



Investments



Inheritance Tax Planning  
Your Online Guide



# How to use this document

Each of the sections within this toolkit is colour coded. At the start of each subsection there will be a clickable menu which gives access to all pages within the section.

USEFUL INFORMATION

PLANNING SOLUTIONS

COULD IHT AFFECT YOUR ESTATE?

REDUCING LIABILITY

LIFETIME GIFTS

WHY YOUR WILL IS IMPORTANT

LIFE ASSURANCE

TRUSTS



## Further navigation

The navigation menu on the left of every page allows you to go to the next or previous pages by clicking on the relevant arrow.



## Home button

The home button enables you to go back to the contents page in order to navigate to other areas of the pdf.



## Section start button


Return to the start of the section you are in.

A man in a white shirt is shown in profile, focused on painting a whiteboard. He is using a yellow marker in his right hand and a paintbrush in his left hand. The whiteboard has some faint, light-colored markings on it. The background is a plain white wall.

# Useful information

This document has been designed by AXA Wealth to guide you through all the areas of Inheritance Tax Planning and provide information that you'll find useful.

To find out more visit:  
[www.axawealth.co.uk](http://www.axawealth.co.uk)



Over the past 10 years, HM Revenue & Customs have increased by nearly £340m the money it receives from Inheritance Tax\*. Merely owning your own home could mean your estate would be liable for Inheritance Tax.

\*Source: HM Revenue & Customs May 2011 [www.hmrc.gov.uk/stats](http://www.hmrc.gov.uk/stats). Crown copyright material is reproduced with the permission of the Controller of HMSO.

Inheritance Tax is currently charged at two rates on death: 0% applies to the value of your estate up to £325,000 then 40% applies to the value over this threshold (currently frozen at this level until the end of tax year 2014/15). Transfers between a married couple and civil partners are normally exempt from Inheritance Tax and defer the liability to the second death. Transferable nil rate bands mean that additional relief could be available on your death if your spouse/civil partner pre-deceases you. We have produced some educational material to help you understand Inheritance Tax, your potential liability and possible ways of reducing it.

We believe owning your own home can, potentially, contribute significantly to creating an Inheritance Tax liability. As everybody's situation is different, our material cannot give advice on the best solutions for you.

However, the material should provide you with sufficient information to help you to decide if you require personalised advice from a financial adviser.

The above information, and the information in this guide, is based on our understanding of the current law of England and Wales (1 July 2011) and HM Revenue & Customs' practice, which may be subject to change.

Tax legislation is likewise subject to change and the value of any tax benefits depends on individual circumstances.

A photograph of a middle-aged couple with grey hair, smiling and looking at a map together. They are sitting in the back of a green van, which has its rear hatch open. The man is pointing at the map, and the woman is holding it. The van's interior is visible, showing a purple and green striped cushion. The background is a bright, sunny outdoor setting.

# Planning solutions

This section is a simple guide to a range of Inheritance Tax solutions. It is only designed as a reference, and doesn't include every available option.

Each client's situation is different, so the advice you give and recommendations you make must come from your personal skill and financial knowledge and not be based on this document alone.



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# Planning solutions

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Which of the following best describes your client's requirements regarding access to capital and income for Inheritance Tax planning purposes?

Clients do not have any capital to invest but do have surplus income available

Clients can afford to give away access to their capital together with the income it produces

Clients may need access to capital and require financial security for the surviving spouse or civil partner after first death

Clients require access to their capital, need an income and cannot afford to make outright life time gifts

Clients have no need to access invested capital, but do require an income

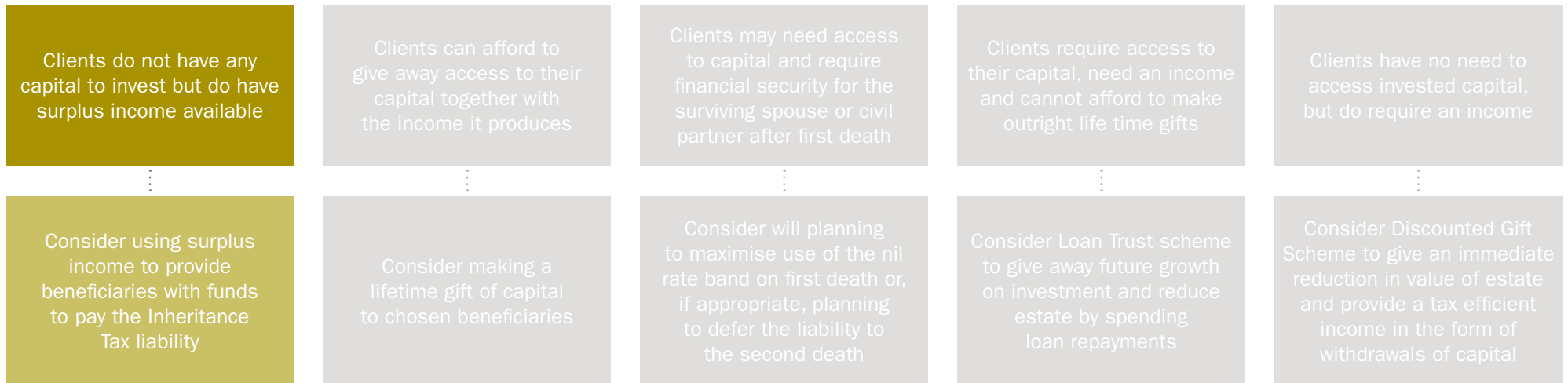
The value of any tax benefits depends on individual circumstances. The value of investments can fall as well as rise and is not guaranteed. Beneficiaries may get back less than was invested.





# Planning solutions

The following best describes your client's requirements regarding access to capital and income for Inheritance Tax planning purposes.



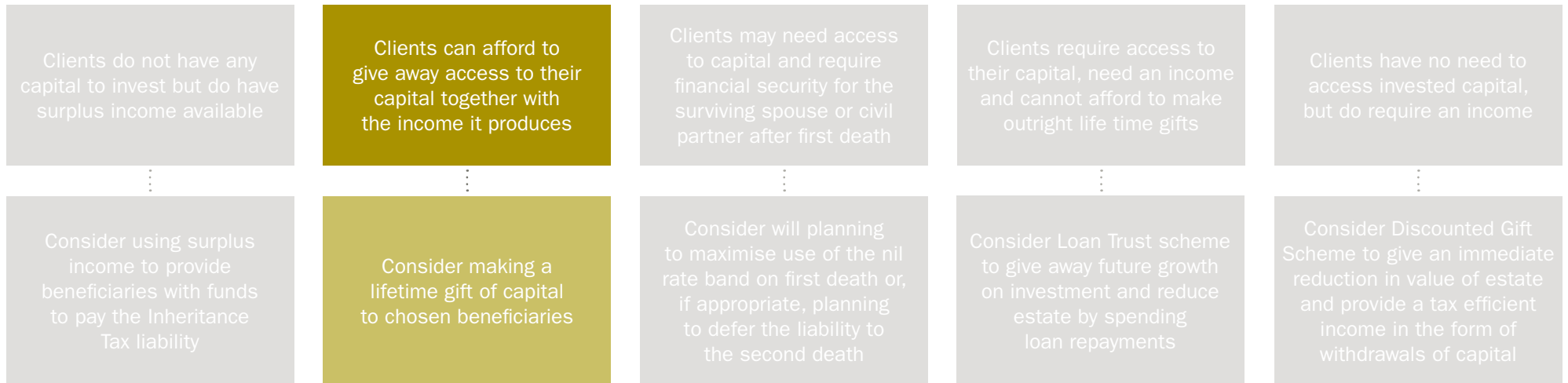
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# Planning solutions

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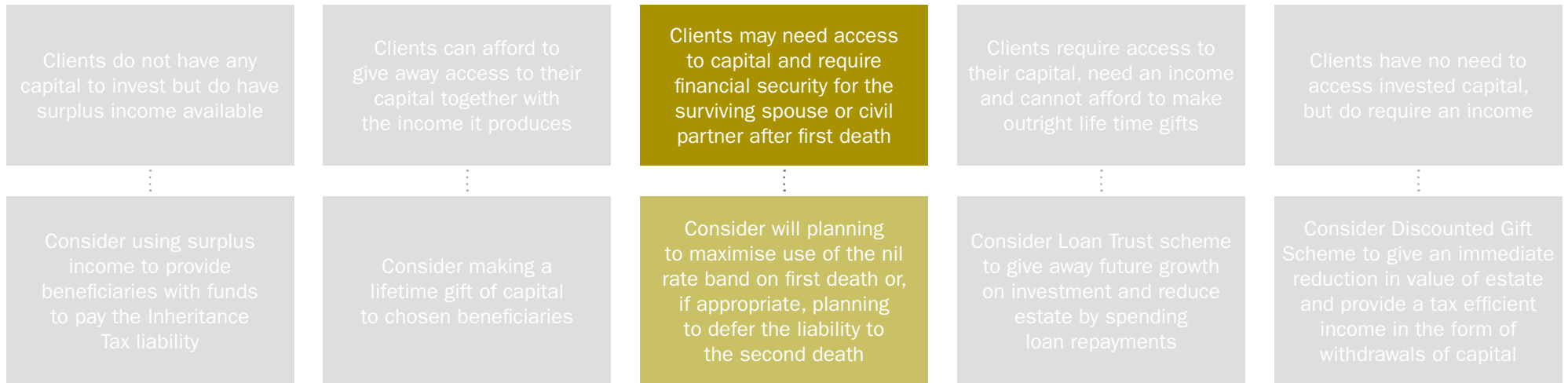






