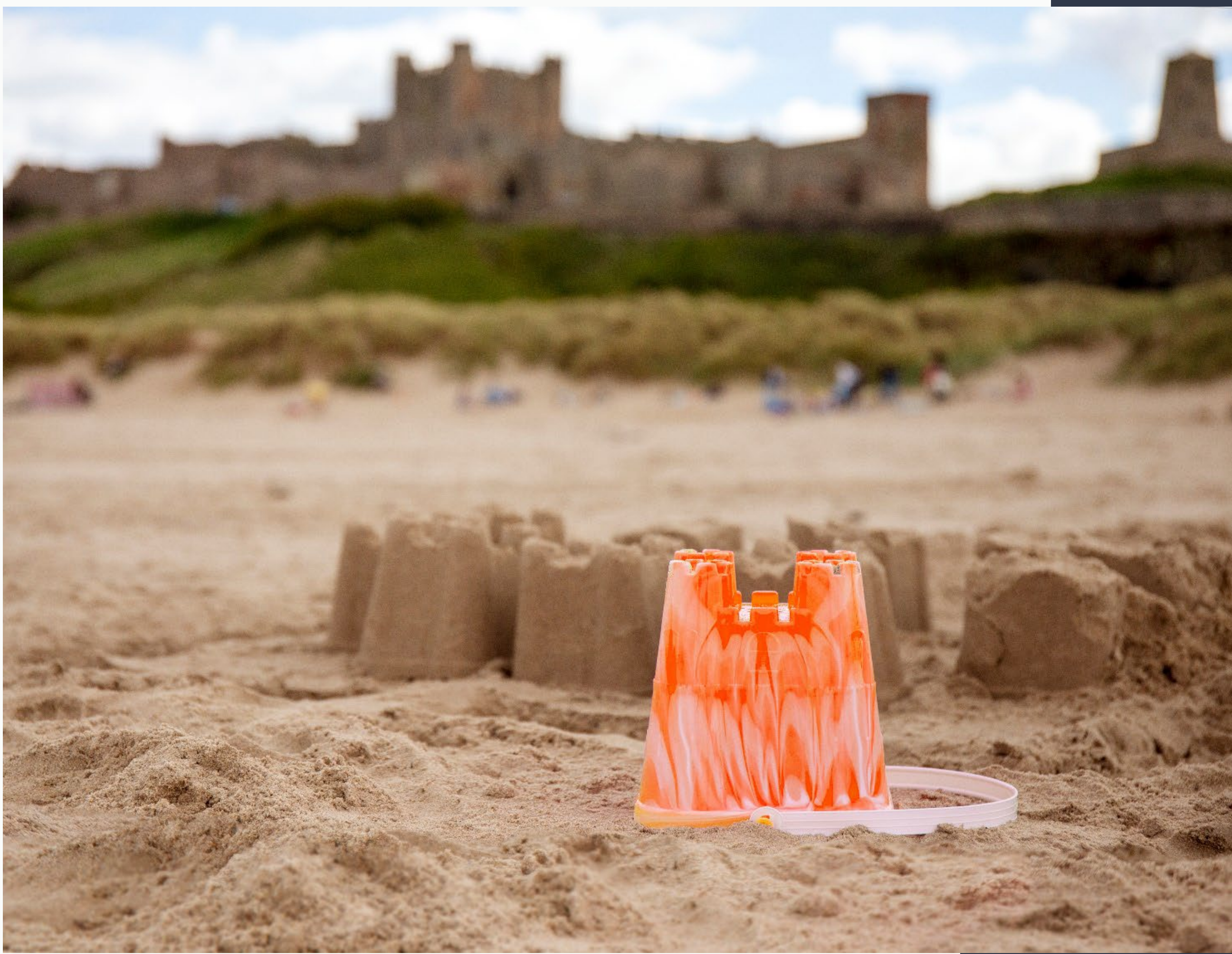
RATHBONES | Incorporating Investec Wealth & Investment (UK)

Estate Planning explained



Introduction

It is important to understand the implications of Inheritance Tax (IHT) on your assets and to consider the options available to you to mitigate its impact.

