Later Life Planning

Contents

Inheritance Tax Planning

Inheritance tax planning can be a very complicated area, with the rules, reliefs and allowances often changing, so it is extremely important that you seek proactive advice from inheritance tax planning experts.

Flexible Reversionary Trust

Placing assets into a trust can be daunting. Common fears include loss of access or control of the assets. Certain trusts do allow some access. This is why it is very important to seek advice from an expert.

Equity Release

Your main residence is probably the most valuable asset you have acquired during your working life. Equity release enables you to release funds from the value of your home. You will still retain full ownership, and you don’t have to make repayments during your lifetime unless you choose too.

Long Term Care

It has been well publicised that people are now living longer. The main factors said to be affecting this are mortality, fertility, health provisions and lifestyles. Thinking about ourselves or our loved ones needing long term care can be a daunting prospect. There are many ways to plan effectively for this.

Inheritance Tax Planning

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Inheritance tax is a death tax, charged on estates that are over certain limits. It is a voluntary tax, meaning if you plan effectively you can reduce/mitigate this. UK Inheritance tax is chargeable on worldwide assets. Each person has a 'nil rate band' (NRB) which is the amount they are allowed to be worth before inheritance tax is chargeable. Currently this is £325,000 each. Anything over this is charged at 40% and usually payable before assets can be distributed from the estate. Husband and Wife would have two nil rate bands and therefore the first £650,000 is usually outside the estate.

In addition to the (NRB) a new 'residence nil rate band' (RNRB) has been introduced, this is £175,000. The rules on RNRB are extremely complex and seeking legal advice is always recommended to ensure you do qualify to receive this. The main thresholds to qualify are that your estate is worth no more than £2m (including any AIM investments held) and is left via your will to direct descendants, including adopted, fostered and step children.

Ways to reduce inheritance tax

- Make a will. This should always be the first step in estate planning. It ensures your assets are distributed in line with your wishes rather than following a set of rules known as intestacy.
- Give funds/assets away. Certain gifts need to be survived for a period of time to become exempt.
- Spend it all! In reality, savers struggle to become 'spenders'
- Annual gifts of £3,000. You can give away £3,000 each year and this is immediately outside of your estate.
- Regular small gifts of up to £250 each time. You can give unlimited gifts of up to £250 each time and these are immediately out of your estate.
- Wedding gifts of £5,000 to a child or £2,500 to a grandchild. Other relatives can receive £1,000.
- Insure your life for the amount of the IHT bill. Whilst this does not make this tax bill go away it can make funds available to pay it. If set up correctly.
- Invest into shares that qualify for business relief once held for 2 years and still held at date of death.
- Maintenance payments to spouses, ex-spouses, an elderly or infirm dependant relative and children under 18 or in full time education are fully exempt from inheritance tax.
- Finally you can give Donations to charity, political parties, universities, and certain other bodies recognised by the taxman. Both during life and within your will. Depending on the amount you may also qualify for a reduction in the percentage of Inheritance Tax charged.

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Flexible Reversionary Trust

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Placing funds into a trust can be daunting.

A common client fear with trust planning is that of losing access to the asset placed in the trust.

There are three main types of trust:

- Bare
- Discretionary
- Interest in possession

These main types of trust are used to underpin many variations available.

The flexible reversionary trust (aka lifetime trust) is a way that allows you to achieve a balance between:

- Access
- Inheritance tax planning
- Control

When you place money into a flexible reversionary trust, any growth is immediately outside your estate for inheritance tax purposes. The original capital (gift) will not be liable for inheritance tax, once you have survived seven years after making this gift.

The original trust fund is divided into a set of small policies (known as entitlements) These entitlements are then allocated a future maturity date.

Each time a policy matures the settlor (ie the person who gifted the money to the trust originally) is given the option of:

- Surrender the policy
- Leave it in the trust
- Assign it to another individual (beneficially).

Having this flexibility as policies mature gives peace of mind.

So who is the ‘lifestyle trust’ for?

