The 4 Things That Could Prevent Your Family from Inheriting Your Money;

And the strategies that will save your loved ones over half of your wealth.

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1. Introduction

Your personal wealth is being eroded quicker than ever before. We all dream of being able to provide for our loved ones when we have gone, but is your current financial strategy enabling you to achieve these hopes and goals? The truth is many of us are 'blissfully' unaware of the factors which could completely wipe out our riches, both for you and your family. Without understanding the biggest risks that your wealth could face, you and your family could be left with nothing. The aim of this paper is to show you the four things that could prevent your family from inheriting your wealth. Once we have identified these, we will also show you the vital strategies that you can put into place in order to save over half of your wealth for your loved ones, whilst still ensuring that you have sufficient funds for your later years.

Statistically we are all living for longer, for example in June 2013 there were more people in the UK aged 60 or above than there were people under 18. This means that there are currently over 14 million people aged 60 or over in the UK and 1.4 million of these are aged over 85![1] We are an aging population, which means more and more of us are going to need long-term care. Did you know that one year in a nursing home costs over £48,000?[2] Many people are forced into selling the family home to cover these costs; the family home that you had hoped for your children to inherit. And the really scary part; if you have not taken action to protect your wealth, there is nothing neither you nor your family can do about it. Long-term care fees are the first risk to your family's inheritance that you need to understand.

[1] 'Later Life in the United Kingdom', Age UK, June 2013
[2] The Telegraph, Emma Simon, 29th May 2013

The council can take your house to cover long-term care fees and the government, well as is an age old tradition, the government set the taxes; In this case 'Inheritance Tax'. Inheritance Tax, or IHT as it is also referred to, affects anyone whose assets are worth over £325,000- not a huge sum when you think about the value of your house alone. This allowance is per person, so rises to £650,000 for a married couple or someone with a deceased spouse who has an unused allowance. If you fail to put any form of protection in place, Inheritance Tax will take a huge bite out of your wealth- 40%[3] to be exact. Not only will this mean that your loved ones will only receive 60% over this allowance of the inheritance which you had intended for them, it also means that the government could become the largest single benefactor of your life's work! I do not know about you, but that does not sound like an appealing option to me! Roy Jenkins, former Labour Chancellor, felt the same, once stating that 'Inheritance Tax is paid only by those who distrust their relatives more than they dislike the Inland Revenue'. Inheritance Tax is the second factor that could jeopardise your dreams of leaving an abundant legacy.

Many people save their entire lives so that they can leave a substantial sum to their children. Others put money aside so that they can live out their dream retirement. The harsh reality is that your savings could be at risk because of inflation. All of your future dreams are at risk if you do not take action against increasing inflation rates.

The final foe in this bad bunch is divorce. Sadly, if there is a breakdown in your child's marriage, you could find that a significant slice of your family's wealth is lost. Britain has the highest divorce rate in the EU. In February 2013, The Marriage Foundation conducted some research and found that 39% of couples who marry today will divorce.[4] Realistically this means that more than 1 in 3 marriages will end, so the odds are most certainly high. Imagine if your child marries Satan personified? You most certainly would not want them to get their clutches on your fortune, especially after your child had divorced them!
Or, what if after your death, your widow or widower remarried a young gold-digger with eyes only for their inherited wealth? Not only could this have severe ramifications for the remaining partner, but it could also mean that your child's inheritance is instantly reduced.

So there we are, the four things that will prevent your family from inheriting your money:

- **Long-term Care Fees**
- **Inheritance Tax**
- **Inflation**
- **Divorce**

[3] https://www.gov.uk/inheritance-tax/overview
[4] http://www.marriagefoundation.org.uk/Shared/Uploads/Products/5357_MF%20-%20What%20is%20the%20divorce%20rate%20-%20060213.pdf

Now that you know ‘thine enemy’, we can move onto the next section of this paper. In the following chapters we will address numerous solutions to these problems, showing you how careful financial planning could save your loved ones over half of your wealth.

2. Wills and Trusts- Solutions for Lifetime and Death

a. Who Do You Trust?

You may be thinking that the obvious solution to all of these problems is a Will. A Will Indicates how your property and wealth will be distributed at the time of your death. This is all well and good, but what happens if factors change in your beneficiaries' lives? For example, in your Will you leave half of your wealth to your son and his wife. Upon your death their marriage is stable; however after you pass away the wife demands a divorce. She stands to walk away with half of your son's wealth, as it was effectively given to her in your Will. Not what you had envisaged. A simple Will could also mean that your beneficiaries are faced with large Inheritance Tax bills, could be taken to court to contest your final wishes and ultimately could be left with only a fraction of the inheritance you had intended for them. A Will also does nothing for your financial planning whilst you are still alive. Wills certainly have a place in your financial strategy, but they are not the sole answer.

Whether you are trying to protect your wealth from long-term care fees, Inheritance Tax or divorce, there is one solution that is universal for them all; Trusts. Trusts can be an invaluable tool in the quest for the preservation of your family's inheritance, and they are definitely something for you to consider. Trusts can be broken down into specific types, as we will touch upon later in this paper, but realistically you only need to understand the basic structure of Trusts. Your solicitor or Financial Adviser will be able to explain the technicalities, if you opt for this as part of your planning.

Most of you will have heard of Trusts, but what exactly are they? 'A trust is a legal arrangement where one or more 'trustees' are made legally responsible for holding assets. The assets - such as land, money, buildings, shares or even antiques - are placed in trust for the benefit of one or more 'beneficiaries'. The trustees are responsible for managing the trust and carrying out the wishes of the person who has put the assets into trust (the 'settlor'). The settlor's wishes for the trust are usually written in their will or set out in a legal document called 'the trust deed.'[5] Trusts are a fantastic way of holding money, or property for people who may not be able to currently manage the assets- for example children. Trusts are also a great way of ensuring that your loved ones will receive the financial benefit of your estate. 'Used alongside a Will, Trusts are a way of ensuring your assets are passed on as you would wish. Alternatively, you can use a Trust to pass on your assets while you are still alive.'[6] Trusts are also excellent ways of safe-guarding against long-term care fees, Inheritance Tax and divorce.

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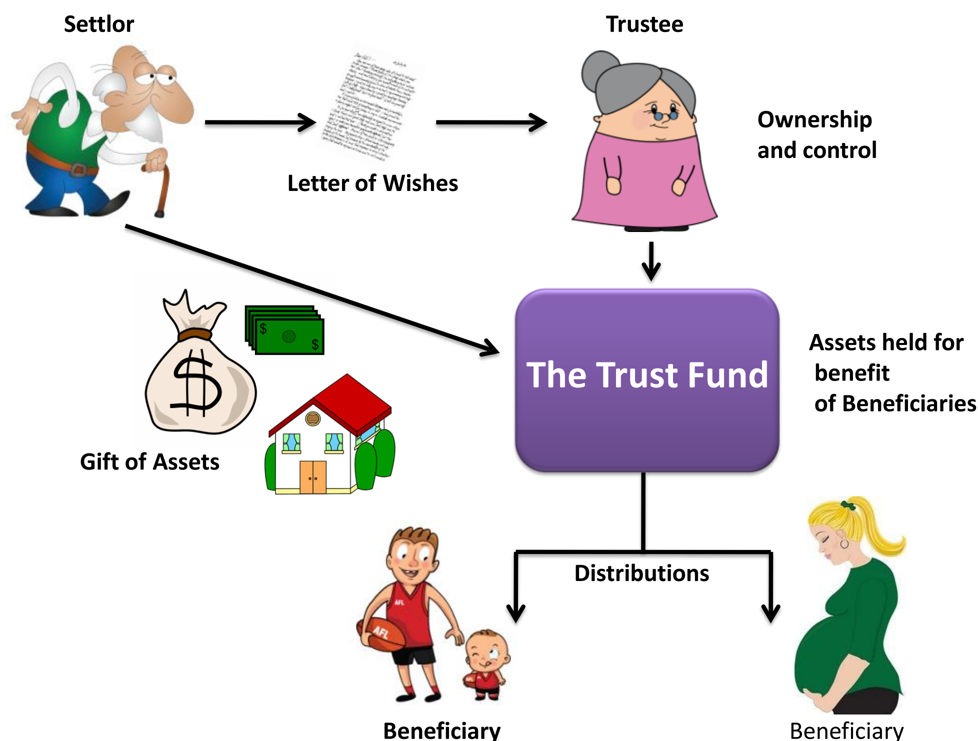
[5] HMRC