IHT is a tax on the transfer of assets from one generation to the next, and it can have a significant impact on the value of your estate. However, there are various options available to help reduce your IHT liability. At Investec Wealth & Investment (UK) we can help you navigate the complexities of IHT and develop a plan that aligns with your wishes and objectives.

If you are deemed to be domiciled in the UK, all of your worldwide assets will be subject to IHT.

The Nil Rate Band (NRB) and Residential Nil Rate Band (RNRB) are important allowances to consider when planning your estate.

Every individual has a Nil Rate Band (NRB) for IHT calculation purposes – essentially, this is an IHT free allowance to use against the value of your estate. For the current tax year, this is £325,000 per individual. Direct gifting or gifting into trust can use up some or all of your Nil Rate Band during your lifetime; This is explained in greater detail within the 'Trusts' section of this brochure.

An additional Residential Nil Rate Band (RNRB) of up to £175,000 per individual will also be made available to homeowners whose estate value is less than £2m. The amount of RNRB available will be capped at the lower of the value of the property or the maximum RNRB. For the RNRB to apply, the home must be ‘closely inherited’. In general, this means that the property must be inherited by a child of the deceased, or by a remoter lineal descendant of the deceased (e.g. the grandchild, great grandchild, or other child of a child of a child etc.).

It's important to know that tax rules are subject to change and are based on your own individual circumstances.

Tax and protection – which is your motivation?

We need to consider your motivations for undertaking inheritance tax planning before we look at the various methods available for mitigating the impact of inheritance tax. Protecting your assets and leaving as much of your estate as possible to your beneficiaries is a common motivation, but it's also important to consider the potential impact on your own security and peace of mind.

Avoiding paying additional taxes on assets that you have already paid taxes on is another motivation. Additionally, you may want to ensure that your beneficiaries are provided for while still retaining an element of control over how and when they receive the assets. Seeking professional advice can help you determine the best approach to inheritance tax planning based on your individual circumstances and goals.

What should I do first?

It's important to prioritize the foundational elements of estate planning, such as a properly drafted Will and Power of Attorney, before considering other potential estate planning options.

Even the most sophisticated planning can be undermined by simply not laying these foundations. It is also important to review your Will periodically to ensure that it continues to reflect your wishes in light of any changes in your circumstances. A Power of Attorney is another important legal document that can provide peace of mind in the event that you are no longer able to make your own decisions. There are three different types of Power of Attorney, each with its own specific purpose. Seeking professional advice can help you understand which type of Power of Attorney is appropriate for your individual circumstances and goals.

An **Ordinary Power of Attorney** is suitable for temporary periods or if you find it difficult to get out, while **a Lasting Power of Attorney (LPA)** is useful if you want to ensure you are covered in the future, especially in case you lose mental capacity. An LPA can cover decisions about your financial affairs or your health and care decisions. **Enduring Power of Attorney (EPA)** was replaced by LPA in October 2007, but if you made and signed an EPA before that date, it should still be valid. An EPA covers decisions about your property and financial affairs and comes into effect if you lose mental capacity or want someone to act on your behalf. Please note that different rules apply in Scotland and Northern Ireland, please therefore discuss this with your Financial Planner.

Annual allowances and exemptions

There are various allowances and exemptions available that can help reduce the impact of inheritance tax on your estate. Some of these allowances and exemptions are immediately exempt from inheritance tax, while others may require additional planning or action.

Wedding/Civil Partnership Gifts

Wedding or civil partnership ceremony gifts are exempt from IHT, subject to certain limits:

- parents can each give cash or gifts worth £5,000;
- grandparents and great grandparents can each give cash or gifts worth £2,500; and anyone can give cash or gifts worth £1,000

Small gifts

You can make small gifts up to the value of £250 to as many individuals as you like in any one tax year. However, you can't give more than £250 and claim that the first £250 is a small gift. If you give an amount greater than £250 the exemption is lost altogether.

