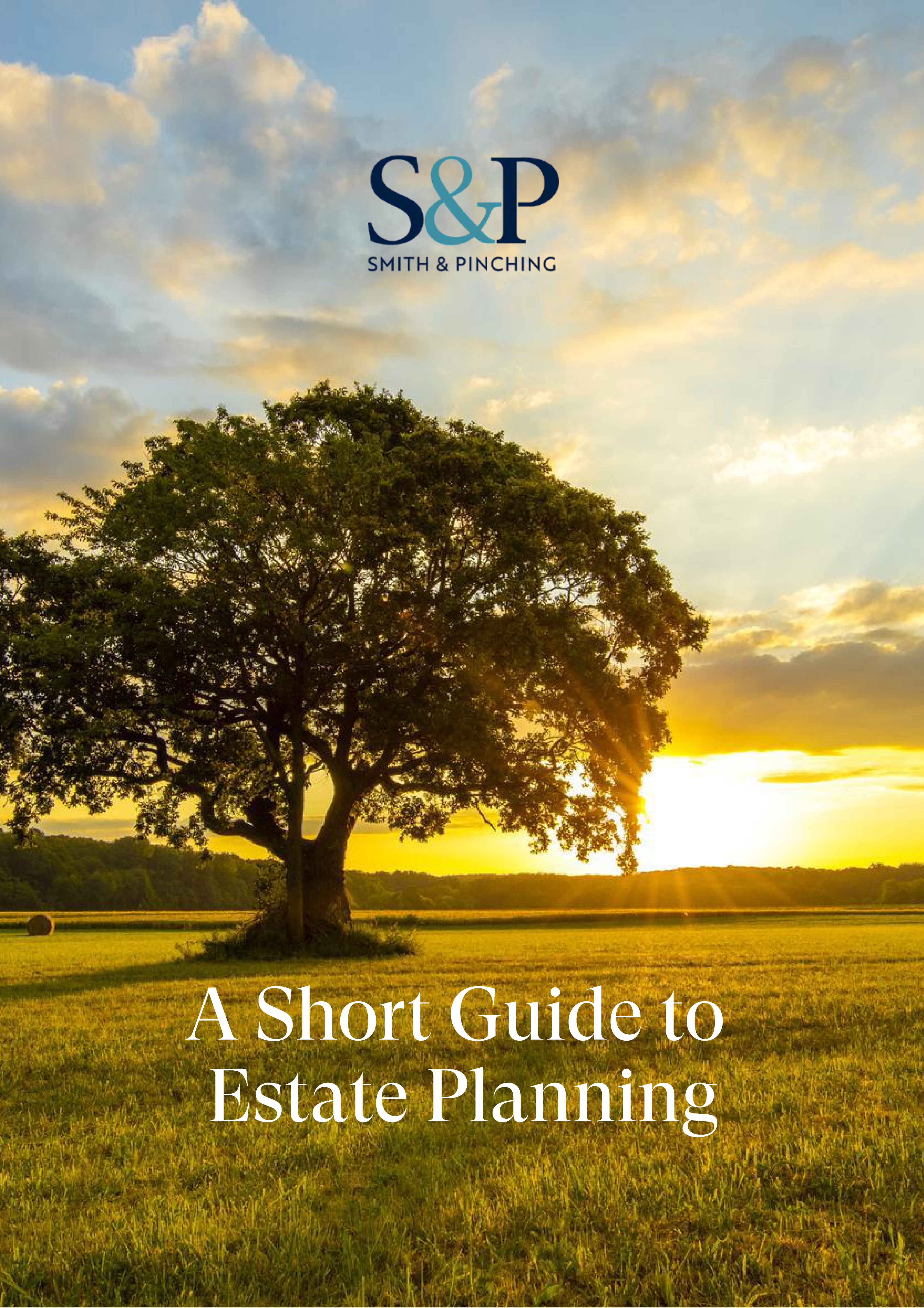

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A Short Guide to Estate Planning

A strong estate plan can help to reduce tax, protect your legacy, and ensure that more of your money passes to your loved ones. The decisions can be difficult, but once in place, your estate plan will make things easier for you and your family later in life.

This guide looks at the main features of an estate plan and how they can benefit you.

WILLS

Writing a will should be a high priority within your estate plan. This will allow you to direct your representatives (or executors) as to how you would like your assets distributed on your death.