[6] http://www.itc.co.uk/informationontrusts

With a Trust, the assets go where they are supposed to when it is supposed to, i.e. to your loved ones at a time when they need the capital the most. There are many reasons why you may want to consider setting up a Trust. The most obvious motivation, as we have already touched upon, is for your family. Trusts are an excellent medium that will make provisions for your family now and in the future. The benefit of using a Trust to do this is that you can set out certain conditions. For example, you can specify when your loved ones will benefit from and the Trust, e.g. once they have reached a certain age, when you reached a certain age, when they have finished their education or when they want to purchase a property. The great thing is that you choose these conditions, so you can opt for the most relevant conditions to your family's situation. You can also protect assets that you do not want the beneficiary to have full and free access to, e.g. your prized sports car will not end up in the hands of your 17 year old grandchild! Some Trusts even have certain tax advantages, for example reducing your Inheritance Tax bill, preventing the 'daughter in-law from Hell' walking off with your child's inheritance and safe-guarding your home from being sold to pay for long-term care fees. In short, Trusts enable you to protect your assets for your loved ones.

The following diagram shows you how a basic Trust works and who is involved:



b. PETs Allowed (not the furry kind!)

The following chapters of this paper will look at how Trusts can help to save your family from paying IHT, care-fees and protect your wealth from divorce. These arrangements will be applicable to numerous situations and many different people. However, before we jump into solving the Inheritance Tax problem, it is important to understand the scenarios when you will be liable to pay IHT, what your allowances are and the exemptions to the rules, so that you can maximise these first.

As we mentioned earlier on this paper, the current nil-rate band for IHT is £325,000 per person. This means that anything under this amount is automatically exempt from Inheritance Tax. This figure has been fixed until at least 2017. It is important to note that couples (married or civil partnership) can pass their tax-free allowance onto their spouse, meaning that a more realistic figure is £650,000 per couple.

Here are some other important points to bear in mind:

Your spouse or civil partner

There's usually no Inheritance Tax to pay on anything you leave to your spouse or civil partner who has their permanent home in the UK, even if it's over the threshold. This includes any gifts you give while you're alive.

Charities

Gifts you make to charities, museums, universities, Community Amateur Sports clubs and the National Trust are exempt. Also, if you gift 10% of your estate to charity, your IHT liability is reduced to 36% from 40%.

Gifts: the 7-year rule

If you live for 7 years after making a gift to someone, it's exempt from Inheritance Tax regardless of the value. This is called a 'potentially exempt transfer' or PET (we will look into PETs in more detail shortly).

If you continue to benefit from something you've given away, it **won't** be exempt from Inheritance Tax and is called a '**gift with reservation of benefit'**.

Example

If you give your house away but continue to live in it without paying the market rate of rent, it won't be exempt from Inheritance Tax.

Annual exemption

You can give away up to £3,000 a year - you can also carry over an unused allowance from the preceding year. These gifts will be exempt from Inheritance Tax when you die.

Small gift exemption

You can make small gifts of up to £250 to as many people as you like (but you can't use this exemption with the £3,000 annual exemption for the same person).

Wedding and civil partnership gifts

These are exempt, with certain rules:

- parents of the couple can give them cash or gifts worth up to £5,000
- grandparents can each give up to £2,500
- anyone else can give up to £1,000
- you have to make the gift, or promise to make it, on or shortly before the date of the wedding or civil partnership ceremony

Gifts and exemptions

- Even if your estate is over the threshold you can sometimes pass on assets without paying Inheritance Tax.[7]

Before you begin to look at ways to reduce your IHT bill, make sure that you take full advantage of your allowances!

We mentioned earlier that we would talk more about Potentially Exempt Transfers (PETs). We have already touched upon the £3000 annual allowance which you can gift away and not be faced with Inheritance Tax. This is an 'Exempt Allowance'. PETs, on the other hand, are only potentially exempt, as they are gifts made above the £3000 allowance. PETs are beneficial to some people, as they are simple and there are no administrative costs. You simply give the money to whoever you wish to be the beneficiary. For some, it is quite satisfying to see the immediate benefit of your gift. For example, giving your grandson the deposit for his first flat or giving your daughter the money to go travelling with. PETs are great in practice, but they are risky. If you die less than 7 years after you have made the gift, the sum becomes liable for Inheritance Tax. You could be in great health, with the potential of a long life, but you just do not know when you could pass away. Many people are unaware of this, so make sure that you do not fall into the trap! You can however get Life Insurance policies to protect the liability of a PET, but you should seek professional advice when looking at this as an option.

PETs, as I am sure you are beginning to see, also have several pit-falls. Gifting away large sums of money during your life-time may seem like the perfect solution for avoiding Inheritance Tax, but it is not always the answer. As we have said before, if you are fit and healthy, it is near on impossible to know how long you will live for. With this in mind, it is

[7] https://www.gov.uk/inheritance-tax/gifts-and-exemptions

difficult to accurately estimate how much money you will need for the rest of your life. If you give away huge chunks of your wealth, you might run out of money yourself.

PETs also mean that you relinquish your control over your money. For example, you want your 18 year old granddaughter to inherit 25% of your wealth. It is your hope that she will buy a house, go to university and eventually be able to provide her children with a financially stable future. If the money that is intended for her is put into a Trust, you have control over when she gets the money, how much she can access and, to an extent, what she can spend it on. However, if you gift her funds as a PET, she can do whatever she wants- you don not want to be creating the next Paris Hilton!

If you are trying to protect your family from the event of divorce, PETs are not the answer. For example, your son is married to the 'Daughter- in -Law from Hell' and you gift him a large sum of money as a PET. Because this money is outside of a Trust, if the daughter-in-law later divorces your son, she would be entitled to half of his wealth, which now includes the PET.

PETs do have their place and are the ideal solution for some situations, but you must understand the risks involved if you do decide to go down this route. We would recommend taking full advantage of your annual allowances (i.e. up to £3000 per year) and then look at alternatives for any sums over this amount. Trusts allow you to make gifts when you are ready, but allow you to retain control in a protected environment.

c. The Secret of Section 21

Potentially Exempt Transfers (PETS) and making the most of your annual allowance are both methods which you should definitely consider as part of your estate planning. In the next three chapters of this paper we will show you three ways in which you can remove larger sums from your estate, take an income from your capital and mitigate some tax liability. However, before we begin to look at these planning tools, we would like to talk about a tax rule which is often overlooked; the 'Gifts from Income' legislation.

In 1984 the Inheritance Tax Act came in to force. For many this was seen as a yet another way that the government could penalise the wealthy and was, and still is, an incredibly unpopular piece of legislation. Bar emigrating, there is little that we can do about this Tax, other than find ways to reduce its impact. However, the IHT Act of 1984 did have some 'glimmers of hope', namely 'Section 21'; Gifts from Income. Section 21 states (paraphrased here in plain English) that a 'regular gift made out of surplus after-tax income is exempt from Inheritance Tax as long as:

- It is regular. Regularity means that gifts are made over a number of consecutive years (normally 3-4 years)

- The gift literally comes from traditional taxable income and not from capital, so income from an Investment Bond, for example, would not count
- The donor does not suffer a reduction in his usual standard of living as a result of the gift.