Annual gifts

You can give away gifts worth up to £3,000 in total in each tax year and these gifts will be exempt from Inheritance Tax (IHT) when you die. You can carry forward any unused part of the £3,000 exemption to the following year, but if you don't use it in that year, the carried-over exemption expires.

Charitable Gifts

There are tax benefits to making charitable gifts both during your lifetime and via your Will. Gifts to a registered charity during your lifetime are immediately exempt from inheritance tax, regardless of their value. Additionally, making gifts to charity via your Will can reduce the inheritance tax rate on your estate from 40% to 36% if certain conditions are met. Specifically, the reduced rate applies if you leave at least 10% of your net estate to a qualifying charity.

Regular gifts or payments that are part of your normal expenditure

Regular gifts out of your net income may be exempt from inheritance tax (IHT) providing they meet certain criteria. To qualify for this exemption, you must have enough income left after making these gifts to maintain your normal lifestyle. Examples of regular gifts that may qualify for this exemption include monthly or other regular payments to someone, regular gifts for Christmas and birthdays or wedding/civil partnership anniversaries, and regular premiums on a life insurance policy for you or someone else.

What are the next steps?

IHT planning is not an all or nothing exercise, however, the next stages do involve more structural planning and the help of a professionally qualified financial planner who can advise you on the most appropriate solutions for your personal situation.

Gifting

Many people choose to make direct gifts to the next generation during their lifetime as a means of reducing inheritance tax (IHT). Direct gifts made in excess of the various gifting allowances are known as Potentially Exempt Transfers (PETs). Such gifts will remain within your estate for 7 years for IHT purposes, but there is no immediate tax liability to you or the recipient. However, if you die within the 7 years, such gifts will use up part (or all) of your Nil Rate Band in the order in which the gifts were made. If the total amount of gifting exceeds the available Nil Rate Band, HMRC may approach the recipients of the gifts to pay any IHT due, although taper relief may be available.

Taper relief reduces the IHT payable on gifts on a sliding scale providing you survive at least 3 years from making the gift.