Your will could be very simple, for example, you may want your spouse to inherit everything, followed by your children.

Alternatively, you might wish to make multiple gifts, arrange charitable donations, and set up trusts.

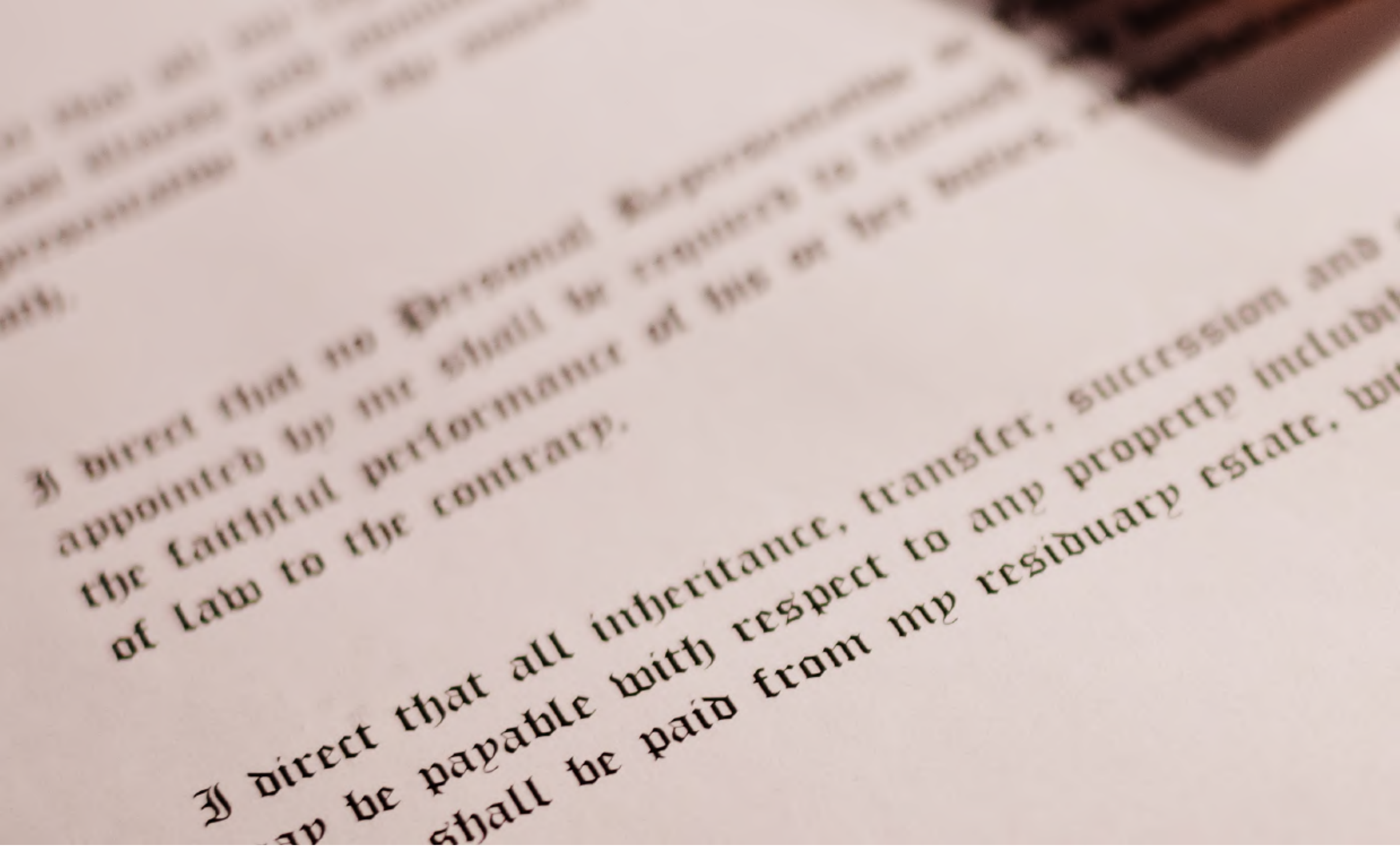
Writing a will is a relatively simple and inexpensive process.

Perhaps your family situation is complex and you have a second marriage or blended family to consider. Maybe you have relatives that you are not in contact with and wish to ensure that they do not inherit anything.