Subject to these conditions there is no limit on the size of such gifts and they will automatically achieve instant exemption from IHT,'[8]

You can of course simply implement this structure yourself, but you must keep detailed records and you must ensure that you are satisfying the caveats attached to Section 21 of the Inheritance Tax Act of 1984. We would recommend, however, that you look at using a far more structured system to make gifts out of your surplus income. The most effective way of doing this is to use the gifts to purchase life insurance policies and pensions for the Beneficiaries, or in larger cases, transfer the funds into a Trust.

The benefits of using a Trust as the location for your gifted income are numerous. The main benefits are:

- You can protect your funds from being squandered. If you gift £20,000 to your teenage granddaughter for example, what do you think she would do with it?! However, if you put this money into a Trust, you can specify the terms upon which this money can be used and when it can be accessed.
- You can protect your wealth from being lost in a divorce settlement. For example, if your son is married to the 'daughter in law from hell' and you gift him large sums of money, those funds automatically become part of his estate. If he files for divorce, the daughter-in law could stand to walk away with half of that sum. This can be overcome by using a Trust.
- With some specific types of Trust, you can potentially take back an income or some capital in the future without breaking the 'gift with reservation' rules.

Gifts from Income are a valuable part of your Estate Planning, especially when used as the funding for a Trust. Like all types of financial planning, the trick is to ensure that you use a strategy that blends together several different planning techniques. Not only does this decrease the amount of risk that you are exposed to, but it also helps to maximise your returns. The saying could not be truer here; do not put all of your eggs in to one basket!

[8] The WAY gifts from Income Inheritor Plan

3. Lifetime Trusts for Investments

a. The Great Cake Analogy Begins

Wouldn't it be wonderful if you could gorge yourself silly on delectable and indulgent cake but never gain a single pound? Unless you have the metabolism of a teenage athlete, this 'fantasy' is highly improbable. You simply cannot have the best of both worlds. This is a very similar quandary to those of you who wish to retain access to your capital, but wish to reduce your Inheritance Tax. The problem is, is that if you have full access to your capital, it could be liable to a 40% Inheritance Tax (if it is above your allowance) upon your death. That capital in your estate also has the potential to increase in value, thus having a knock-on effect onto your IHT bill. It seems to be a lose-lose situation; either retain full access to your capital and leave a hefty IHT bill behind, which could increase over time, or relinquish your wealth and have nothing to live on for your remaining years.

A Gift and Loan Trust is a mechanism which enables you to reduce your Inheritance Tax bill whilst maintaining full access to your capital. The Gift with Reservation regulations dictate that you cannot simply give away your assets as a gift and then continue to benefit from them. If you do this, the assets which you have gifted are still liable for IHT. However, G&L (Gift and Loans Trust) is one device for legally overcoming this legislation.

The problem is that your capital is liable to increase in value over time. If this were to occur whilst it was still in your estate, the ensuing IHT would be higher than you had anticipated. However, this is where Gift and Loans Trusts come to the rescue. As the Trustees have invested your capital, any growth that is accrued automatically falls outside of your estate upon your death. This money, which is now outside of your estate, has the potential to grow for the benefit of your beneficiaries.

So, if you are trying to ensure that your estate does not get any bigger, and Gift and Loan Trust may be something worth considering.

b. Discounted Gift Trust- Ready for Another Slice?

There is a very simple solution to your Inheritance Tax problem; all you have to do is make substantial gifts of your wealth and live for seven years after doing so…. Of course, in reality, this solution is not simple, and not particularly realistic. Many of us rely on the funds that we have in our accounts in order to live. Some also depend on the money generated from their investments to sustain their standard of living. None of us, bar any 'psychics' amongst you, know what is around the corner. Giving away huge slices of your wealth is not only a risky decision; it is one that you simply cannot begin to contemplate. Even if you can afford to, you still need to live for seven years after doing so- something that none of us can guarantee! The perfect solution would be a way in which you could move your investments

and capital out of your estate, but still receive a regular income from them. The underlying theme, with almost all planning, is that you cannot give something away for tax purposes whilst retaining some benefit from it. You cannot have your cake and eat it. Or can you? DGT (Discounted Gift Trusts) to the rescue.

DGT; a type of a Trusts arrangement which allows the gifting of a lump sum but also enables you to take a lifelong 'income' from that money. Discounted Gift Trusts are usually set up in conjunction with an investment in either an Onshore or Offshore Investment Bond (we will look at these in more depth later on in the paper). You do not need to worry too much about the technical jargon at this stage, but you do need to understand that DGT is aimed at reducing the Inheritance Tax bill for your family upon your death- remember, this is currently 40% on estates worth £325,000 or more. Discounted Gift Trusts are a mechanism where you effectively give up the right to your capital, but still retain the right to receive an income for the rest of your life. This is usually 5% of the total sum that you put into the Trust. Imagine that your estate is cake. DGT allows you to give away a large portion of that cake, meaning that it leaves your estate and is exempt from Inheritance Tax. This proportion is put into a Trust for the benefit of your Beneficiaries. However, you are allowed to keep a slice of your cake. After all, you are going to need to 'eat' in the coming years!

DGTs are not for everyone, as they involve giving up the right to your capital. However, they can be highly effective Tax saving devices for many people. As a rule, we would recommend DGTs for the following people:

- Someone with individual assets (including their house) of £325,000 or a couple with more than £625,000.
- Someone that would like to ensure their children receive a larger share of their estate in the future as a result of less taxation.
- Someone that is likely to live for a further 7 years (although this risk can be insured if needed).

c. Flexible Reversionary Trusts- The King of the Cakes?

Some of you may be wondering what Trust arrangements really have to do with cakes? The continued metaphor is not a reflection of our love for baked goods, but in fact an analogy that is used in the financial services industry to represent the situation that people find themselves in when looking at Inheritance Tax; you cannot have your cake and eat it. In an ideal world you could gift away your assets, in order to receive IHT savings, yet still have access to your capital and ensuring that your beneficiaries do not take immediate control of your wealth. But this is a fantasy, and like all good stories, there has to be a villain to scupper our idylls. In this case it is the government, akin to militant Weight-Watchers

consultants, who have enacted a legislation to stop people benefitting from IHT breaks and reaping the rewards of their capital simultaneously.

In the previous sections of this paper we have looked at ways in which you can come as close as possible to having your cake and eating it. Both Discounted Gift Trusts and Gift and Loan Trusts can help you to move capital out of your estate and reduce your IHT bill. They can also both ensure that you have enough money to live on for your remaining years. Whilst both of these Trusts arrangements have their place, they are not always ideal for everyone. On one hand, with Discounted Loan Trusts, you lose access to your capital and any investment growth (you are paid a fixed percentage each year, but cannot take any more than this amount). It can be risky to commit to a fixed income, as you never really know what is around the corner. On the other hand are Gift and Loan Trusts, which removes any future growth from your estate and allows you access to your capital. Of course, the capital could end up back in your estate putting you back to square one. The paradox of these two Trust arrangements is that, unless the monies that have been returned to you have been spent, the IHT liability could simply build up again. Both of these solutions are also quite strict in their structure, which works perfectly for some people, but what about those who need a little more flexibility……

The theoretical 'perfect' Inheritance Tax solution is one where you receive the same IHT saving of an outright gift, but still have full and unconditional access to your capital. It is important to bear in mind that no legal planning solution exists that can completely offer this. Instead, you must make certain compromises in order to come as close to this ideal as possible. We have already looked at DGTs and G&L Trusts, but it is now that we would like to introduce the third, more flexible, option; The Flexible Reversionary Trust (FRT). This IHT planning solution allows the Settlor to invest their capital into several single policy Life Insurance Bonds or Unit Trusts which are then gifted into the possession of a Trust. As with similar arrangements, these gifts are for the benefit of the Beneficiaries; usually children and grandchildren. However, it is here that the Flexibly Reversionary Trusts differs to the other scenarios which we have discussed; rather than selecting a set percentage to be taken as income, the Settlor retains access to the gifted capital for the rest of their lives. The best bit is that they can specify, and change, what this amount is depending on their circumstances.