Trusts

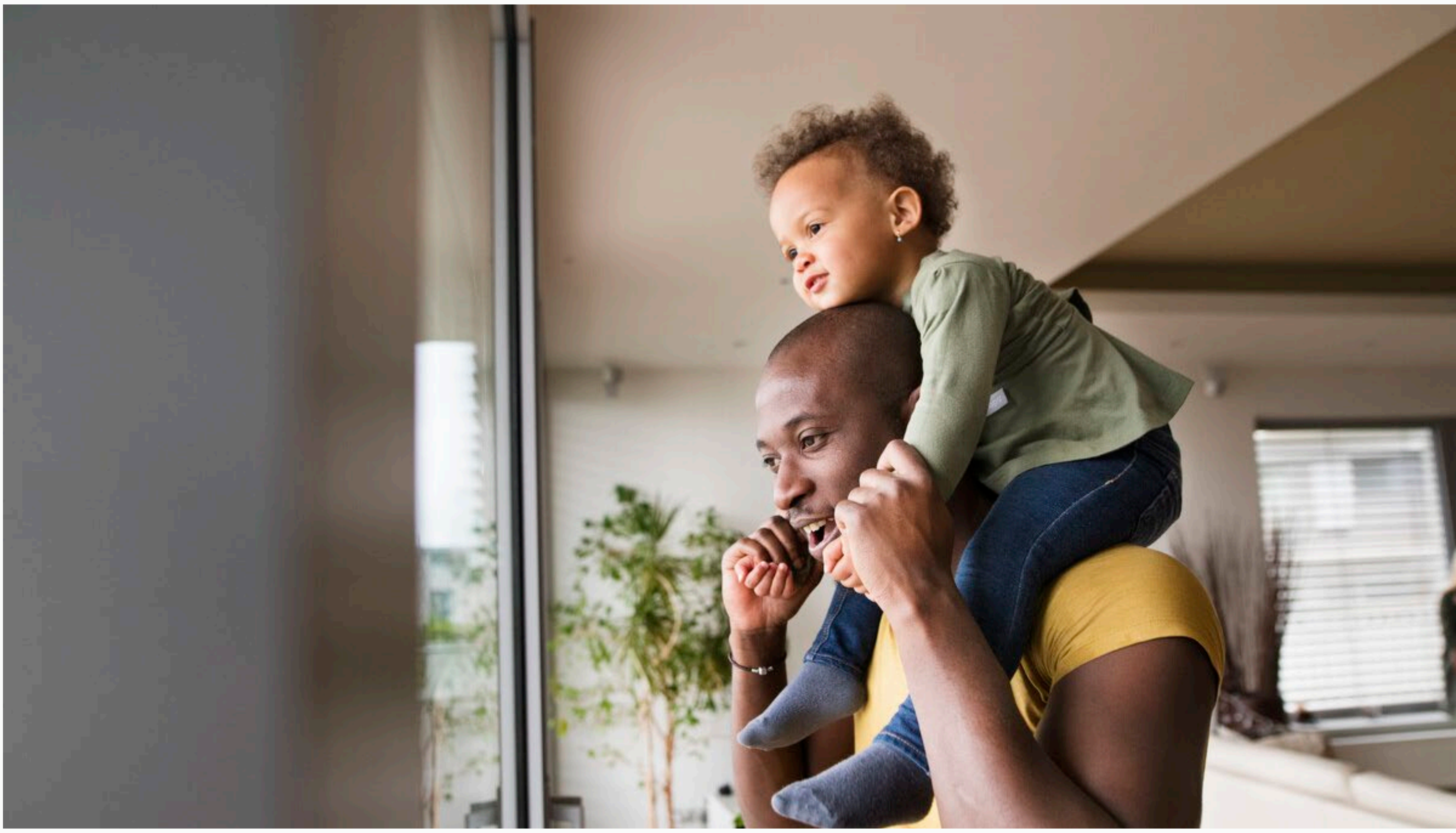
A trust is a legal arrangement that allows you to transfer assets, such as property or investments, to a trustee who then manages them on behalf of the beneficiaries. One advantage of using a trust is that it can help to reduce your inheritance tax (IHT) liability, as assets held in trust are generally not considered part of your estate for IHT purposes.

Another advantage of using a trust is that it can help to avoid the potentially lengthy delays associated with administering estates. When you die, your assets will need to be distributed according to your will, which can be a time-consuming process. By placing assets in a trust, you can ensure that they are distributed to the beneficiaries more quickly and efficiently, as the assets are already held in a separate legal entity.

There are many different types of trusts available, each with their own unique features and advantages. Trusts can hold a wide range of assets, including investments, property, and life assurance policies.

Certain trusts can provide you with access to regular withdrawals during your lifetime, while also allowing you to pass on wealth to your beneficiaries on death. However, it's important to note that for trusts designed specifically to achieve an inheritance tax (IHT) saving, you will typically need to forgo access to at least some of the original capital, as well as any capital growth.

Trusts set up to reduce IHT liability are subject to certain tax rules and restrictions, such as the seven-year rule, periodic and exit charges. Additionally, there are complexities associated with making a series of gifts or gifts into certain types of trusts. Seeking professional advice before setting up a trust can help you understand the potential tax implications and other complexities involved, and ensure that the trust is structured in a way that aligns with your individual circumstances and goals.



Trusts (cont'd)

Absolute Trust

With an Absolute Trust (also known as a Bare Trust), the beneficiaries are named and have an absolute right to benefit under the trust. This means that once an absolute beneficiary reaches the age of 18, they can demand that the trustees advance their entitlement. This makes an Absolute Trust a simple and straightforward way of passing on assets to beneficiaries.

From an inheritance tax (IHT) perspective, an Absolute Trust is treated the same as a direct gift (a Potentially Exempt Transfer or PET). This means that if you transfer assets into an Absolute Trust, the assets will be treated as a gift for IHT purposes. If you survive for seven years after making the gift, it will fall outside of your estate for IHT purposes. If you die within seven years, the gift will use up part or all of your Nil Rate Band, depending on the size of the gift and when it was made.