# Planning solutions

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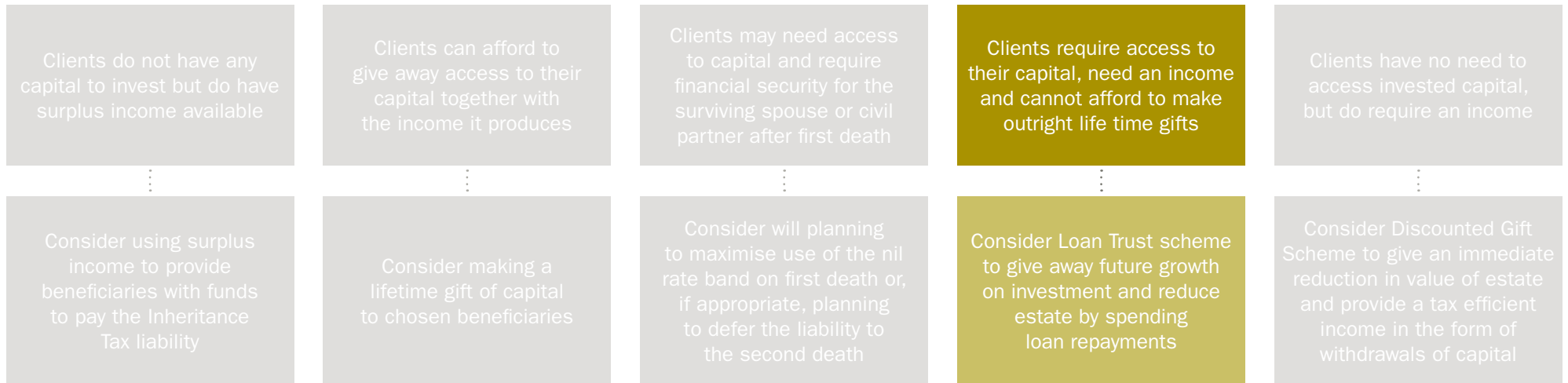
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# Planning solutions

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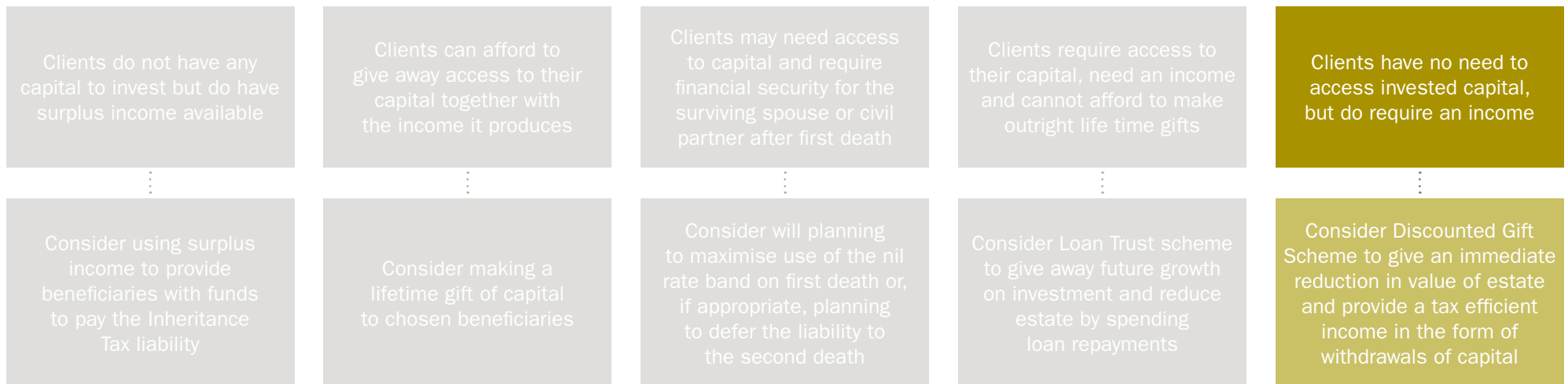
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# Planning solutions

The following best describes your client's requirements regarding access to capital and income for Inheritance Tax planning purposes.



The value of any tax benefits depends on individual circumstances. The value of investments can fall as well as rise and is not guaranteed. Beneficiaries may get back less than was invested.





# Could IHT affect your estate?

Inheritance Tax is a tax on everything you own. When you die, you may want to leave all of your estate to your loved ones, but HM Revenue & Customs may have other ideas.

- What is Inheritance Tax?
- The figures
- Why are we paying more Inheritance Tax today than 10 years ago?
- How Inheritance Tax is calculated
- The importance of keeping your estate in order



# What is Inheritance Tax?

Inheritance Tax is the tax paid on your estate, which is basically everything you own at the time you die. Sometimes it is also payable on assets you may have given away during your lifetime. Assets include property, possessions, money and investments.

Inheritance tax is charged at 40% on assets worth more than £325,000 (currently frozen at this level until the end of tax year 2014/15) left by an individual on death, unless such assets are passed to a spouse (or civil partner). This allowance is known as the 'nil rate band'.

When an individual dies and they are married or in a civil partnership, the value of their estate can normally be passed to their spouse or civil partner free from any Inheritance Tax liability.

When the surviving spouse or civil partner dies, any unused proportion of the nil rate band from the first spouse or civil partner can be carried forward to the estate of the survivor and can be utilised on the second death.

This effectively doubles the nil rate band if none were previously used. In addition, if the nil rate band has increased by the time the second spouse or civil partner dies, the current nil rate band at the time of their death is used for the calculation of the total nil rate band available.

This would normally apply to all surviving spouses and civil partners.

Even in light of this, more detailed Inheritance Tax planning may still be required.

We have therefore created this simple guide to help you understand Inheritance Tax. It has been written in line with our understanding of the current law (1 July 2011) in England and Wales, which may change in the future and is dependent upon individual circumstances.

Inheritance Tax can be a real financial headache for your beneficiaries when they need it least. For example, the Inheritance Tax bill must usually be paid before the estate can be distributed. This means that your beneficiaries may experience a delay in receiving what you have left them, especially as your savings may not be accessible to pay the bill.





# The figures

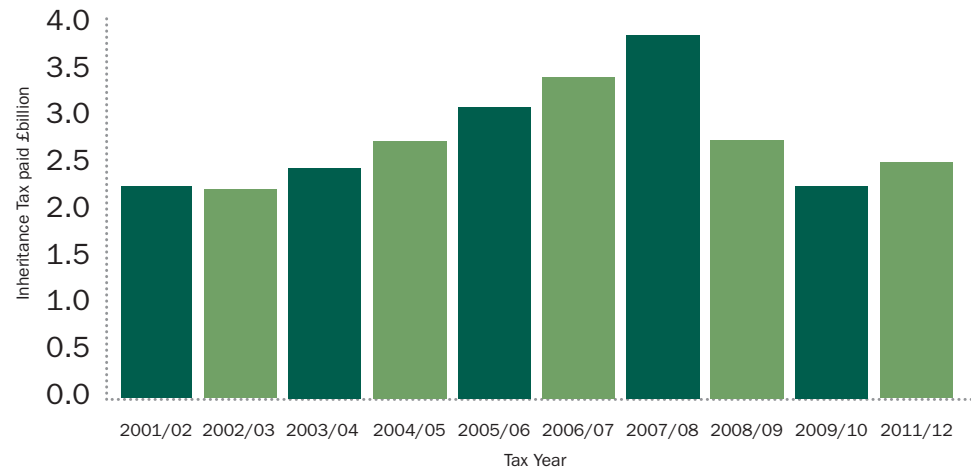
Although Inheritance Tax accounts for a relatively small amount of the total UK tax receipt, it has still grown significantly over the past 10 years. In fact, HM Revenue & Customs has increased by almost £340 million the money it gets from Inheritance Tax in the last 10 years.

£2.38bn  
Collected  
in 2001/02  
tax year

£2.72bn  
Collected  
in 2011/12  
tax year

Source:  
HM Revenue & Customs May 2011. [www.hmrc.gov.uk/stats/tax\\_receipts/menu.htm](http://www.hmrc.gov.uk/stats/tax_receipts/menu.htm).  
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HM REVENUE & CUSTOMS ANNUAL RECEIPTS FOR INHERITANCE TAX



## THE ISSUES

- Could Inheritance Tax affect you?
- Will your beneficiaries receive a reduced inheritance?





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# Why are we paying more Inheritance Tax today than 10 years ago?

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Originally, taxes on inherited wealth only affected the very wealthy or ‘super-rich’. Over 100 years ago the tax was called *Estate Duty*, which was replaced by *Capital Transfer Tax* in 1975, which in turn was replaced by *Inheritance Tax* in 1986. Today, Inheritance Tax is a real issue for a large number of people.