- Anyone who wishes to reduce their exposure to inheritance tax.
- Anyone who wants to leave their wealth to future generations, in a tax efficient manner.
- Anyone who wants to have the flexibility to access or defer entitlements as their circumstances change.

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Equity Release

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The most common way people take out equity release is via a 'Lifetime Mortgage'.

The main criteria:

To effect this type of mortgage you usually have to be age 55+

You can normally borrow a maximum of 60% of the value of your property, younger borrowers will be allowed substantially less.

Interest rates can be fixed for the life of the loan.

You retain the right to remain in your property for life or until you need to move into long term care.

Equity release is a growing market, with providers developing different propositions regularly. Seeking advice to understand the options is vitally important.

Who is equity release for?

- Anyone wishing to release tax free lump sums/income, using their home.
- Inheritance tax planning
- Anyone wishing to make gifts
- Anyone with interest only mortgages that are expiring

Example

Clients wish to gift £500,000 to their five children for house deposits.

Clients main residence is valued at £1,500,000. Both clients are retired , in good health, independently wealthy and plan to remain in their home for the rest of their lives.

The clients would like the option to take further withdrawals in the future.

Solution

Total loan of £750,000 arranged. £500,000 is paid out immediately and £250,000 left as a 'cash reserve'

Clients will only be charged interest on capital withdrawn, therefore the £250,000 will not attract interest until funds are withdrawn.

Outcome

Clients successfully gifted £100,000 to each child.
Once there gifts are survived by seven years the clients will obtain an inheritance tax bill saving of £200,000 payable on second death.

Clients had a further £250,000 for their own use, tax free and once spent will further reduce the value of the estate on second death and in turn the inheritance tax payable.

A debt (amount of loan drawn down plus interest incurred) has been created on the estate, reducing the value of the estate when calculating the amount of inheritance tax due.

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Long Term Care

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We are all aware that people are now living longer. The main factors said to be affecting this are mortality, fertility, health provisions and lifestyles.

Whilst most people wish to live a long and healthy life, unfortunately this is not always the case and many are facing the need for either domiciliary (care in the home) or residential/nursing care. With the cost of care fees becoming part of their expenditure, people are turning to their trusted advisers to assist with the best way to pay for this. Some are even trying to plan in advance, possibly those with the experience of relatives requiring care!

If you need to pay - what are the rules?

- Assets over £23,250 (in England) which can include your property = No financial support from the Local Authority
- Assets less than £14,250 = Full financial support from the Local Authority but Local Authority sets maximum limits for cost of care - Eligible income still taken into account
- Between £14,250 and £23,250 = some care may be covered by the local authority and you will pay for the rest

Is any help available?...

Financial assistance can be available, some payments/benefits require means testing and physical assessments (where your income and assets or current health have to be considered before a decision is made).

Attendance Allowance – available if you require help with personal support and are aged 65 or over and physically or mentally disabled.
Higher rate - £89.15 per week or
Lower rate - £59.70 per week

NHS Continuing Healthcare – All of your care could be paid for if you have long-term complex needs. You would require an assessment to see if you qualify for this. This is extremely difficult to qualify for. Many people are declined.

I have to pay towards care....how?

If you need to pay for care there are various ways to do this. Your adviser will be able to assist you in agreeing your best option. This could be done by considering the following:
- Pay from income
- Use investments to produce an income
- Equity release
- Deferred Payment Agreement
- Draw down capital
- Immediate Care Plan

If funding for care is something that you need to consider, it can be an emotional time for families. Specialist advisers can assist you with the financial aspects of this, leaving you free to support your loved ones.

Please note that giving away assets to try and reduce your estate and therefore reduce/stop having to pay for care is considered deliberate deprivation of estate. If the local authority conclude that this was the case they can treat you as still owning these assets and use them in your assessments.

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Hawsons Wealth Management Services

- Investment and pensions strategies
- Trust planning
- Inheritance tax planning
- Advice for key business stakeholders
- Equity release
- Individual & corporate protection

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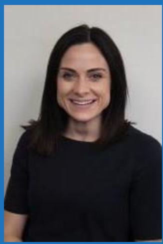

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