Discretionary Trust

A Discretionary Trust is a type of trust where there are no named beneficiaries, and the trustees become the legal owners of the trust assets. The trustees have absolute discretion over who may benefit under the trust, which means that they have more control over how the assets are distributed and can take into account factors such as the needs and circumstances of the beneficiaries.

It is important to give careful consideration to whom to appoint as a trustee. Trustees have legal obligations and must also fulfil any reporting requirements. While it is possible to appoint a family member or friend as a trustee, it may be beneficial to consider appointing a professional trustee who has experience in managing trusts and can provide impartial advice.

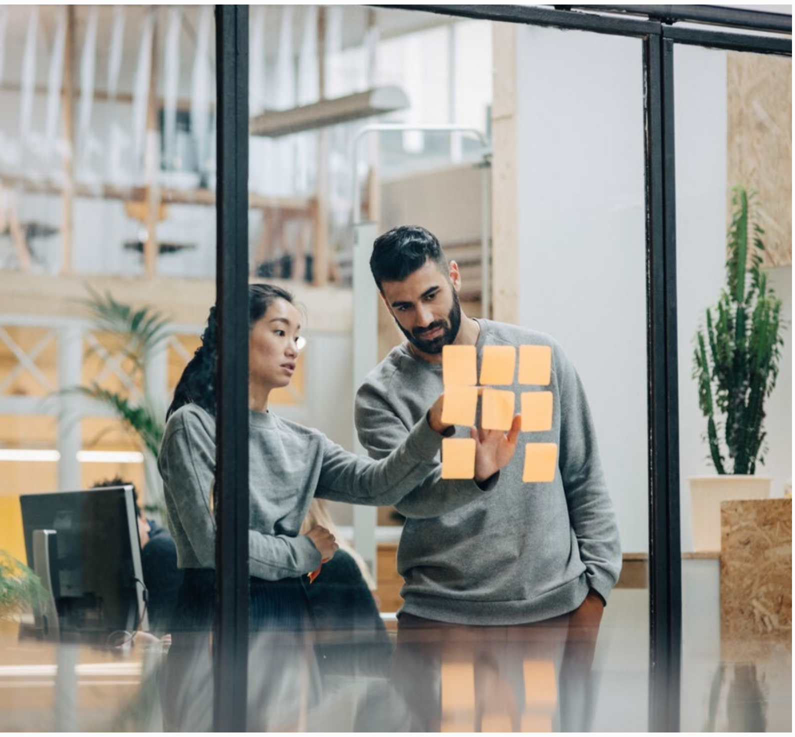
A Discretionary Trust is classified as a Chargeable Lifetime Transfer (CLT) for inheritance tax (IHT) purposes. Similar to a Potentially Exempt Transfer (PET), a Discretionary Trust falls outside of your estate after seven years. However, if you place assets into the trust that are valued in excess of the Nil Rate Band (£325,000), there would be an immediate IHT liability chargeable at 20% on the excess. Taper relief may be available to reduce the amount of IHT owed.

Loan Trust

Under a Loan Trust, a Trust is established, and a loan is made to the Trustees. The value of the initial loan would remain in your estate for Inheritance Tax (IHT) purposes. However, all growth in the investment will be outside of the estate with immediate effect. The Trustees then typically invest into an investment bond, and the loan is often repaid by utilising 5% per annum tax-deferred "income" payments over a 20-year period.

This type of trust can be a useful estate planning tool for those who want to reduce their IHT liability while retaining access to the capital invested in the trust.

Trusts (cont'd)



Flexible Reversionary Trusts

The Trustees typically invest in an investment bond, which can facilitate access to a variable 'income' source through annual maturities. This can provide a regular income stream for the beneficiaries of the Trust.

Additionally, investment bonds can also allow for lifetime gifts of capital to potential beneficiaries. This can be a useful estate planning tool for those who want to make gifts to their loved ones during their lifetime while retaining some control over the assets.