If you die intestate (without a will), you will not have any control over these decisions. Your assets will be distributed according to a strict order of priority. This will depend on the value of your assets and where you live in the UK.

The intestacy rules are particularly severe when it comes to unmarried partners. Common law marriage is not recognised in the UK and only a legal spouse or civil partner has an automatic right to inherit. Similarly, carers, stepchildren, or close friends would also be excluded, while estranged relatives could take priority.

Writing a will is a relatively simple and inexpensive process. It's easy to put this off, but remember your will can be easily changed. An imperfect will that is regularly reviewed is better than no will at all.



POWERS OF ATTORNEY

A Power of Attorney (POA) is used to appoint a trusted relative, friend or carer to make important decisions for you if you lose capacity.

- Property and Financial (covering bills, investments, and property maintenance)
- Health and Welfare (care, medical treatment, and end of life decisions)

Your POA must be created while you still have full mental capacity. It also needs to be registered with the Office of the Public Guardian.

If you lose capacity and don't have a POA in place, the court will need to appoint someone to make these decisions for you. This can result in delays, distress, and choices being taken out of your hands.

A POA is simple to set up and register, and can normally be created at the same time as your will.

TRUSTS

A trust allows you to gift assets without giving up full control. You can set up a trust during your lifetime, or to take effect on your death. You will need to appoint trustees to be responsible for managing and distributing the money. You can be a trustee yourself, although it is sensible to appoint at least one other person.

The main types of trust are:

- Discretionary, where the trustees have discretion over how, when, and why to distribute the trust's assets.
- Bare/Absolute, which is similar to an outright gift, although without giving the beneficiaries full control at outset. This type of trust might be used for a minor child.

You may want to set up a trust to:

- Reduce the value of your estate for Inheritance Tax (IHT) purposes.
- Set aside funds for a particular person or category of beneficiary, separate from your own assets.
- To ring-fence the money from the beneficiary's own assets. This can be useful if the beneficiary gets divorced, is declared bankrupt, loses capacity, or makes poor financial decisions.
- Direct who should receive income from, or be allowed to use the trust assets, while holding the capital for someone else at a later date.
- To receive life policy benefits outside your estate.

It is worth seeking advice on the most suitable type of trust. There will be considerations around tax, risks, and charges that you will need to take into account.

LIFETIME GIFTS

The simplest way to create a legacy is to make gifts during your lifetime. Not only does this give you the satisfaction of seeing your loved ones benefit from the money, but it can also be tax efficient.

Lifetime gifts are treated as follows:

- You can give away up to £3,000 per year, which is immediately outside your estate. This can be carried forward by up to one tax year.
- There are also exemptions for Christmas, birthday, and wedding gifts.
- Other gifts may also be immediately exempt, providing they are made from surplus income and form a regular pattern.
- Larger gifts remain within your estate for seven years. If the value is over £325,000, the Inheritance Tax payable on death will reduce by 20% per year from the end of year three onwards.
- Any gifts into trust may be immediately chargeable. The rate of tax is 20% of the value over £325,000. If you die within seven years, a further 20% is payable, although this reduces between years three and seven.

It's worth considering gifts on an annual basis, as this can reduce your estate, pass more money on to your beneficiaries, and ensure that you don't leave yourself short later in life.

HOW YOUR PENSION FITS IN

Pensions are treated differently from other assets when it comes to estate planning. For example:

- If you die before age 75, your pension can be passed on to your nominated beneficiaries free of tax.
- After age 75, your beneficiaries can still receive your pension fund, but will pay tax at their usual rate. However, they will have flexibility over how and when they draw the money, and can even pass it on to their own children if they prefer.

It can be worth preserving your pension and using other assets, which are included within your estate, to fund your lifestyle.

INHERITANCE TAX (IHT)

Some other ways of mitigating your IHT bill are:

- Setting up a life policy to pay the tax.
- Investing in business assets (such as smaller company shares or Enterprise Investment Schemes) which qualify for business relief and are exempt from IHT after two years.
- Spending more money over your lifetime, which can include regular gifts and charitable donations.

It's worth considering gifts on an annual basis, as this can reduce your estate, pass more money on to your beneficiaries, and ensure that you don't leave yourself short later in life.

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