FRTs are ideal for clients who are likely to survive for 7 years after the initial investment and who do not require immediate income or a fixed repayment of capital (which can be achieved with DGT and G&L Trusts). As always, Trusts are an excellent way of protecting your family's wealth from divorce or from the Beneficiaries receiving their inheritance at the wrong time. However, not everyone fits this mould. You must also consider that the 'flexible' element of the Trust is created by the Trustee's ability to defer or defeat the

reversions to the Settlor. If you are not comfortable with this, you may not find an FRT suitable.

In summary, you can gift a lump sum and each year you have the option of taking back 10% if you need it. If you don not, you can roll if forward for another year; e.g. in year5 you could have access to 50%, if you needed it.

d. Keep it in the Family

Before we move away from Trusts and look at some alternative methods of protecting your estate, we wanted to look at a type of Trust which will safe-guard your loved ones inheritance from divorce.

As a married couple, if your total estate including your pensions exceeds the nil-rate band (currently set at £650,000 for a couple), your next generation are likely to be faced with a 40% Inheritance Tax bill on the excess. It is also worth considering that the UK has the highest divorce rate in the EU. With this in mind, it seems a shame to work hard to save into your pension, only to have some **or all** of it taken away from your family by the state or from a divorce in the family. A special type of trust for your pension can help to safeguard this valuable asset against these issues.

Trusts are a very cost effective way to protect your family's assets and to reduce your Inheritance Tax (IHT) bill. However, many people are oblivious to the issues that can arise without them. Trusts provide probably the best protection when it comes to making sure that everything you have worked hard for stays in the family. The Spousal Bypass Trust is a specific way of using a traditional trust arrangement to protect your pension fund; often the second largest asset someone has. So how does it work? The best way to answer this is to look at an example of what usually happens without one.
Mr and Mrs Smith have a joint estate worth £1 million, plus Mr Smith has a pension policy worth £500,000 and has nominated Mrs Smith as the beneficiary of any death benefits.
On Mr Smith's death before retirement, Mrs Smith inherits the whole estate, including the pension as a tax free lump sum. No Inheritance tax here, so all seems fine at this stage.
The problem arises when Mrs Smith dies. At that point, the pension value is now added to the estate, so her total estate is now £1.5m. As a result, **Mrs Smith's Inheritance Tax liability after the joint nil rate band (£650,000) would be £340,000**.

That is a significant reduction to the family's wealth, but this could have been worse. What if Mrs Smith had remarried Juan, and then divorced him later in life? That might have cost the family £750,000. Or worse still, what if Mrs Smith had remarried Juan and then died; that could cost the family the full £1.5m if Juan gets his hands on it! Finally, if Mrs Smith went into long term care at a typical cost of £48,000 per annum, the estate will rapidly be eroded. So how would a Spousal Bypass Trust help?

Nothing changes during Mr Smith's lifetime other than the need to assign the death benefits of the pension to the Spousal Bypass Trust that has been created. On Mr Smith's death, the death benefits pass to the trust. Family or friends, including Mrs Smith, are trustees to keep

the running costs to a minimum, and they make an interest free loan of the full £500,000 to Mrs Smith.

Mrs Smith can use the funds as she needs during her lifetime, but on her death the funds can return to the trust to be reallocated to the children. This would save Inheritance Tax on the £500,000 that had come from the pension, **an immediate tax saving of £200,000**. Furthermore, if Mrs Smith had got remarried to Juan and then divorced, the £500,000 is not her asset but a loan, so the Trust should ensure that is excluded from the divorce settlement. Equally, if she remarried and then died, whilst the rest of the estate may go to Juan, the £500,000 will return to the trust and pass down to the children. The same protection would apply against care costs too.

e. A Final Word on Trusts

Trusts can save you some tax, but that might just be the small end of the wedge! They can save much more.

Typically people use trusts for two main reasons, and they do this to protect two types of transfers. The two types of transfer are as follows;

- **Lifetime gifts:** In this instance, they usually want to ensure that with the money they pass on during their lifetime, usually to their children, they can retain some element of control.
- **Death time transfers:** With just a Will on death they can determine where assets go, but they have no control what happens to them after that. They usually want to ensure that after death, their assets pass down through the generations in full, so that the people that are important to them benefit in the manner in which they would have wanted.

People usually use trusts in these two instances for two main reasons, which are;

- **To protect their assets:** Without trusts in place, assets are often lost to future spouses and their children, creditors in bankruptcy and divorce settlements. Trusts help to ensure that this doesn’t happen.
- **To reduce Tax:** Although trusts only save Inheritance Tax on the first person’s death in some instances (for example life assurance in trust), as transfers between spouses are exempt, this isn’t the stage that really needs to be worried about. Death of the second spouse is the first stage of concern, and in many instances, this tax liability (i.e. probably to be paid by the children) can be reduced dramatically using trusts. The third and ongoing concern is that these assets are liable to Inheritance Tax each generation they pass through. Trusts are extremely effective at eliminating this Inheritance Tax.

All of these problems can start to be addressed by using a trust framework. There are also a number of situations where the use of Trusts can offer even more value. Some of these are as follows;

Business owners; Trusts can offer enhanced tax savings for business owners by crystallising Business Property Relief either prior to a company sale or on death.
Second Marriages; Particularly where children from previous marriages are concerned, trusts allow you to ensure your spouse has money after your death, but your children still benefit in the long run.
People with life assurance; The vast majority of life assurance in the UK should be, but isn't, in a trust. This ensures the money stays out of the estate for tax purposes, and can be accessed by the beneficiaries much more quickly when it is needed, as well as protecting against future divorce.
People with pensions; Most pensions worth in excess of £100,000 should be left to a Trust on death... This ensures the money stays out of the spouse's estate for tax purposes, as well as protecting against future divorce.
Making gifts later in life; Trusts allow assets to be passed to the next generation later in life to reduce Inheritance Tax, whilst retaining control.
People with special needs; Using Trusts for people with special needs can help protect the help they get from the estate, and the support they receive from the state, whilst also ensuring the money is used in their best interests.
These are just a few examples of situations that trusts can save significant amount of tax, whilst also ensuring that even more isn't lost through future divorce or financial difficulties.

Family wealth preservation is not solely about preventing your children from missing out on 40% of their inheritance. Of course, saving that 40% tax upon your death is a consideration which you should plan to prevent. There are numerous other reasons why we have looked at Trusts as a valuable tool in your estate planning. Some of these reasons may be to save for a huge family event, such as a wedding or anniversary. You may also want to put some money aside for school and university fees. In all of these examples, i.e. where you are saving for a specific goal, a Flexible Reversionary Trust is ideal, as you can defer payments each year if they are not required (i.e. a grandchild is not getting married, they have not started university) and then review the situation the next year. However, as promised, we will mainly focus on how Trusts can help with IHT, which we have already discussed, divorce and care-fees.

1. Divorce

We all want our children to lead happy lives and endeavour to support them in their decisions. But what happens if the partner they have picked does not turn out to be their life-long spouse? The danger is that if you have gifted a sum of money to your child, and their marriage turns sour and leads to divorce, half of that gift could disappear out of the family for good. The solution? A Discretionary Trust that allows gifts or loans to assist the family, but remains as a debt against the Trust, i.e. a Gift and Loans Trust. This type of Trust can also be used in the case of a family emergency.