One reason for this could be UK house prices, which despite recent drops have still nearly doubled in average value since 2001. This has pushed many more estates over the Inheritance Tax threshold that would historically have had nothing to pay.





# Why are we paying more Inheritance Tax today than 10 years ago? *continued*

## Facts: House prices and Inheritance Tax

Over the past ten years, the rise in average UK house prices has outpaced the total increase in the Inheritance Tax threshold by a substantial margin. From 2001 to 2011, average UK house prices have increased by 93%, while the Inheritance Tax threshold for the same period has only increased by 34%. If this trend continues, and it may not, more and more estates could exceed the Inheritance Tax threshold.

The recent change to the way the nil rate band is treated means that when the first spouse or civil partner dies, any unused proportion of the nil rate band can be transferred to the survivor. Even taking this into account, there are still many people who may find themselves with an estate of sufficient value to warrant some careful planning.

YEAR	AVERAGE UK HOUSE PRICES	% INCREASE FROM PREVIOUS YEAR	TAX YEAR	INHERITANCE TAX THRESHOLD	% INCREASE FROM PREVIOUS YEAR
2001	£83,976	8.1%	2000/01	£234,000	1.3%
2002	£95,356	13.6%	2001/02	£242,000	3.4%
2003	£119,938	25.8%	2002/03	£250,000	3.3%
2004	£140,225	16.9%	2003/04	£255,000	2.0%
2005	£152,790	9.0%	2004/05	£263,000	3.1%
2006	£160,319	4.9%	2005/06	£275,000	4.6%
2007	£175,554	9.5%	2006/07	£285,000	3.6%
2008	£179,363	2.2%	2007/08	£300,000	5.3%
2009	£149,709	-16.5%	2008/09	£312,000	4.0%
2010	£162,887	8.8%	2009/10	£325,000	4.2%
2011	£162,379	-0.3%	2010/11	£325,000	0%

Sources of information: Average house prices from Nationwide Building Society statistics, first quarter of each year shown. Inheritance Tax figures from HM Revenue & Customs. Crown copyright material is reproduced with the permission of the Controller of HMSO.

### THE ISSUES

- Could the value of your property push your estate over the Inheritance Tax threshold?
- Will average UK house prices increase and outpace the increases in the Inheritance Tax threshold?







# Why are we paying more Inheritance Tax today than 10 years ago? *continued*

## What is included in my estate?

There's more to an estate than meets the eye. What makes up an estate isn't as simple as it seems. Some people have bigger estates than they realise. An estate can include your home, its contents, your car, your bank and building society accounts, your investments (i.e. shares and bonds) and your share of any assets owned jointly. It also includes certain gifts made during your lifetime.

You can deduct from your estate certain expenses, such as funeral costs and relevant outstanding bills. There are also some tax reliefs if you have an interest in a business or own agricultural property as part of your estate. Rules surrounding tax reliefs, deductions and gifts are complex and do vary; please speak to your financial adviser about your personal situation.

### A FEW EXAMPLES OF ASSETS AND LIABILITIES IN YOUR ESTATE COULD BE:

YOUR ASSETS	YOUR LIABILITIES
Home	Outstanding mortgage
Car	Loans
Bank & Building Society deposits	Credit card balances
Investments	Funeral expenses
Life cover (not in trust)	

### THE ISSUES

- Have you worked out how much your estate is worth?





# How Inheritance Tax is calculated

Shown here is a fictitious example of a simple estate. Mary died on 28 April 2011 and left her estate to her son, James, through her will. Mary's husband Tom died several years previously and made full use of his nil rate band. Consider your own assets and liabilities and then, on the next page, roughly calculate your own potential Inheritance Tax bill.

	MARY'S ASSETS	YOUR ASSETS
House	£300,000	
Investments	£75,000	
Bank account / deposits	£133,000	
Car	£7,000	
Household goods	£4,000	
<b>Total value of assets</b>	<b>£519,000</b>	

	MARY'S LIABILITIES	YOUR LIABILITIES
Funeral expenses	£2,500	
Telephone bill	£36	
Electricity bill	£68	
Gas bill	£76	
Total value of liabilities	£2,680	
<b>Total value of assets</b>	<b>£519,000</b>	





# How Inheritance Tax is calculated *continued*

## Calculating the Tax bill

There is an Inheritance Tax bill of £76,528 on Mary's estate. This could have been reduced if Mary had planned for Inheritance Tax and taken appropriate action. The question is, will you act now or leave it for your loved ones to deal with?

	EXAMPLE CALCULATIONS	YOUR CALCULATIONS
Work out the net value of the estate by subtracting the total liabilities from the total assets:	$\begin{aligned} &£519,000 - £2,680 \\ &= \mathbf{£516,320} \end{aligned}$	
Then, to calculate the total amount liable to Inheritance Tax, subtract £325,000 from the net value of the estate (frozen until tax year 2014/15):	$\begin{aligned} &£516,320 - £325,000 \\ &= \mathbf{£191,320} \end{aligned}$	
Finally, calculate 40%:	$£191,320 \times 40\%$	
<b>Total of Inheritance Tax bill:</b>	<b>£76,528</b>	

### THE ISSUES

- Is your estate likely to be affected by Inheritance Tax?
- How much will you be leaving to HM Revenue & Customs?





# The importance of keeping your estate in order

## The value of keeping your records together

When you die, Inheritance Tax won't affect you – but it can present difficulties for those around you. The situation could be made worse if your affairs are badly organised. The Executor is the person you appoint under a will to take care of the administration of your estate. Your Executor has a lot of responsibility and plenty to do. They must first obtain a Grant of Representation, which gives the legal authority to deal with your estate.

In order to do this, he or she must:

- Locate your assets
- Value your assets
- Provide information to HM Revenue & Customs
- Pay any Inheritance Tax

Bear in mind that usually Inheritance Tax has to be paid within six months and late returns can attract interest payments so it will help your Executor if all your paperwork is in one place, as they must provide full and accurate information about your affairs. The failure to do so could result in a financial penalty.

## What can I do about Inheritance Tax?

### WHAT ACTION CAN YOU TAKE NOW?

If you think your estate exceeds the Inheritance Tax threshold – or could do so in the future – there is plenty you can do now to plan for it in advance. For example, making a will with Inheritance Tax planning in mind is a good start. You could also make gifts (limits apply) during your lifetime, in order to minimise any Inheritance Tax liability, and try to make full use of any Inheritance Tax exemptions. There are also ways in which life assurance and investments can be used for Inheritance Tax planning. Whatever you do, you should think about starting now. Each person's estate is different, so we can't give advice, only information. Please speak to your financial adviser about whether you may be affected by Inheritance Tax.

### THE ISSUES

- Have you executed a will?
- Is the paperwork about your financial affairs both accessible and up to date?





# Reducing liability

According to figures from HM Revenue & Customs, the UK handed over just over £2.7 billion in Inheritance Tax (IHT) for tax year 2010/11\*.

- How to reduce your Inheritance Tax liability
- What can you do?
- Is income or capital available?

\*Source: [www.hmrc.gov.uk](http://www.hmrc.gov.uk) May 2011.

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# How to reduce your Inheritance Tax liability

IHT is charged at 40% on anything in your estate above the nil rate band (£325,000 for an individual 2011/12); and as your estate comprises everything you own including your home, savings, investments and your share of any jointly owned assets, you don't have to be particularly wealthy to exceed the nil rate band.

## How can you work out your potential liability?

- Total the value of your assets  
(e.g. house, investments, bank accounts/deposits, car, household goods, etc)
- Total the value of your liabilities  
(e.g. funeral expenses, loans, outstanding mortgage, household bills, etc)
- Calculate the net value of your estate (total assets – total liabilities)
- Calculate your total IHT liability  
(net value of estate – nil rate band £325,000 for individual 2011/12)
- Calculate 40% IHT bill (total IHT liability x 40%)  
e.g.  $((£519,000 - £2,680) - £325,000) \times 40\% = £76,528$

There has been some let-up for married couples and civil partners. Since the introduction of the transferable nil rate bands any unused proportion of the nil rate band can be transferred to the surviving spouse/civil partner, potentially doubling the nil rate band when they subsequently die.

However, there's still a chance that you'll be facing an IHT liability and with some careful IHT planning you could reduce this liability.





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# What can you do?

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*There are several things you could do:*

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## Make a will

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Failure to make a will means that if you die intestate you will have no control over how your estate is distributed and your estate may end up paying IHT unnecessarily. For example, you may have intended to leave everything to your spouse but, in the event of intestacy, other relatives may be entitled to a share and IHT would have to be paid.

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## Make gifts

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All gifts between individuals and to certain trusts (also known as potentially exempt transfers or PETs) made more than seven years before you die, as long as you don't reserve any right to benefit from the gifts, will be outside your estate and therefore not liable to IHT.

A commonly overlooked opportunity is for regular gifts out of income. For those people who have a comfortable income and make a habit of making gifts, these gifts have the potential to be exempt from IHT. There's no limit on the amount you can gift as long as it's made out of income (as opposed to from capital), regular (or at least must be intended to be regular) and doesn't reduce your standard of living so that you have to use capital to maintain income. If you use this exemption it is essential that you document it fully.