Discounted Gift Trusts

A Discounted Gift Trust is an arrangement that allows the gifting of a lump sum into Trust in order to gain an immediate discount to Inheritance Tax (IHT), with the remainder of the Trust falling out of the estate after seven years. It also allows the settlor to retain the rights to a life-long 'income' from the underlying investment.

It is important to note that the income level is fixed at the outset and cannot be altered. The income received from the arrangement should be spent to avoid it accumulating in the estate and becoming part of the IHT liability. This can be a useful estate planning tool for those who want to reduce their IHT liability while retaining access to a regular income stream.

Whole of Life

One way to 'insure' against an Inheritance Tax (IHT) liability is to take out a suitable life assurance policy that would provide the necessary funds on death to pay the inheritance tax liability. Placing the policy into Trust would prevent the lump sum payable on death of the life assured from becoming an additional part of the estate for IHT calculation purposes. This can be a useful estate planning tool for those who want to ensure that their beneficiaries have the necessary funds to pay any IHT liability that may arise.

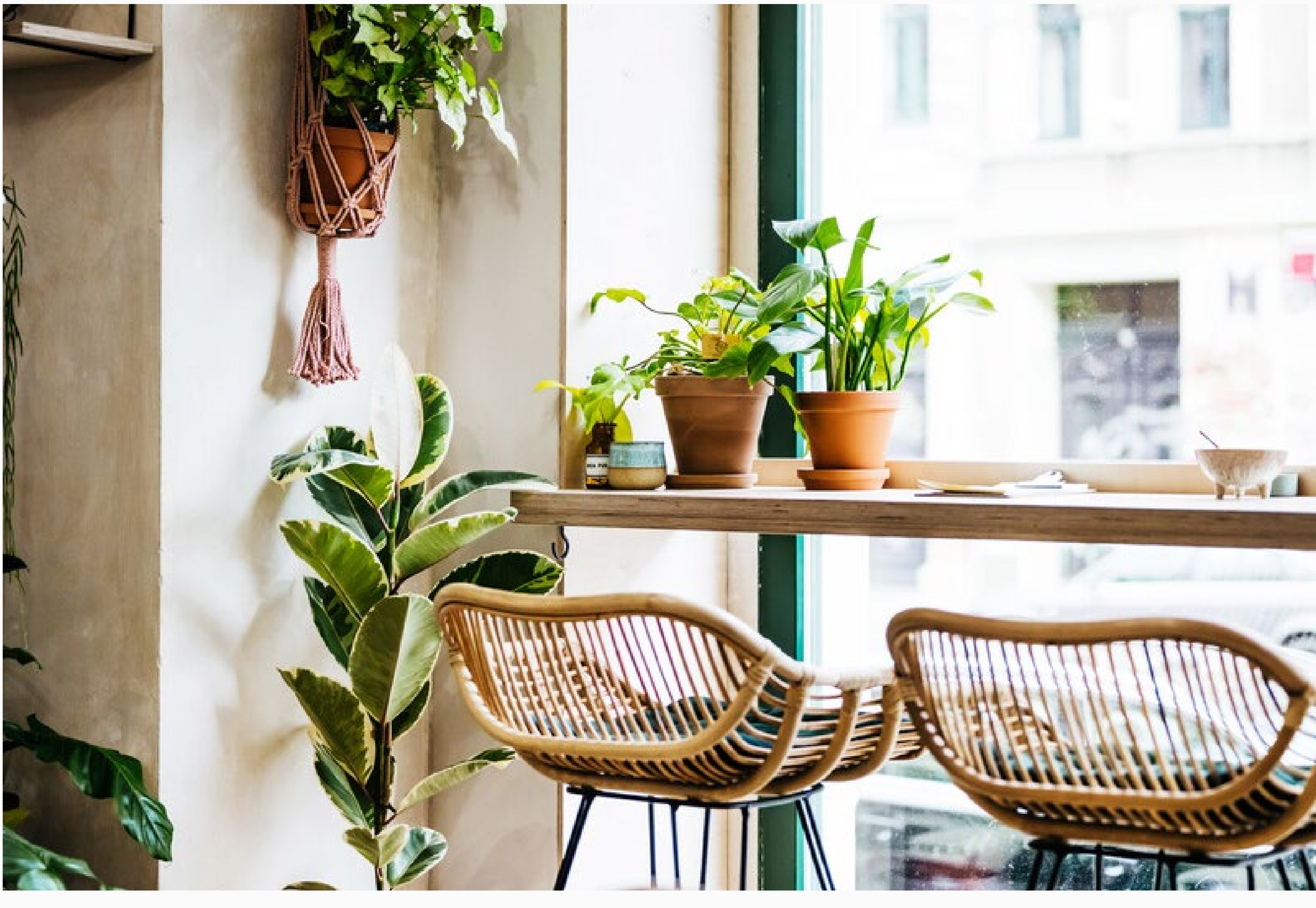
Business Relief Assets

Business Relief (BR) was first introduced by the Government in the 1976 Finance Act and then extended to certain types of unquoted companies (not listed on the Stock Market) in the Inheritance Tax Act 1984 to encourage investment into these areas.