2. Care Fees

We are living in an aging population. There are more people over the age of 60 than there are children under the age of 18. In many ways it is a great thing that we are living for longer- it means that we are healthier and modern medical advances are working. It also means that we have more time to enjoy life! However, there are of course some downsides. We will let your imagination think up all the ailments of old age, as for the purpose of this paper we are mainly concerned with one problem; long-term care.

The longer we live, the more care we may require. The current UK state funding aid is limited, and there are no signs of this improving. For many, local council care will be sufficient, but if you would prefer to live your final days receiving the higher level of care and comfort that you would like (and deserve), you must preserve some of your estate to pay for this. Trusts are an option for saving funds to do this. More on long-term care fees later.

If you would like guidance on how you can use Trusts to protect your family's wealth, we work closely with a number of leading solicitors in this area, and are happy to meet for a free initial consultation to discuss the opportunities available.

4. Other Assets (BRP)

a. How Solar Energy and Farm Land Can Save Your Wealth

So are Trust and Gift based solutions the only option? Whilst these solutions can provide an excellent, and beneficial, means to mitigate Inheritance Tax and safeguard your wealth from divorce and care-home fees, there are pitfalls. The main downside to Trusts and Gifts options are that they can take up to seven years to become fully effective. They can also involve you losing full control and, in some cases, the benefit of your estate. But what else can you do? Well, for some there is an alternative solution that can offer up to 100% Inheritance Tax relief. This comes in the guise of Business Property Relief (BPR).

Business Property Relief (BPR) is a tax relief provided by the UK Government as an incentive for investing in specific types of trading companies- more on this shortly. It was introduced by the Government in the Inheritance Tax Act of 1984, and has since been extended to investments in certain types of unquoted companies (not listed on the main stock market) to encourage investment into this area. If you hold assets that qualify for BPR, they will be eligible for an incredible 100% IHT relief on your interest in the business itself. A lower rate of 50% rate relief is available on business assets, for example machinery used in the trade or land owned by the business.

Not all businesses qualify for Business Property Relief. Those that do must satisfy certain criteria, namely that they must not be listed on the Stock Market, or any other recognised stock exchange. Examples of these may be limited companies, sole-traders or partnership firms. Furthermore, the business must be 'wholly or mainly' a trading company, in the respect that it must be a genuine, bona-fide business that is run for gain. Of course, if the company is not making a profit, this does not mean that is not being run with the intention of making money! As a rule, the main types of businesses that will not be eligible are pure investment companies, although sometimes businesses that appear to be focussed on investment, such as the letting of furnished holiday homes, can in fact be a genuine trading company.

Business assets must be held for a minimum of two years and must be your property upon your death, in order to qualify for BPR. Compared to some Trust and Gift alternatives, this is an incredibly short amount of time. To continue this comparison further, business property assets do not need to be gifted away in order for your loved ones to benefit from Business Property Relief, i.e. they can remain in your estate and you can still benefit from 100% IHT relief. Additionally, BPR solutions allow you to retain control of and access to your investment, meaning that you have flexibility should your circumstances change. You also have the benefit of the value of any income generated by your assets. As we are sure you can see, Business Property Relief is in an incredibly attractive option for savings your family's wealth.

We would certainly not recommend setting up your own trading company for the sole purpose of saving Tax! Realistically, you are better to invest your money into certain schemes that qualify for Business Property Relief. There are a number of assets that qualify for Business Property Relief, so let us look from a straight forward Inheritance Tax planning point of view;

- *Agricultural Land*: As the old saying goes "they aren't making any more of it!" That said, it is not a practical investment for most people, but it does attract 100% Inheritance Tax relief (known in this instance as Agricultural Property Relief)
- *Shares in Private Limited Companies*: This needs to be a trading business (i.e. not just a property owning business) so it is not realistically something you are going to set up just to save Inheritance Tax. There are however ways to invest in them, as this area includes things like Enterprise Investment Schemes (EIS) and other investments that attract BPR that we can look at further.

There are realistically three options available to you. The first is a portfolio of Alternative Investment Market (AIM) shares. For most people the shares route will be the better option. The AIM market is a sub-market of the London Stock Exchange, allowing smaller companies to float shares with a more flexible regulatory system than is applicable to the main market. As an investor, that does mean you are exposed to a much higher risk than traditional equity investments, so you do need to be careful here. A diverse portfolio, containing a number of these companies, would be the second option to consider, however that will also be 'too punchy' for most people investing to save Inheritance Tax.

There is also a lower risk solution available. There are a number of investments out there that have the sole aim of delivering Business Property Relief to the investor for Inheritance Tax planning reasons whilst taking the minimum risk possible. They achieve this in a number of ways, for example investing in areas that are backed by the government (such as the Feed In Tariff for solar panels) or by providing short term finance to companies that have already secured more long term funding, meaning they can also buy credit insurance for the funds. Some of the trading opportunities that are eligible include:

- Property Development
- Owning and managing Public Houses
- Debt factoring
- Leasing
- Renewable Energy

This area is fairly complicated, usually only appropriate to more complicated investors, and there are certainly some products to avoid in this part of the industry, but with careful research you can invest successfully to attract Business Property Relief and attract some of the following benefits;

- The investment becomes zero rated for Inheritance Tax after just 2 years.
- You can often be provided with a set level of return (often 3% per annum) and some providers will only take their fees once you have received this level of return.
- The money is still yours, so if you need to encash some or all of it you can do.
- You can draw an income from the money if you want to.

It really is worth seeking independent advice if you are interested in exploring any of these areas in more detail. At Efficient Portfolio we understand the benefits of the different Inheritance Planning solutions out there, and are happy to build clients a bespoke plan that will best fit their goals, and also those of their loved ones. If you would like to discuss this with us, please email or call us to arrange a chat with one of our financial planners. We have offices in Rutland and in London, but where necessary we can travel further afield and manage most of our process over the phone and through conference calls.

b. How Much Do You Care?

The aging population presents us with two truths; we will live for longer and we will probably need some form of care. Whilst it is not our place to comment on neither the state of care-homes nor the practices of carers in the UK, it is our place to look into the costs of these two services. Depending upon where in the UK you live, your annual long-term care fees could equate to £50,000 per year![9] So how will this be paid for and who will be footing the bill?

Long-term Care is a rather sensitive issue and one that always generates a few ‘heated’ and derogatory turns of phrase aimed at local councils! There is of course ‘free’ care for some individuals, but who gets this and what level of care they receive is heavily determined by where you live and the value of your estate. The funding for long-term care is also hanging in the balance; we could end up with a compulsory tax to pay for a National Care Service or a voluntary insurance scheme could come into force. It is estimated that neither solution will come in to effect until at least 2015, so in the meantime people have to cope.

The main bone of contention people have, when it comes to long-term care, is the difficult balancing acting between providing for your loved ones and ensuring that you spend your last remaining days in comfort. At present, everyone who enters into long-term care (whether in a home or through the use of a carer in their own house) is means tested. This

[9] Defaqcto, Investment Bonds Article

means test is conducted by the council and sets out to determine the level of care and the specific requirements an individual has. Currently, if your assets are worth £23,500 or more, and bear in mind this includes the value of your home; you will have to pay for care fees. Imagine how you would feel to know that everything you have worked hard to leave as a legacy to your children is now being left to the council? Horrified, to say the least! Unfortunately, unless you take action now, this hypothetical horror may become an atrocious actuality. But fear not, salvation is at hand with the help of some careful financial planning.

