subject to inheritance tax.

To find out more about trusts and whether they are right for you, speak to your adviser.

Plan with pensions

Pensions are one of the most tax-efficient ways to pass on your wealth. The money you save into them is not classed as part of your estate and they are not normally subject to inheritance tax.

If you pass away before the age of 75, any benefits left in a defined contribution pension can usually be paid as a lump sum or as drawdown income to your beneficiaries, tax-free.

After the age of 75 benefits drawn will be taxed at the beneficiaries' marginal income tax rate.

Considering this, it may make sense for you to use other investments, such as savings accounts, to fund your lifestyle in retirement. This will allow you to keep as much as possible in your pension for as long as possible.

As long as your beneficiaries retain money within the pension and don't choose the lump sum, the pension will be exempt from inheritance tax for them too.

If you wanted to, you could pass your pension onto your children who in turn could pass it onto their descendents. Your wealth can cascade down the generations and your family can benefit from your hard work for years to come.

Business Relief

Some investments qualify for Business Relief (BR), which mean your shares will be exempt from inheritance tax after just two years.

This relief is designed to support investments in smaller businesses, so only applies when you invest in qualifying companies. Typically, this will be a smaller company that isn't quoted on the Financial Times Stock Exchange. Shares in companies held on the Alternative Investment Market (AIM) qualify for this relief.

This can be a very effective strategy if you have money available to invest, as your shares will be exempt from inheritance tax after just 2 years. At the same time, you retain access to the funds in case your needs change in the future.

You can also invest in qualifying investments via an ISA, meaning you won't need to pay capital gains tax, income tax or stamp duty on the investment.

Investments that qualify for this relief tend to be in smaller companies, so the risk of investing in them is often relatively high and may be volatile. High risk investments can result in rewarding returns, but there is also a greater capacity for loss. If you're considering utilising BR to reduce inheritance tax, you should weigh up the risk of making a loss against a loss of 40% of your taxable estate when you pass away.

A benefit of this strategy is that you remain in control of your assets at all times. Unlike other tax solutions, you are not 'locked-in' and you won't have gifted your assets away, so you can sell the portfolio should your circumstances change. It is important that you realise that the value of investments can go down as well as up, so you may not get back what you put in.

If you are interested in exploring this option, you should discuss it with your adviser. It is important that you are aware of the risks involved, so you can make an informed decision.

How we can help you

As financial advisers, we act as partners on your journey through life. Planning to pass on your wealth means first planning for later life, so you can balance your lifestyle and your legacy. To do this, we will take the time to understand your family and circumstances, so we can create a plan that's right for you.

If you have a large or complicated estate, the sooner you start planning the better. For many people though, an opportune time to establish an inheritance plan is just after you retire.

An efficient plan involves gifting assets during your lifetime, but you don't want to give away money that you might need later. The benefit of planning once you retire is that you are likely to have a better idea of your future financial needs once you have given up work.

Once you have a clear plan for your future, you can start looking at how you pass the remainder of your wealth onto your loved ones.

If you would like to discuss any of the issues raised in this guide please contact your adviser.

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LET'S START A CONVERSATION

We'd love to discuss your goals and answer any questions you may have. Get in touch today for a no-obligation chat with the team.

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Please note:

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The Financial Conduct Authority does not regulate estate planning, tax planning or will writing.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.