Once assets qualifying for BR are held for two years, they are exempt from Inheritance Tax (IHT), providing they are still held at the time of death, and if the investments remain in an active trade or business at the time of death. Eligibility for Business Relief is only assessed by HMRC at the time of death.

Two of the most common investment types that make use of Business Relief (BR) allowance are Alternative Investment Market (AIM) based plans and asset-backed plans.

The Alternative Investment Market (AIM) is a sub-market of the London Stock Exchange which was launched in 1995. It is designed to provide small and growing companies with access to capital by allowing them to issue shares to investors. These schemes are generally considered high risk by their nature, although they have the potential for higher returns given the nature of their investment in small or unquoted companies.



Business Relief Assets

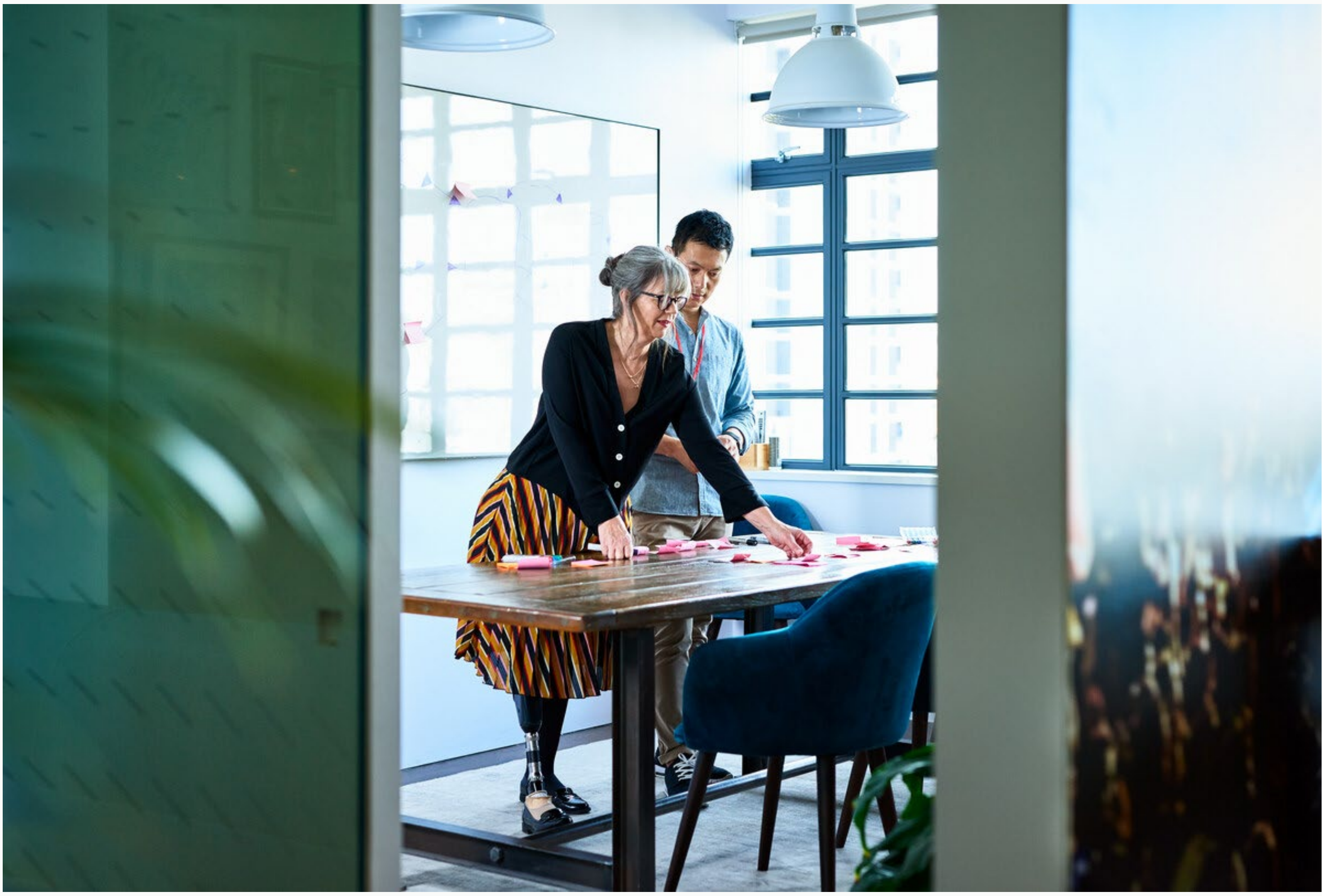
Asset backed business relief schemes invest in a wide range of underlying asset types such as renewables, forestry, commercial property, infrastructure projects which are often considered to be more stable and predictable investments which are expected to generate income and capital growth over the long term. Asset backed business relief schemes are generally considered to be higher risk investments, as they invest in assets that may be illiquid and difficult to value.