If you are not careful, long-term care fees could erode the entire value of your estate. This will mean that your loved ones will be left with nothing. Of course, this only applies to people who pay for care themselves. If your assets are under £23,500, or if you have medical needs, which are deemed 'complex and unstable' by the NHS, you will be entitled to free care. Of course, this will only meet your basic needs, so please do not expect to be homed in the Ritz! So is that the solution; move everything out of your estate using Trusts and Gifts and Business Property Relief to reduce your assets to fall below the benchmark just before you go in to care? Not quite. Not quite for several reasons. Firstly, basic care is just that; simple and reduced down to the bare level of adequacy. If you want to spend your remaining days in pleasant and comfortable surroundings of your choosing, you need to contribute towards the payment of them. Secondly, there is a pesky piece of legislation that prevents people from disposing of their capital in order to avoid care-fees; Deliberate Deprivation Rules. Business Property relief is also not exempt from Capital Gains Tax.

If Inheritance Tax, Divorce and Long-Term Care Fees are our three enemies, the Deliberate Deprivation legislation is our arch nemesis. If the council deem that you have deliberately moved assets out of your estate in order to avoid care-fees, they are able to take back this money. Examples of this may be:

- A lump-sum payment has been made to someone else (e.g. as a gift or to repay a debt)
- Substantial expenditure has been incurred (e.g. on an inordinately expensive holiday)
- The title deeds of a property have been transferred to someone else
- Money has been put into a Trust which cannot be revoked
- Money has been converted into another form which would fall to be disregarded (e.g. personal possessions)

- Capital has been reduced by living extravagantly (e.g. gambling or following a much higher standard of living than the resident normally could afford)[10]

Some of these will look familiar, especially the Trust options. It is worth bearing in mind here that you will only be scrutinised if you are claiming for assistance with care-costs. It is also worth noting that the Deliberate Deprivation rules are somewhat of a grey area. Basically, if you place some of your assets into Trust in advance (say 5 years before you go into care), the council cannot claim that you have deliberately deprived your assets. They also cannot add the value of these assets to your estate (i.e. if they are in Trust, they are placed outside of your estate and are for the benefit of your loved ones).

But what can you do if you have used up you IHT free allowance but want to safe-guard even more of your assets? What are the options to prevent the council taking your wealth and leaving your family with nothing? You will be pleased to hear that there are two routes which you can go down.

The first approach for you to consider is the utilisation of Investment Bonds. When your local authority carries out the means test assessment, money tied up in Investment Bonds will normally be excluded from their calculations. Not only that, but the returns on Investment Bonds can be used to provide a regular income to pay for care-fees. Bonds are outside of the long-term care assessment as they are deemed to be a life insurance policy. Investment Bonds are beneficial on several levels, but be careful; if you decided to throw all of your capital into a Bond weeks before you go into care, you can be accused of depriving your assets and they will not be exempt. The trick with Investment Bonds and Financial Planning in general, is to think ahead to the future. Invest in your Investment Bonds today; do not leave it until tomorrow!

Investment Bonds are not for everyone. You will normally need to tie up money for at least 5 years and there can be some hefty charges involved if you pick the wrong Bond. If you cannot afford to tie up money, or require more fluid access to your funds, Investment Bonds may not be for you. The returns generated also may not cover your care-fees, as the amount is never guaranteed. Although Investment Bonds can be seen as 'tax –wrappers' (reducing your overall tax bill), they are actually more accurately tax deferring devices. Up to 5% of the capital invested can be taken as a tax deferred income, and this is only liable to tax on encashments or death.

Of course, there are also multiple benefits to Investment Bonds! We have already touched upon the main bonus; if an Investment Bond is set up in advance, a large chunk of your wealth can be removed from your estate and discounted from your care-fee means testing.

[10] Charging for Residential Accommodation Guide (CRAG) 2013

There are plenty of other benefits too, most notably the potential for an Investment Bond to generate a lump sum for you to leave to your children or other beneficiaries. An investment bond is just a tax wrapper. What you put into it can be a low, medium or high risk. Ideally you want to be investing in a diverse range of investments that allow you to take the level of risk you are comfortable with.

Investment Bonds are one way of protecting some of your assets from long-term care fees, but what about your most valuable asset; your house? We are sure that you have heard horror stories of children being forced sell their parents house to pay for the cost of care. Many parents have worked hard for their whole lives in order to leave their children a substantial legacy- usually in the form of the family home. If you do not take steps to protect this asset, the council will compel your kids into selling the inheritance you intended for them. But you can stop them.

The current care-fee rules state that your home, in most cases your largest asset, may be counted as capital after 12 weeks of you moving into long-term care, that is unless you a. take some steps to protect your asset, or b. the following people still live in the house:

- Your spouse or civil partner
- A close relative who is 60 or over and incapacitated
- A close relative under the age of 16 for whom you are legally responsible for
- Your ex -spouse or ex-civil partner or ex-partner if they are a single parent.

If any of these people live in your house, the council cannot force the sale of the property to pay for care-fees. However, you should still look at the protection of the asset and make some plans regarding the ownership of the house after your death. After all, if your spouse or civil partner is still living in the house, they too may soon need long-term care. This brings you back to square one.

So what can you do if none of the above mentioned people live in your house? Or indeed, you want to protect your asset for future generations? Simple, put it in Trust.

Couples may be able to permanently remove their home from harm’s way (i.e. the council forcing the sale of the house) with one quick trick. Most couples, who own their own property, opt for the deeds to written as ‘Joint Tenants’. This means that if one party dies, the other automatically takes on the full ownership of the house. However, if you change the deeds on your house from ‘Joint Tenants’ to ‘Tenants in Common’, you will be able to leave your half of the house to your chosen beneficiaries or simply put your half into Trust. To change your deeds you would expect to pay around £200, but this could save you the entire value of your house- definitely value for money! The simple change in deeds has

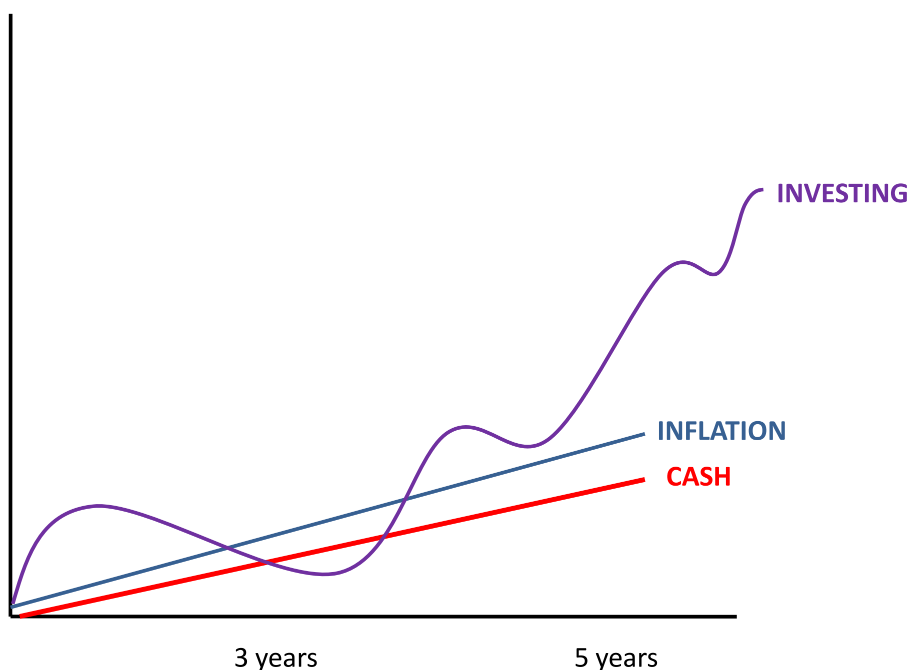
meant that half of the house is much more likely go to your loved ones. Putting this into Trust is the best option, as property in Trust cannot be accessed for care-fees means testing.