# What can you do? *continued*

## Make use of lifetime exemptions

For some gifts to become exempt from Inheritance Tax planning there are several lifetime exemptions that you can make use of, for example:

- Annual exemption                      £3,000
- Small gifts                                £250
- On marriage/civil partnership:
  - Each parent can donate              £5,000
  - Each grandparent can give        £2,500
  - Remoter relatives/well wishers    £1,000
- Gifts to UK registered charities or for national benefit
- Gift to political parties

## IHT planning solutions

If, after will planning and gifting, you are still left with a potential liability there are various other solutions that you could use. There are a number of trust schemes that you can use to improve your IHT situation but still retain some element of control over the capital. Additionally, depending on the type of trust arrangement used, you can set it up to provide you with an income. The most common forms are offered by life companies and include discretionary gift trusts, loan trusts and discounted gift trusts.

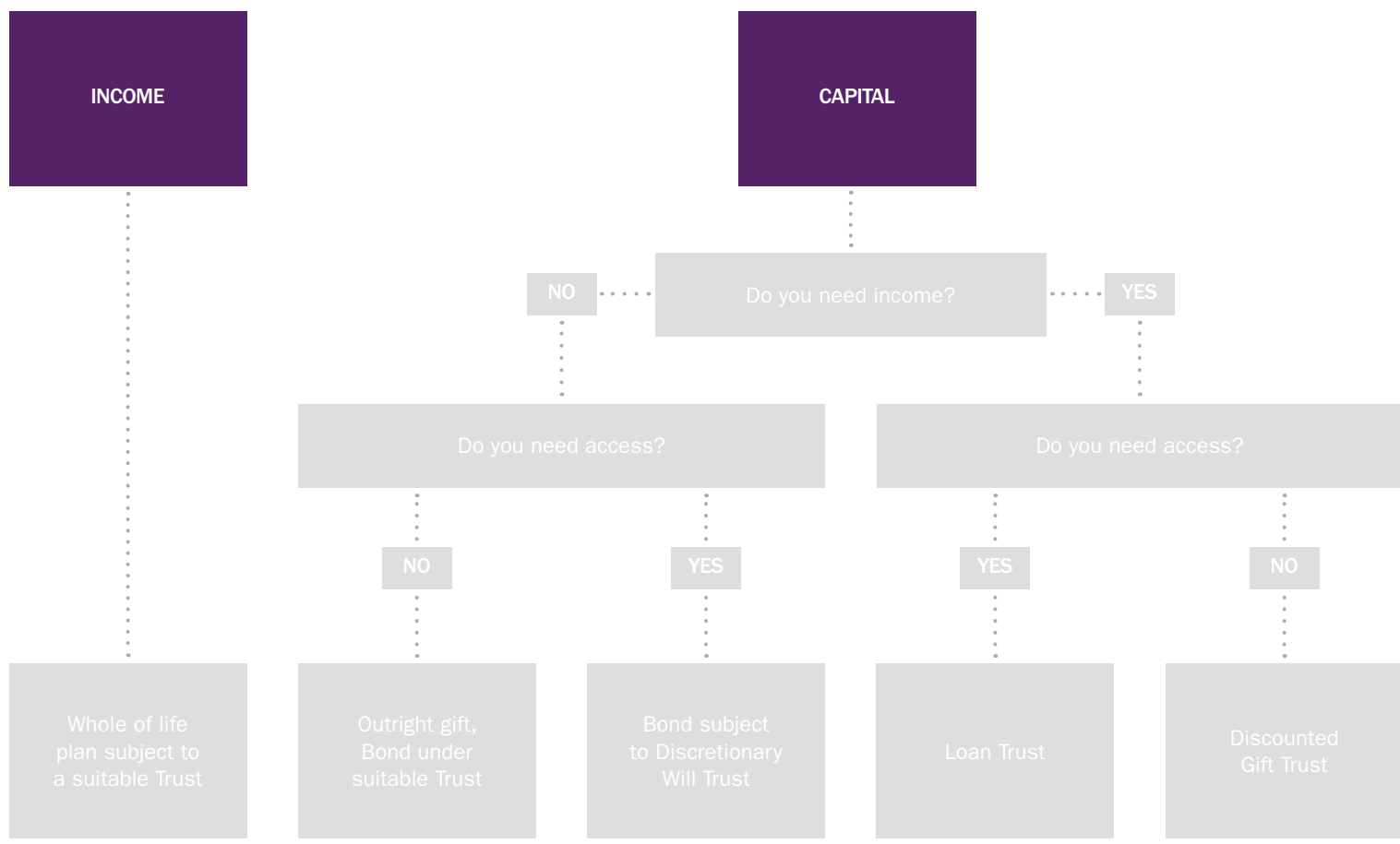






# Is income or capital available?

AXA Wealth has various products available which aim to help with IHT planning; these solutions are shown here:



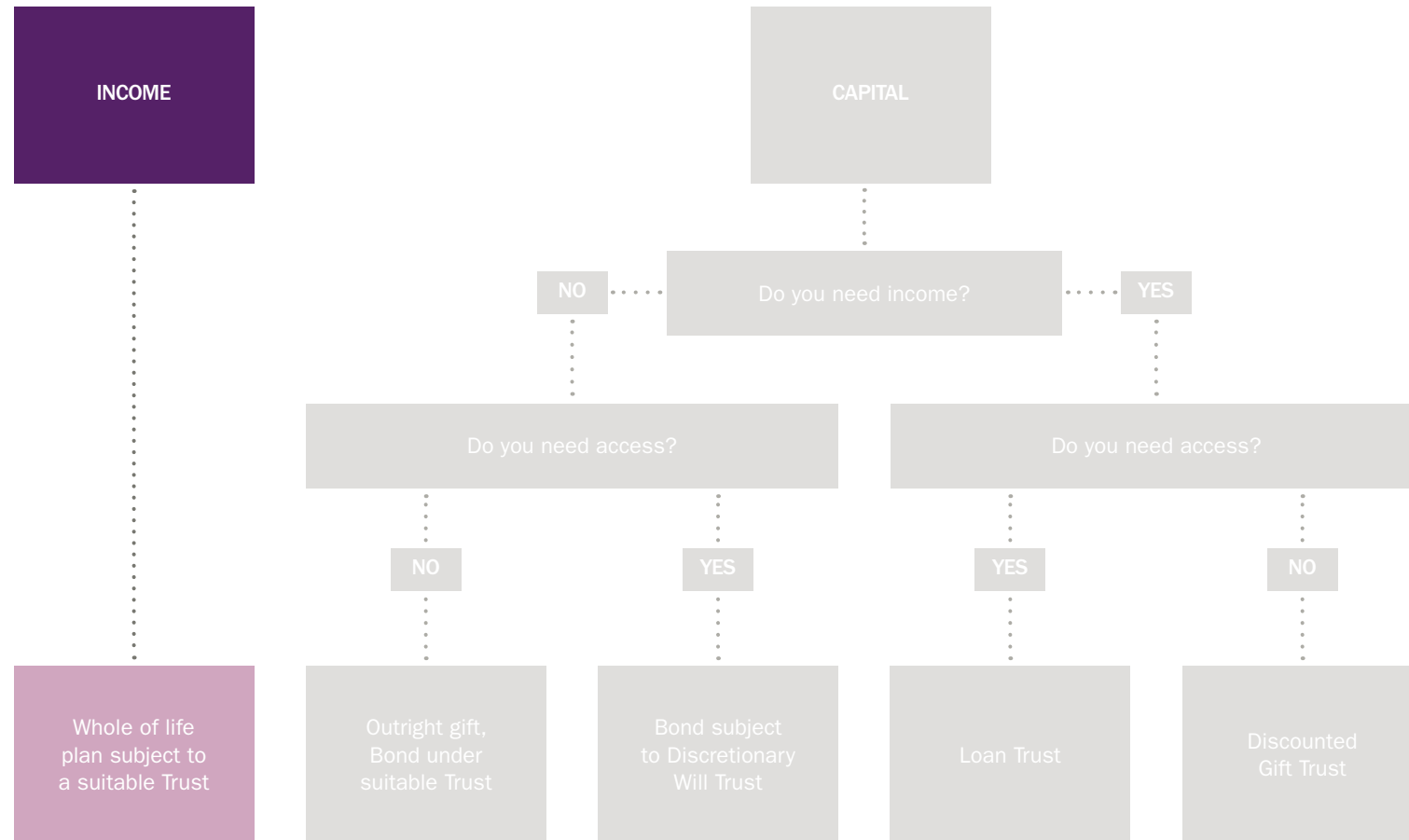
This is dependent on individual circumstances and is subject to change in the future. If you would like to know more about Inheritance Tax planning and the solutions that AXA Wealth can offer, please speak to your Financial Adviser.