As investment risk is dramatically increased compared to mainstream investments, consideration may be given to diversifying any investment over a number of different schemes.

One advantage of business relief qualifying assets is that they allow investors to retain access to their capital if required. However, it's important to note that if an investor withdraws funds from a BR qualifying asset, those funds will no longer qualify for business relief and may be subject to IHT if held at the time of the investor's death.

As with any investment, it's important to conduct thorough research and due diligence before investing in business relief qualifying assets, and to seek professional advice to ensure that they are suitable for your individual circumstances.

Investors should also be aware that tax rules and regulations are subject to change, and the availability of Business relief may be affected by changes in legislation or individual circumstances.



How can Investec Wealth & Investment (UK) help me?

When considering the extent of any inheritance planning you wish to undertake, it is important to prioritize your own needs and ensure that it does not compromise your standard of living for the remainder of your life.

Our planners are highly qualified and are able to provide impartial advice to help guide you through the process of defining your goals and recommending a tailored strategy to meet your individual needs.

Ongoing reviews also allow us to help you to navigate your financial planning journey through changes in your personal circumstances such as marriage, divorce, retirement, death of loved ones and inheritance which can all have an effect on your lifestyle and may require changes to your financial strategies and goals.

As taxation rules and other legislation are continuously changing, we will also ensure your plan remains up to date and keep you informed of the changes and new opportunities.

It's important to remember that with any investment, your capital is at risk. Investments can go down as well as up, and you could get back less than you originally invested. It's important to ensure that any investments you make are aligned with your goals and risk tolerance.

If you would like to arrange an initial meeting, at our cost, with one of our planners please call your local Investec Wealth & Investment office – contact details are on the back cover. Alternatively, please visit our website and request that one of our planners gets in touch with you.

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The information contained within this brochure does not constitute financial advice or a personal recommendation. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. References to taxation are based on our current understanding of the legislation but we do not represent that it is accurate or complete and it should not be relied upon as such. Tax laws are subject to change.

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