So what happens when one of the partners die and the other needs full-time care? If this scenario arises, the property will be valued at nil. Half of the property is owned by the Beneficiaries and you cannot sell half a house! In theory, the council could take half of the value of the property into consideration when conducting their means test, however this is unlikely. But again beware; there is no ‘safe’ period from when the house was placed into Trust and the point where the council can deem the transfer to be deliberate deprivation of assets. In short, the property must be placed into Trust for a valid reason, i.e. to protect from divorce, Inheritance Tax or simply to provide an inheritance for your loved ones. The overruling reason that the house is in Trust must not be to prevent you paying care-fees!

Placing your home into Trust is an incredibly complicated area, and can be incredibly expensive if you get it wrong! There is a lot to consider; your motivations for placing the house into Trust, the value of the property (if it exceeds £325,000 a 20% Tax will be placed upon it if the asset is in Trust) and also the type of Trust that it is put in to. When it comes to long-term care planning, it is paramount to talk to a professional. The harsh reality here is, if you get long-term care planning wrong, your family and loved ones could be left with nothing and you could end up with a very primitive standard of care.

5. Inflation

Many of you, I am sure, have spent a great deal of time carefully saving money for your family's future. In theory this is an incredibly practical thing to do; planning ahead and preparing a 'Safety net' for your loved ones for when you have gone. Unfortunately, there is a fourth financial risk, which could put your life-time savings into jeopardy; Inflation. 2008- That fateful year when the economy came crashing down around us. We see the effects of this downturn every day in nearly all aspects of our life. The financial crisis has adversely affected your savings. Low interest rates and high inflation have led to some dramatic volatility in the Stock Market, with some equally deplorable falls in growth and income from many types of savings products. Take a Cash ISA as an example. A Cash ISA may seem to be a Tax efficient vehicle for your savings, but it is in fact costing you money. Inflation is at a rate of 2.9% and the base rate is 0.5% (and recent reports indicate that this rate is not moving for some time) and savings rate are averaging at around 1.52%. As you can see, inflation is significantly higher than the returns on your savings.

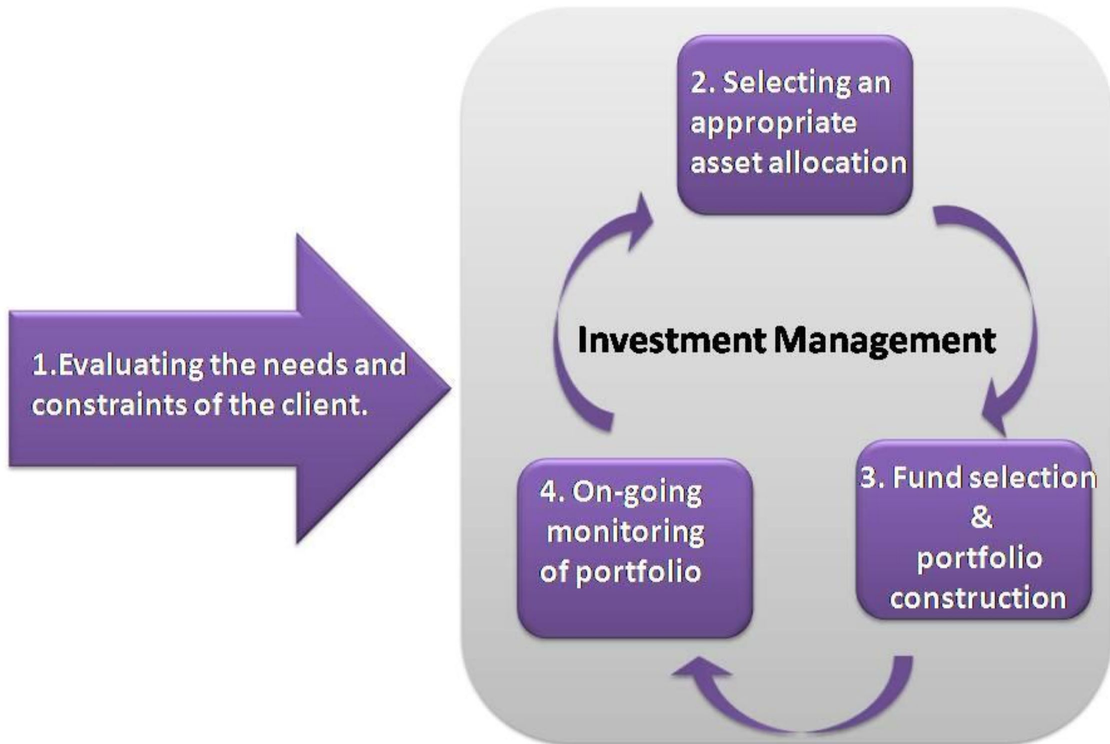


Low interest rates lead to low borrowing repayments on debt, which is causing an erosion on capital. Not only are interest rates low, but with seeming benefit of Quantative Easing is actually causing a problem; Quantative Easing is actually a tax on your savings, meaning that they are being further eroded.

The solution to this problem is to move away from cash. In order to make any significant returns on your money, you should strongly consider using investments. There is a degree of risk involved, but if this is properly managed, the results can be very rewarding. With cash, you are actually guaranteed to be losing money in real terms. There are three keys to succeeding in the world of investments:

1. Chose your level of risk. You should only embark on an investment if you are comfortable with the amount of risk you are taking, i.e. if you cannot afford to lose money, do not invest in high risk products!
2. Opt for a blended strategy that selects a variety of different investment types. By investing in an ice-cream company and an umbrella firm, you should be able to do well whatever the weather, you are spreading the risk. If one fund is suffering, it is likely that another is doing really well.
3. Review your choices. Interest rates are in a constant state of flux and the performance of your investments will continually change. Make sure that your investments are checked on a regular basis; otherwise they will gradually become less and less appropriate.

You can invest money yourself; however seeking the help of a professional is probably worthwhile. Investments can be a time consuming and tricky business, which can have catastrophic effects if you get them wrong. Any reputable Independent Financial Adviser should be able to help you, but check that they specialise in investments first. For example, at Efficient Portfolio, we have a over 13 years experience with investments and use a clear and tested strategy to help our clients maximise their money.



6. Summary

Many of us dream of being able to leave a legacy for our loved ones; whether it is being able to pay the deposit on your grand-daughter's first house, funding university for your grand-son or even just providing a sufficient amount for your children to sustain a comfortable standard of living. Unfortunately simply saving your hard-earned cash is not enough, as there are three risks that could cost your loved ones their inheritance:

4. **Long-term Care Fees-** We are living in an aging population, so the chances are that you will not only live for longer, but that you will need care for a greater period of time. Long-term care can cost up to £50,000 per annum in some parts of the UK, so it is definitely something that you need to prepare for.
5. **Inheritance Tax-** If your estate is worth over £325,000, your loved ones will be charged a rate of 40% for the pleasure of inheriting it. That is unless you take action and put into motion some financial plans to protect your estate. Do not let the tax-man become the greatest single beneficiary of your wealth!

6. **Divorce-** The sad reality is that 39% of couples who marry today will file for divorce. Imagine the scenario if your son marries the daughter in law from hell, or your ex-spouse runs off with a ‘toy-boy’? These people, whom you’d rather not be a part of your family, could stand to inherit your wealth over your children.

So what are the solutions?

1. **Use you allowances.** You are allowed to give away £3000 per year without incurring any Inheritance Tax charges upon your death. Also, if you make a gift and survive for 7 years after making this, it automatically becomes exempt from IHT. There are some other small loop-holes long the same vein as this, which can be found in Chapter 3. The general rule is, before you begin to look at what measures you can put into place, make sure you are taking full advantage of your allowances. There are of course downsides to this, in that you lose all access and control over the money, so you cannot use it to pay for long-term care and you cannot protect the sum if a divorce were to take place.