# Is income or capital available? *continued*

IHT planning income solutions:



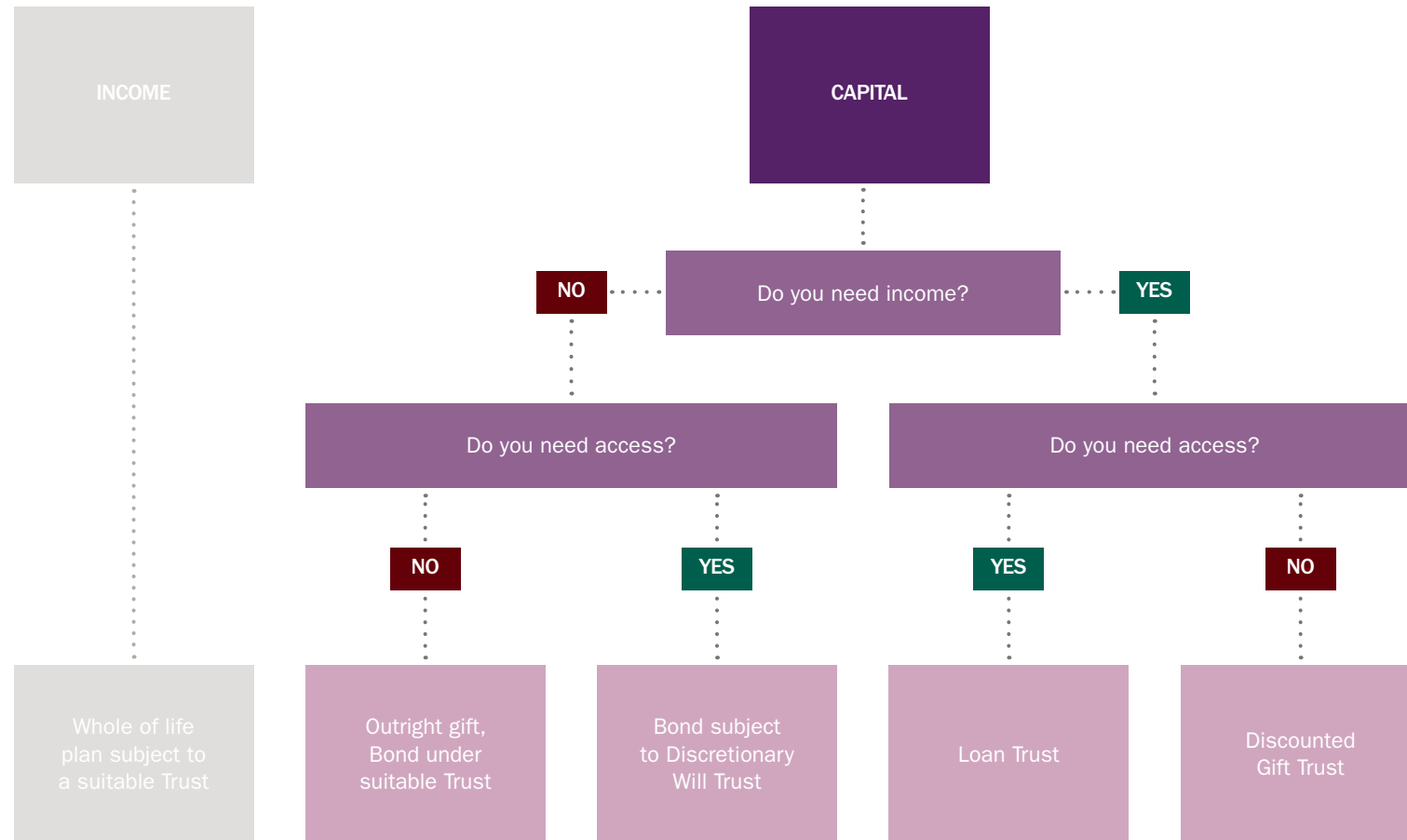
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# Is income or capital available? *continued*

IHT planning capital solutions:



However, the appropriate solution will depend upon your individual circumstances. You will need to take advice from your Financial Adviser if you're considering a trust as they can be very complicated. They all operate differently so it's important to have the one that's right for your circumstances, otherwise you could find yourself worse off.

The planning solutions mentioned above are unit linked investments, and their value can fall as well as rise and is not guaranteed. You or your trustees could get back less than you put in. Product and fund charges will also be payable.

This is dependent on individual circumstances and is subject to change in the future. If you would like to know more about Inheritance Tax planning and the solutions that AXA Wealth can offer, please speak to your Financial Adviser.





# Lifetime gifts

Over the past 10 years, HM Revenue & Customs have increased by nearly £340m the money it receives from Inheritance Tax\*. Merely owning your own home could mean your estate would be liable for Inheritance Tax.

- Lifetime gifts
- Gift terms made simple
- How does all of this fit together?
- Will there be Inheritance Tax to pay on gifts?
- Inheritance Tax gift exemptions
- Taper relief
- Further information about making gifts

\*Source: HM Revenue & Customs May 2011. [www.hmrc.gov.uk/stats](http://www.hmrc.gov.uk/stats).  
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# Lifetime gifts

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Inheritance tax is charged at 40% on assets worth more than £325,000 (currently frozen at this level until the end of tax year 2014/15) left by an individual on death, unless such assets are passed to a spouse or civil partner. This allowance is known as the nil rate band.

When an individual dies and they are married or in a civil partnership, the value of their estate can normally be passed to their spouse or civil partner free from any Inheritance Tax liability.

When the surviving spouse or civil partner dies, any unused proportion of the nil rate band from the first spouse or civil partner can be carried forward to the estate of the survivor and can be utilised on second death. This effectively doubles the nil rate band if none were previously used. In addition, if the nil rate band has increased by the time the second spouse or civil partner dies, the current nil rate band at the time of their death is used for the calculation of the total nil rate band available.

This would normally apply to all surviving spouses and civil partners.

Even in light of this, more detailed Inheritance Tax planning may still be required. One form of Inheritance Tax planning that could be considered is lifetime gifting. As you would expect, gifts are of interest to HM Revenue & Customs and they have divided gifts into different types. They do this so that it can be determined whether the gift forms part of your estate for Inheritance Tax purposes. In this guide, we concentrate on gifts made between individuals. It is based on our understanding of the present (1 July 2011) law of England and Wales and HM Revenue & Customs' practice, which may change in the future. Please note that tax benefits and treatment are subject to individual circumstances. Please see the [Trusts](#) section (page 45) for more information about gifts made by individuals through trusts.





# Gift terms made simple

## Donor/Donee

The Donor is the person making the gift, which could be cash, property, shares or other items of value. The Donee is the person receiving the gift.

## Outright Gift

This is a gift to someone where the Donor does not retain any benefit whatsoever. It's given away and that's it. The gift is definitely no longer part of the Donor's estate. So if you make an Outright Gift to someone during your lifetime, it is known as a Potentially Exempt Transfer (see section opposite). It will only become chargeable to Inheritance Tax if you die within seven years of making the gift. Outright Gifts to spouses or civil partners are normally exempt.

## Gift with Reservation

This is a gift with strings attached, so it's not fully given away. This means that you keep some benefits from the gift for yourself. A Gift with Reservation may be good for ensuring the right people receive the right assets, but it will not reduce your estate for Inheritance Tax purposes. An example often quoted is of a family home. If you give away your house to your children, but stay there without paying them a commercial rent, the house will remain as part of your estate.

## Potentially Exempt Transfer

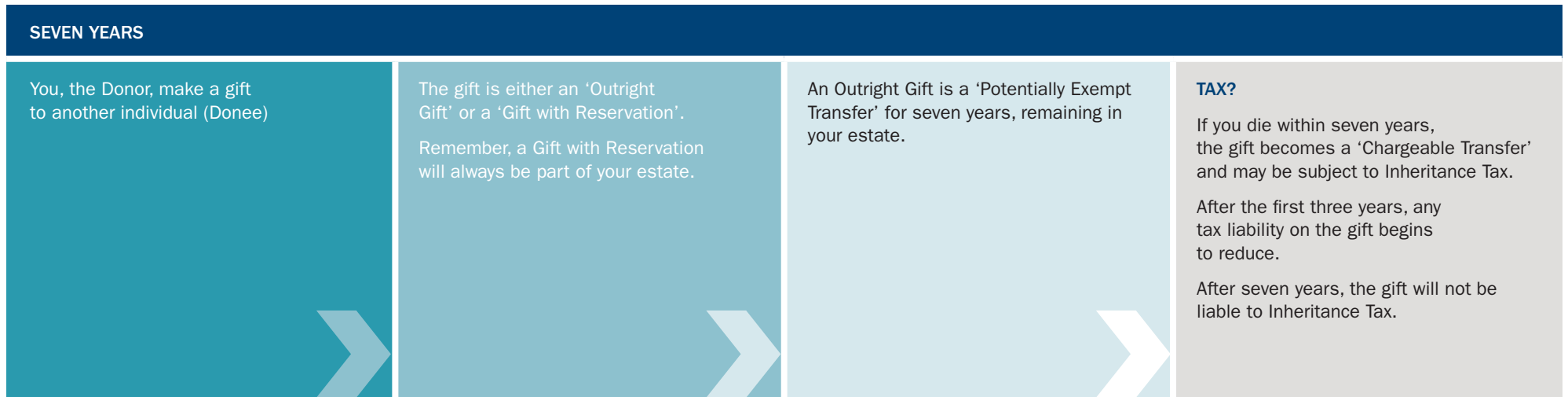
This is used to describe an Outright Gift during the period between the gift being made and it falling outside of your estate. From the date you make a gift, it is a Potentially Exempt Transfer for seven years. After this time, the gift becomes an Exempt Transfer. Should you die within the seven year period, the gift becomes a Chargeable Transfer, meaning it is included in your estate for Inheritance Tax purposes. The seven year rule is very important, as you will find out later on.





