

PROTECTING INHERITANCE: THINGS TO CONSIDER

We'd all like to be able to help our loved ones after we're gone. It's not the easiest of conversations, but a little time spent discussing how to pass on your wealth with a professional adviser today could protect your inheritance and offer security for your family tomorrow.

TAX TREATMENT VARIES
ACCORDING TO INDIVIDUAL
CIRCUMSTANCES AND IS
SUBJECT TO CHANGE



IHT

Inheritance Tax (IHT) is applied upon death at a rate of 40 per cent on assets worth over £325,000 (2017/18 tax year). An additional tax-free allowance of £100,000 was recently added in relation to family homes.

Despite this, the rise in house prices has led to more people than ever becoming subject to IHT. Indeed, in the 2016/17 financial year UK Government IHT receipts reached a record high of £4.8bn¹. If you think your estate may be required to pay IHT – a tax which can potentially be entirely avoidable with some prudent forward planning – there are several things you can do to mitigate what you might be currently on course to pay.



Divorce

The latest statistics show that for every 1,000 opposite-sex marriages, 8.9 end in divorce². Certain assets, such as an inheritance, may be deemed 'non-marital' by the courts, but there's no guarantee that any inheritance you have received or plan to pass on will be ring-fenced in this way.

Many couples choose to safeguard assets such as inheritance by signing a prenuptial or postnuptial agreement, and, while not legally binding in the UK, they can significantly influence a court's decision.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/619800/May17_Receipts_NS_Bulletin_Final.pdf; ²<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/divorce/bulletins/divorcesinenglandandwales/2016>



Care costs

The average cost of a place in a residential care home in the UK is currently above £30,000 a year. For people with more complex needs, this can rise to over £40,000⁴. Anyone with over £23,250 in assets is currently ineligible for financial assistance, and the government has delayed a proposed cap on the cost of care until 2020.

If you are above the £23,250 limit you are obliged to pay the full cost of your care, and any outstanding amount can be claimed from your estate upon death. While there is no way to avoid paying for your care, there are a number of solutions available which enable you to cover your own costs and ensure you are still able to provide for loved ones after you're gone.



Second marriages

With blended families becoming increasingly common, issues may arise when considering how to ensure your direct descendants benefit from your legacy.

If the necessary steps aren't taken to allocate your assets according to your wishes, there's no legal guarantee that your children will receive their intended inheritance.

For example, should a spouse remarry after your death, it's possible that some of the assets you left them – expecting these would be passed on to your children – could go to your spouse's new partner and their children. Making provisions for children from a previous marriage, your spouse and any children you may have together are all important considerations.



In-laws

If for any reason you are uncomfortable with a son-in-law or daughter-in-law having access to the estate your child is due to inherit, perhaps in the event of a divorce or premature death, there are a number of ways in which inherited assets can be protected to follow the bloodline, or even skip a generation.



40%

Inheritance Tax (IHT) is applied on assets worth over £325,000.



8.9

of every 1,000 opposite-sex marriages end in divorce².



£33,904

is the annual cost of residential care in the UK, this can rise for more complex needs³.

For more information or to discuss any of the issues surrounding inheritance, contact your Financial Planner.

³<http://www.bbc.co.uk/news/business-39589083>; ⁴<http://www.bbc.co.uk/news/business-39589083>