2. **Potentially Exempt Gifts (PETs).** In a very similar way, PETs are sums of money which gifted away in your lifetime, but exceed the £3000 mark. Again, if you survive for more than 7 years after making the initial gift, the sum should be exempt for IHT. However, if you do not, the gift could be subject to a 40% Tax. For some PETs are a great solution, as they are easy and have no administration costs. You also have the benefit from seeing the impact that your gift makes (imagine the happy face of your grandchild when you buy them a car, for example). However, like all gifting options, you relinquish all control over the money and cannot protect it from long-term care fees or divorce.

3. **Gifts from Income-** a ‘regular gift made out of surplus after-tax income is exempt from Inheritance Tax as long as:
    - It is regular. Regularity means that gifts are made over a number of consecutive years (normally 3-4 years)
    - The gift literally comes from traditional taxable income and not from capital
    - The donor does not suffer a reduction in his usual standard of living as a result of the gift.

Subject to these conditions there is no limit on the size of such gifts and they will automatically achieve instant exemption from IHT'.[11] Gifts from Income can be quite unstructured and it is important to keep a detailed record of every gift you make. That said, they are an important part of your financial strategy, when used as a part of a blended portfolio.

4. **Discounted Gift Trust (DGT)-** Discounted Gift Trusts are just one of the many types of Trust that enable you to protect your wealth from Inheritance Tax and from divorce and care-fees. DGTs are a mechanism where you effectively give up the right to your capital, but still retain the right to receive an income for the rest of your life. This is usually 5% of the total sum that you put into the Trust. Imagine that your estate is a cake. DGT allows you to give away a large portion of that cake, meaning that it leaves your estate and is exempt from Inheritance Tax. This proportion is put into a Trust for the benefit of your Beneficiaries. However, you are allowed to keep a slice of your cake. After all, you are going to need to 'eat' in the coming years!

5. **Gift and Loan Trusts (G&L)** A Gift and Loan Trust is a mechanism which enables you to reduce your Inheritance Tax bill whilst maintaining full access to your capital. The Gift with Reservation regulations dictate that you cannot simply give away your assets as a gift and then continue to benefit from them. If you do this, the assets which you have gifted are still liable for IHT. However, G&L (Gift and Loans Trust) is a device for legally overcoming this legislation.

   With a Gift and Loan Trust, you (the Settlor) establish a Trust and 'loan' this Trust your capital. The Trustees will then invest this 'loan' into an Investment Bond. As the capital is yours, you have the right to request that the loan is paid back in full, or via partial payments. You can chose when and how much, as often as you need. This set up solves the problem of taking money out of your estate but still having access to it. As the capital is regarded as an interest free loan, it is not a gift for IHT purposes. This means that there is no potential IHT charge on setting up the Trust.

6. **Flexible Reversionary Trust-** This IHT planning solution allows the Settlor to invest their capital into several single policy Life Insurance Bonds or Unit Trusts which are then gifted into the possession of a Trust. As with similar arrangements, these gifts are for the benefit of the Beneficiaries; usually children and grandchildren. However, it is here that the Flexibly Reversionary Trusts differs to the other scenarios which we have discussed; rather than selecting a set percentage to be taken as income, the Settlor retains access to the gifted capital for the rest of their lives. The best bit is that they can specify, and change, what this amount is depending on their circumstances.

[11] The WAY gifts from Income Inheritor Plan

7. **Spousal Bypass Trust**- Trusts are a very cost effective way to protect your family's assets and to reduce your Inheritance Tax (IHT) bill, however, many people are oblivious to the issues that can arise without them. Trusts provide probably the best protection when it comes to making sure that everything you have worked hard for stays in the family. The Spousal Bypass Trust is a specific way of using a traditional trust arrangement to protect your pension fund; often the second largest asset someone has.

8. **Business Property Relief**- Aside from Trusts, what other methods can be employed to protect the value of your estate and ensure that you are able to give your loved ones as much of your wealth a possible? Business Property Relief (BPR) is a tax relief provided by the UK Government as an incentive for investing in specific types of trading companies- more on this shortly. It was introduced by the Government in the Inheritance Tax Act of 1984, and has since been extended to investments in certain types of unquoted companies (not listed on the main stock market) to encourage investment into this area. If you hold assets that qualify for BPR, they will be eligible for an incredible 100% IHT relief on your interest in the business itself. A lower rate of 50% rate relief is available on business assets, for example machinery used in the trade or land owned by the business.

9. **Investment Bonds**- When it comes to long-term care fees, the key is to achieve the right balance between protecting your wealth for your family (i.e. removing it from your estate so that is not taken in to account for means testing) and ensuring that you have enough financial support to provide you with comfortable care. When your local authority carries out the means test assessment, money tied up in Investment Bonds will normally be excluded from their calculations. Not only that, but the returns on Investment Bonds can be used to provide a regular income to pay for care-fees. Investment Bonds have an element of Life Assurance with them, meaning that upon your death, the Bond will pay out a slightly more than the value of the fund. This could be put into Trust, to ensure that you are leaving something to your loved ones. Investment Bonds are beneficial on several levels, but be careful; if you decided to throw all of your capital into a Bond weeks before you go into care, you can be accused of depriving your assets and they will not be exempt. The trick with Investment Bonds and Financial Planning in general, is to think ahead to the future. Invest in your Investment Bonds today; do not leave it until tomorrow!

10. **Change your Deeds -**There are certain situations where the council cannot force the sale of your house to pay for care-fees. If any of the following live in the house, the property cannot be sold:

- Your spouse or civil partner
- A close relative who is 60 or over and incapacitated
- A close relative under the age of 16 for whom you are legally responsible for
- Your ex -spouse or ex-civil partner or ex-partner if they are a single parent.

By changing the deeds on your house to 'Tenants in Common', you will be able to leave your half of the house to your chosen beneficiaries or simply put your half into Trust. If one half of the couple dies, half of the property is owned by the Beneficiaries and the other by the surviving partner. As the council can only force the sale of the property of the person going into care, they effectively only have half a house to sell, so the value becomes nil (i.e. the whole house will eventually pass to the beneficiaries).

11. **Move Away from Cash-** Inflation is making your cash worthless. In order to make any significant returns on your savings you must look to the Stock Market and invest your money. Do this using a diversified portfolio and make sure you continually review the performance of your funds.

When it comes to tax planning and safeguarding your loved one's inheritance, a great deal of laws and legislations come into force. Because of this, we highly recommend that you seek professional advice from solicitors, tax specialists and independent financial advisors. It is unlikely that just using one of these solutions will do everything you need. As a result, it is usually a blend of these different strategies that delivers the best results. A diverse mix of tactic and approaches also helps to minimise the level of risk you take and maximise the rate of growth and success.

About Efficient Portfolio

We provide our clients with a complete financial planning service; specialising in retirement, investment and tax planning. We are dedicated to helping our clients achieve their financial objectives and goals by securing them a successful financial future. We do this in a structure that is transparent, efficient and simple to understand. Our clients follow the Efficient Portfolio Process, a unique process designed to give them the best advice in all the areas of their finances with the flexibility to meet their objectives as they evolve.
Based in Seaton, Rutland, we are members of the Personal Finance Society, Chartered Institute of Insurers and the Association of Independent Financial Advisers, and are committed to the PFS code of ethics.

We feel that the fairest way to work for our clients is on a fee basis. We believe that it is the only way to be totally independent, and that much of the financial services industry's problems have been caused by inexperienced commission earning salesmen.

People don't plan to fail, they fail to plan. We want to ensure you don't

At each and every stage of our relationship with you, we do everything possible to take away your concerns, exceed your expectations and give you reassurance and peace of mind in your financial future.

If you would like to talk to us about any of the issues raised in this document, we would be delighted to hear from you.

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