# How does all of this fit together?

Let's put this together to show how the gift terminology works in practice:





# Will there be Inheritance Tax to pay on gifts?

We previously mentioned the importance of the seven year rule. When you die, all the Potentially Exempt Transfers you have made in the previous seven years become Chargeable Transfers. They must be added together to assess how much – if any – Inheritance Tax is payable.

Very briefly, there are normally three potential outcomes:

SCENARIO	The gifts that you made are added to your estate. The total is below the taxable threshold	The gifts that you made are less than the taxable threshold. Add them to the estate and it takes it over the taxable threshold	The gifts alone are more than the taxable threshold
POTENTIAL OUTCOME	There is no Inheritance Tax to pay	There will be some Inheritance Tax to pay*	There will be some Inheritance Tax to pay

\*Assuming that the estate does not pass to an appropriate exempt person (e.g. your husband, wife or civil partner).

## DO I NEED TO KEEP A RECORD OF THE GIFTS I MAKE?

When you die, your personal representatives will need to produce evidence of gifts made in the previous seven years. If no records have been kept, this can be a lengthy task of checking through seven years of bank statements and financial records.

If you have not done so already, we would strongly recommend you start keeping a record of the gifts you make. It doesn't have to be detailed, but should include who received the gift, the value of the gift and when it was made. It could also be said that because of the introduction of transferable nil rate bands that this has become even more important.

## WHO PAYS THE INHERITANCE TAX ON GIFTS?

If you die within seven years of making a gift and there is Inheritance Tax liable on it, the Donee is primarily liable for paying the tax. If not planned for, this may create financial difficulties for your loved ones years after they received the gift.







# Inheritance Tax gift exemptions

The good news is that there are a number of exemptions, including those summarised below. HM Revenue & Customs can supply you with a full list.

<b>GIFTS TO YOUR HUSBAND, WIFE OR CIVIL PARTNER</b>	Any gift to a spouse or civil partner is normally exempt from Inheritance Tax. If you are UK domiciled but your spouse is not UK domiciled, any gifts you make will only be exempt from Inheritance Tax up to the value of £55,000. Typically, UK domicile means that your country of origin is considered to be the United Kingdom. Normally, this will be based upon the domicile of your father. If you are UK domiciled, your worldwide estate will be subject to Inheritance Tax on your death.
<b>MAINTENANCE PAYMENTS</b>	This exemption category includes certain maintenance payments for your spouse, civil partner and your ex-spouse or ex-civil partner. It also includes payments for the maintenance or care of dependent elderly relatives and payments for the maintenance, education or training of your children up to the end of the tax year after reaching age 18 or, if later, ceasing full-time education or training.
<b>WEDDING GIFTS</b>	There are some restrictions on this to make sure you don't give too much away. Basically it's £5,000 for each of your children, £2,500 for your grandchildren and great grandchildren, and £1,000 to anybody else.
<b>GIFTS TO INSTITUTIONS</b>	There is a great deal of scope here. The list includes: gifts of any amount to UK based charities; national museums; universities; registered housing associations and qualifying parliamentary political parties.
<b>SMALL GIFTS</b>	These are gifts totalling not more than £250 in any tax year. This applies to one gift or several. This cannot be used with other exemptions.
<b>OTHER GIFTS</b>	Up to £3,000 in any tax year can be given as gifts in addition to the above exemptions. If this exemption of £3,000 is not fully used, the surplus can be carried forward for one year only.



# Taper relief

## Is there any allowance for gifts made within the seven years before death?

Yes, and it could be argued that it is best to take advantage of it sooner rather than later. It is called taper relief, and is available on certain gifts. As a basic formula, if the total of any Outright Gifts made in the last seven years, exceeds the nil rate band of £325,000 (currently frozen at this level until the end of tax year 2014/15), then the amount of chargeable transfers over this amount are liable to Inheritance Tax at a rate of 40%. Taper relief will reduce the amount of tax payable, as shown in the table below, if the gifts were made three years or more before you die. Let's be clear that it reduces the amount of tax payable on a gift, not the chargeable value of the gift.

COMPLETE YEARS BETWEEN THE GIFT AND DEATH	TAX PAYABLE ON A GIFT IS REDUCED BY
0-3	0%
3-4	20%
4-5	40%
5-6	60%
6-7	80%
7+	No Tax

Let's look at an example of a gift of £100,000 in excess of the Inheritance Tax threshold. Ignoring any increase in the Inheritance Tax threshold and any exemptions that may have applied, let's see how the amount of tax payable reduces over time, assuming that the Donor dies at different periods between the date of gift and death.

COMPLETE YEARS BETWEEN THE GIFT AND DEATH	TAPER RELIEF	TAX PAYABLE ON A GIFT OF £100,000 IF YOU DIE IN THIS PERIOD
0-3	0%	£40,000
3-4	20%	£32,000
4-5	40%	£24,000
5-6	60%	£16,000
6-7	80%	£8,000
7+	No tax	None



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## Further information about making gifts

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Your legal or financial adviser could help you work out a strategy for making gifts that helps you plan for Inheritance Tax.

Further detailed information is available from HM Revenue & Customs ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)).





# Why your will is important

This section covers what can happen if you die without making a valid will. Legally, this is known as 'dying intestate'. Here, the legal rules of intestacy apply in a very specific manner. In fact, you may even be surprised where your money can go, particularly if you have no children.

- What happens if there is no will?
- If you haven't made a will, find out where your money goes
- A guide to who gets what
- Take action



# What happens if there is no will?

Making a will is your first step to make sure your estate is distributed as you wish. It can also be a useful tool for Inheritance Tax planning.

If you have dependent children, making a will could be particularly important. It can state what arrangements should be made for the children should either one or both parents die.

## Making a will makes good sense

Let's briefly consider why writing a will makes good sense. To start with, you as an individual can currently leave up to £325,000 (frozen at this level until end of tax year 2014/15) free of Inheritance Tax to anyone in your will. There is normally no Inheritance Tax liability if all of your estate is left to a surviving spouse or civil partner. Following the change to Inheritance Tax introduced in the Pre-Budget Report on 9 October 2007, if the Inheritance Tax threshold (nil rate band) of the first spouse/civil partner to die is not fully used on the first death then the unused proportion can be used on the survivor's death. This effectively doubles the threshold if none of it was previously used. It is worth considering that if you are not married or in a registered civil partnership, your partner will not automatically inherit anything unless there is a will in place. As a consequence, your partner could be left with serious financial or practical difficulties. So making a will could be one of the most important things you could do for them.

If you believe your estate is in excess of £325,000, or £650,000 if you are planning as a married couple or civil partners, then please speak to a Financial Adviser about your options.





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# If you haven't made a will, find out where your money goes

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If you die without leaving a will, your estate will be distributed according to the rules of intestacy.

**Click here** to see a guide to who gets what. The chart represents AXA Wealth's understanding of the law of England and Wales on 1 July 2011.

It is for information purposes only and does not constitute legal advice. The intestacy laws vary depending on whether you live in England & Wales, Scotland or Northern Ireland. To find out what rules apply to you, visit [www.hmrc.gov.uk/cto/customerguide/page14-1.htm](http://www.hmrc.gov.uk/cto/customerguide/page14-1.htm)



# A guide to who gets what

Do you have a wife, husband or civil partner?

YES

NO

Your estate passes to your wife, husband or civil partner.

NO

Is your estate worth £250,000 or more?

YES

Do you have any children? (Step-children do not inherit under the rules of intestacy. Adopted and illegitimate children do).

YES

Your estate is shared equally between your children. If any children are deceased, their share goes to their children.

Your wife, husband or civil partner gets £250,000 plus a 'life interest'\*\* in half of the remainder. The rest is shared by your children. On the subsequent death of your spouse or civil partner, their half of the remainder goes to your children. Where any children are deceased, their share goes to their children.

YES

Do you have any children? (Step-children do not inherit under the rules of intestacy. Adopted and illegitimate children do).

NO

Are your parents still alive?

YES

Your estate is shared equally between your parents. A sole parent takes all.

Your wife, husband or civil partner gets the first £450,000 plus half the remaining balance. The rest goes to your parents. A sole parent gets the entire share.

YES

Are your parents still alive?

NO

Do you have brothers or sisters?

YES

Your estate is shared equally between your brothers or sisters. If any are deceased, their share goes to their children.

Your wife, husband or civil partner gets the first £450,000\* plus half the remaining balance. The rest goes to your brothers and sisters. If any are deceased, their share goes to their children.

YES

Do you have brothers or sisters?

NO

Do you have half-brothers or sisters?

YES

Your estate is shared equally between your half-brothers and sisters. If any are deceased, their share goes to their children.

NO

Do you have brothers or sisters?

NO

Are your grandparents still alive?

YES

Your estate is shared equally between your grandparents. A sole grandparent takes all.

NO

Your estate passes to your husband, wife or civil partner.\*

NO

Do you have aunts or uncles?

YES

Your estate is shared equally between your aunts and uncles. If any are deceased, their share goes to their children.

NO

Do you have half-aunts or uncles?

YES

Your estate is shared equally between your half-aunts and uncles. If any are deceased, their share goes to their children.

NO

The crown takes it all!

\* The law requires that your husband, wife or civil partner must survive you by 28 days in order to benefit.

\*\* A 'life interest' is an interest under a trust under which your spouse or civil partner is entitled to the income generated by the trust fund.





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# Take action

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The chart shows you what can happen to your money if you die without making a valid will. If you need more encouragement to make a will, please read on.

## FOUR THINGS TO THINK ABOUT NOW

- Who will look after any dependent children and who do you want to benefit from your will?
- Who is going to be your personal representative – the person – or persons – who will look after your estate following your death?
- How much money and what property and possessions do you have? The **Could IHT affect your estate** section (page 12) offers advice for calculating this.
- Following the changes in the Pre-Budget Report of 2007 any persons married or in a registered civil partnership should also consider keeping accurate records. On death your executors should be able to assess if you have any unused nil rate band and make this amount known to your surviving spouse or civil partner. A guide to this can be seen on HM Revenue & Customs' website.

## HOW DO I MAKE A WILL?

If you wish, you can make a will yourself. However, you should only consider doing this if the will is going to be very straightforward.

It is generally advisable to use a solicitor to write a will or check the will you have written to ensure it will have the effect you want. It is easy to make mistakes and errors, which will usually cause problems after death. A solicitor can also help write a will in a way to help reduce paying more Inheritance Tax than is necessary.

There are certain criteria that a will should meet to be valid. For example, it must be:

- made by a person of sound mind and aged 18 or over;
- in writing;
- signed and dated by the person making the will in the presence of two witnesses; and
- signed and dated by the two witnesses, who (including their spouse or civil partner) cannot be beneficiaries from the will.







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## Take action *continued*

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The chart shows you what can happen to your money if you die without making a valid will. If you need more encouragement to make a will, please read on.

### **KEEP YOUR WILL SAFE AND REVIEW IT FROM TIME TO TIME**

When your will is completed, you should store it in a safe place and make sure someone knows where to find it. You should review your will every couple of years or after any big changes in your life. Divorce, separation, marriage and the birth of a child are all appropriate times.

### **WHERE CAN I GET MORE INFORMATION?**

We have only given a summary of information about making a will in this guide. For further information, you could contact STEP (Society of Trust and Estate Practitioners), who are the professional body for experts in trusts and estates issues. They are based at: Artillery House (South), 11-19 Artillery Row, London, SW1P 1RT. To request a list of practitioners in your area, please search online at [www.step.org](http://www.step.org) or call STEP on: +44 (0)20 7340 0500 (09:00 to 17:30 Monday to Friday).



A photograph of a person running away from the camera on a dirt path through a forest. The path is made of dry leaves and dirt, and the trees are tall and thin, with some green and some yellowing leaves. The lighting is soft, suggesting early morning or late afternoon. The person is wearing a blue jacket and dark shorts.

# Life Assurance

In this section we will explain how life assurance can help your heirs pay any liability and release their inheritance.

This may be particularly relevant to you if you have spare regular income rather than a lump sum, as the cost of life assurance is spread over time by paying regular premiums.

- Planning for Inheritance Tax
- Choose the right type of plan



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# Planning for Inheritance Tax

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Would you want your loved ones to have to pay the Inheritance Tax liability on your estate? How would they pay it? What impact would this have on their financial situation?

The current threshold is £325,000 (frozen at this level until the end of tax year 2014/15). Even with the change to the way the nil rate band operates, which now means that on the death of the first spouse or civil partner any unused proportion of the nil rate band can be transferred to the estate of their spouse/civil partner to be utilised on the second death, many people may still find themselves with an estate of sufficient value to warrant some planning.

Of course, everybody's situation is different and this section is not designed to provide you with advice on the suitability of any policy for your situation. Please speak to a financial adviser to discuss your circumstances.

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## How life assurance can help with Inheritance Tax planning

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In very simple terms, using life assurance to provide funds for an Inheritance Tax liability could be achieved by calculating what you think the liability may be, then insuring your life for the appropriate amount. Calculating the future value of your estate in relation to the potential level of Inheritance Tax at the time you die can be difficult, but your financial adviser can help you do this.

The cost of life assurance will be based on a number of factors, including your age, your current health and the level of life cover required. If the regular premiums are more than you can afford, you could reduce the amount of cover to an affordable level. Although this may not cover the whole Inheritance Tax liability, it can still help to provide for the burden on your estate. Alternatively, your heirs may be willing to assist with the payment of premiums so that the whole Inheritance Tax liability on your estate can be covered.





# Choose the right type of plan

There are many types of life assurance policy that could help with Inheritance Tax planning and choosing the right one is important. Two common types are a whole of life plan and term assurance.

## A whole of life plan

This type of life assurance will last as long as you live, paying out a lump sum when you die. It is appropriate for Inheritance Tax planning because the lump sum can be used to pay the potential Inheritance Tax liability. However, for this to work, it must be written in trust to stop the proceeds of the plan from falling into your estate, which would increase the Inheritance Tax liability. By writing the plan in trust, it means the proceeds will go to beneficiaries under the trust instead of being held within the estate.

When a plan is written in trust, it is held for the benefit of others. This means that the regular premiums are classed as gifts and they may be included in your estate for up to seven years after the date of payment. Fortunately, there are a number of annual gift exemptions that may cover the premiums. Please see the [Lifetime Gifts](#) section (page 28) for more information on these exemptions.

## Term assurance

As the name suggests, a term assurance plan can cover a specific term, for example, five or ten years. This type of assurance is unlikely to be appropriate for covering an Inheritance Tax liability because you may die after the term has ended. However, it could be used to cover any potential tax liability on large gifts you have made during your lifetime. For example, a seven year term assurance plan, written in trust, could provide your beneficiaries with sufficient funds to cover any potentially exempt transfers which may be liable to Inheritance Tax. Please see the [Lifetime Gifts](#) section (page 28) for more information on potentially exempt transfers and gifts.

There are many different types of life assurance policies and trusts and we recommend you speak to a financial adviser to find the most appropriate combination for your personal circumstances. Tax benefits are subject to change and their value depends on individual circumstances.

### SUMMARY

Just to recap, the key issues are:

- Take action. Planning now could make a big difference in the future.
- Calculate what you think your Inheritance Tax liability could be.
- Choose the right type of policy for your situation and make sure it is written subject to an appropriate trust.





# Trusts

In this section we are focussing upon the trust choices available to those wishing to use them as part of their Inheritance Tax planning. It is based on our understanding of the current (1 July 2011) law of England and Wales and HM Revenue & Customs' practice, which may change in the future.

- What is a Trust?
- Planning for Inheritance Tax



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# What is a trust?

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A trust is a legal way of giving your assets to others. It defines what assets are being given away. These could include buildings, investments or cash.

Although there are many types of trust, they all have broadly the same purpose – to detail your wishes for an asset. Some trusts, many of which we will cover later, also aim to reduce the potential Inheritance Tax liability on your estate. Trusts can be complex and we recommend you speak to a financial adviser about your personal situation.

Firstly, let's deal with some of the terms you may be unfamiliar with. The person who creates the trust is the Settlor. They must be an adult of sound mind.

Through the trust deed, the Settlor chooses the people who can benefit from the trust, known as the Beneficiaries, and states how and when they can benefit from the gifted assets.

For a trust to be effective for Inheritance Tax planning, the Settlor and sometimes their spouse/civil partner, should not be Beneficiaries. For an **Absolute or Bare Trust** (explained on page 48), the person who creates the trust is referred to as the Donor.

Finally, the Trustees are the people chosen by the Settlor to administer the trust and are the legal owners of the assets in the trust. Trustees must also be adults of sound mind and must agree to administer the trust for the benefit of the Beneficiaries. Usually it is best to appoint at least two Trustees, although in some circumstances three or four may be preferable.





# Planning for Inheritance Tax

Trusts are currently used for Inheritance Tax planning with the aim to minimise the potential effect of the 40% tax charge on assets in excess of the current threshold, known as the nil rate band £325,000 (frozen at this level until the end of tax year 2014/15) on death. The way the nil rate band operates means that on the death of the first spouse or civil partner, any unused proportion of the nil rate band can be transferred to the estate of their spouse or civil partner to be used on the second death. Even with this, there are still many people who may find themselves with an estate of sufficient value to warrant some trust planning.

Trusts, if properly set up, legally remove some or all of the assets from your estate, normally over a period of seven years.

However, you should be aware that the transfers into most trusts will be regarded as Chargeable Lifetime Transfers for Inheritance Tax purposes. This means if your total of all Chargeable Lifetime Transfers (including those made in the previous seven years) is over the current Inheritance Tax threshold, then a charge to Inheritance Tax may be payable when the trust is set up. An additional charge may arise if you die within seven years of such Chargeable Lifetime Transfers. Further Inheritance Tax charges may arise on each ten yearly anniversary of the trust, and when capital is distributed from the trust to the Beneficiaries. If you survive a Chargeable Lifetime Transfer by seven years, it will no longer be in your estate for Inheritance Tax purposes. This is an extremely complex area and we suggest you speak to an expert about your personal situation.





# Planning for Inheritance Tax

## WHY WOULD I NEED A TRUST?

Aside from potentially reducing an Inheritance Tax liability, trusts have some additional benefits:

- They allow the Trustees to determine who can receive which assets and when;
- They offer flexibility and some control; and
- They allow for timely distribution of the assets

## DEFINING WHO RECEIVES WHAT AND WHEN

A trust allows you to provide instructions to the Trustees on who will benefit, what they are to receive and when they can receive it. However, unless the trust is a bare trust, the Trustees will have the flexibility to use their discretion in certain circumstances. This is why it is important to choose Trustees carefully and ensure that they understand your personal wishes for the trust assets.

## FLEXIBILITY AND SOME CONTROL

Most trusts will allow you to include yourself as a Trustee. This will enable you, in conjunction with the other Trustees, to have a say in the administration of the trust.

## TIMELY DISTRIBUTION OF ASSETS

Assets held under a trust are normally outside your estate for Inheritance Tax purposes and can be dealt with on your death without having to wait for probate. For example, the proceeds of a life assurance policy held in trust can be paid to the surviving Trustees on production of a death certificate. This means there is no delay while your personal representatives sort out the estate.

## WHAT ARE THE MAIN TYPES OF TRUSTS FOR INHERITANCE TAX PLANNING?

Almost all trusts used to reduce the impact of Inheritance Tax will be based upon one of the following, although the names of the trusts may vary depending on the provider of the draft.

### ABSOLUTE OR BARE TRUST

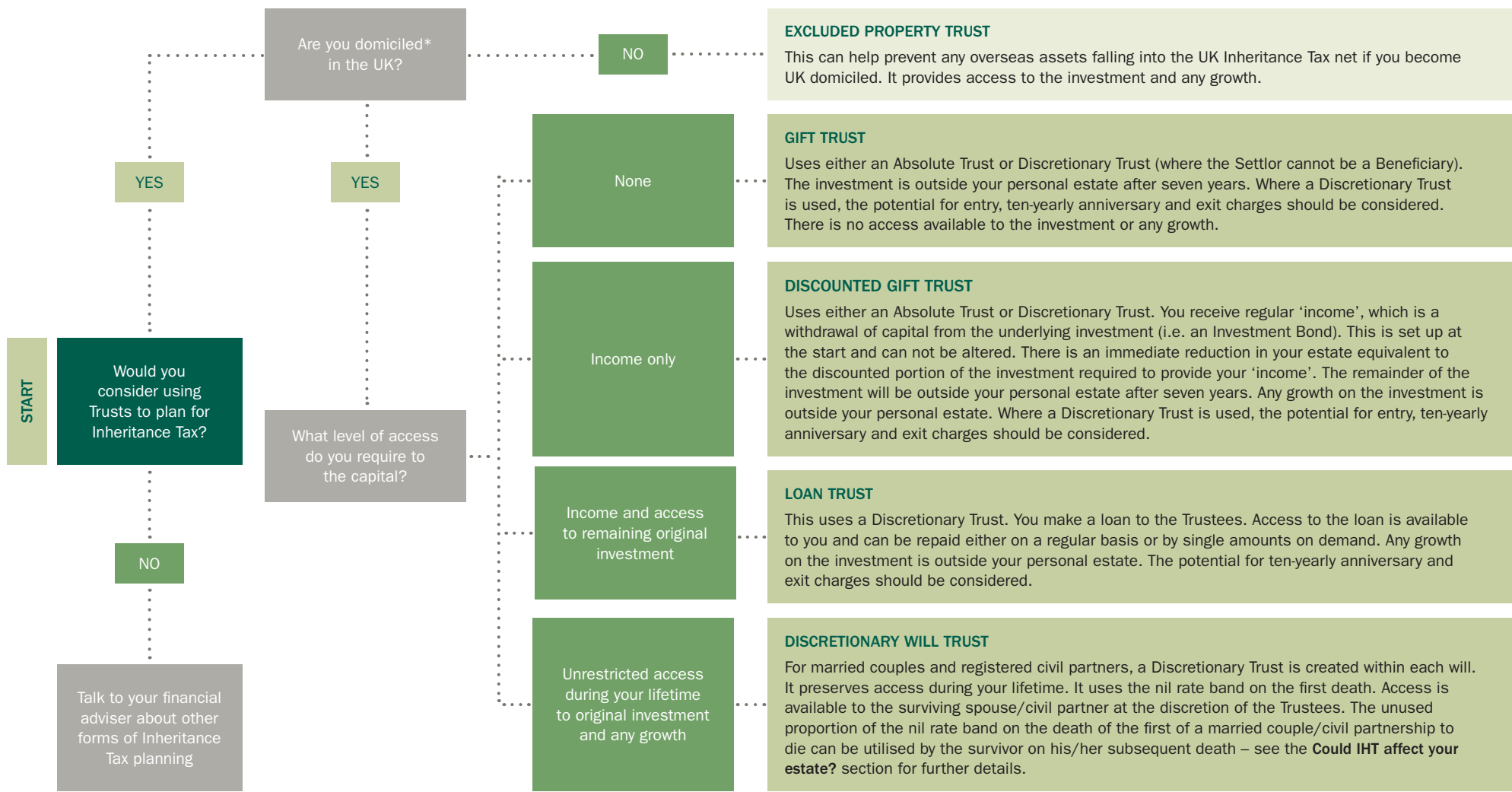
This is the simplest type of trust. The trust is set up for named individuals, often minors (children), and gives them a right to both the income and capital of the trust. It is appropriate when the intentions of the Donor are certain, as there is no ability to change the Beneficiaries. Once the Beneficiary reaches 18 years old, they can demand the trust assets are passed to them, even if the Donor does not wish this.







# Planning for Inheritance Tax



\* Typically, UK domicile means that your country of origin is considered to be the United Kingdom. Normally, this will be based upon the domicile of your father. If you are UK domiciled, your worldwide estate will be subject to UK Inheritance Tax on your death.





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# Planning for Inheritance Tax

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One key benefit of this type of trust is that transfers of assets to it are not classed as Chargeable Lifetime Transfers. Therefore, no matter what size the transfer is, there will be no charge to Inheritance Tax at outset or on each ten-yearly anniversary. Instead, the transfer would be a Potentially Exempt Transfer.

If the Donor survives the transfer by seven years, it will fall out of the estate for Inheritance Tax purposes.

For more information on Chargeable Lifetime Transfers and Potentially Exempt Transfers, please see the *Lifetime Gifts* section.





# Planning for Inheritance Tax

## DISCRETIONARY TRUST

This type of trust offers much greater flexibility as no Beneficiary has a specific right to either income or capital from the trust. The Trustees have the discretion to decide who will benefit from a selection of Beneficiaries. They also choose the amount and timing of any benefit.

## INTEREST IN POSSESSION TRUST

This type of trust gives one or more of the Beneficiaries the right to income produced from the trust assets or enjoyment of the underlying assets. Sometimes known as a Life Interest Trust, the Beneficiary with the life interest (the life tenant) has a right to the trust income/enjoyment of the trust assets for life or for a fixed period. Other Beneficiaries (the remaindermen) are normally entitled to the trust's assets on death of the life tenant or on expiry of the fixed period. This is most commonly used in wills to give a surviving spouse an income, but to eventually enable the remaining capital to pass to others (e.g. children).

Most of these trusts contain a 'power of appointment', which allows the Trustees to appoint some or all of the trust's assets to the Beneficiaries, or replace the original life tenant with a new life tenant. The range of Beneficiaries and any restrictions on who these can be will be contained within the terms of the trust.

Following the Finance Act 2006, lifetime transfers into Interest in Possession Trusts will, broadly speaking, be treated the same as transfers to Discretionary Trusts. This is a complex matter and specialist advice should be sought before considering an Interest in Possession Trust.

## WHAT DO I NEED TO CONSIDER?

As with most things, setting up a trust is essentially about choice and in this case what you want to achieve is key. The taxation implications are also an important consideration and are subject to individual circumstances. Follow our [flow chart](#) on page 49, which gives you an idea of the questions you need to consider and what this may mean to you. It is essential that you seek the advice of a specialist to discuss which assets you should put in trust and which type of trust is appropriate.

## WHERE CAN I GET MORE INFORMATION?

Before setting up a trust you should seek the advice of experts. The Society of Trust and Estate Practitioners (STEP) is a professional body specialising in trusts and estates. Please see [www.step.org](http://www.step.org) for more information.





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If you do not have a financial adviser you can find one in your area by contacting the Institute of Financial Planning on 0117 945 2470 or at: [www.financialplanning.org.uk](http://www.financialplanning.org.uk).

### CONTACT US

If you wish to obtain information on an existing AXA Wealth policy or would like to discuss an application which has already been sent to us, please contact:

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