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Heir necessities

Carl Lamb, managing director of Almary Green Investments, on how to convince clients of the importance of inheritance tax planning

The effect of inheritance tax on estates is often overlooked in financial planning. There can be the attitude that inheritance tax is “not my problem as I will not be here to worry about it” or that IHT planning is costly. People may also be unaware of the many exemptions and planning solutions that could mitigate inheritance tax. How can advisers get the message across that IHT planning is important?

Putting a thorough planning strategy in place is key to ensuring a client’s wishes about how their estate should be apportioned on death are carried out.

Estate planning can also add value to a firm’s client proposition. Writing wills, using suitable trusts and gifting assets are all means of IHT mitigation but, according to the Standard Life Wills and Trusts report 2011, 51 per cent of participants had not made a will and those that had a will drafted it at a relatively late age.

The most common reason for not having a will is “I have not got round to it yet”. Another problem is getting clients to keep their wills up to date with their current wishes and making the necessary amendments after key lifetime changes such as divorce and remarriage.

Advisers can use their fact-find as a starting place for IHT planning. The majority of fact-finds include sections intended to highlight whether clients have made a will and, if so, the main provisions under it. The financial questionnaire also highlights:

- the estate’s net worth, taking into account clients’ assets and liabilities,
- details of any IHT planning or trusts that have previously been established,
- any gifts or chargeable lifetime transfers made.

Fact-find sections can be used to make clients aware of potential IHT on their estate and the implications of previous planning. It can also be the starting point for any strategy and recommendations made to the client.

The adviser should then make clients aware of the IHT gifting exemptions that can be used during their lifetime, such as the annual gift allowance, small gifts exemption, wedding gifts exemption and gifts out of normal expenditure from income.

We refer clients who require wills to local solicitors and liaise with them to ensure they are drafted according to the client’s wishes. Recent press reports

have called for the regulation of this area to protect people from rogue will-writers. There have been reports of hidden fees, will-writing firms going out of business and disappearing with their clients' wills and unsuitable wills leading to additional tax bills. Referring clients to a respectable solicitor who acts in the client's best interests is important.

Help from any professional connections can be essential in IHT planning. A bespoke trust drawn up by a solicitor may cost more than a provider's standard document but will be personalised to the client's needs and could provide greater IHT mitigation for them.

There may still be an inheritance tax charge even with planning. However, suitable protection policies can be recommended to cover any liability, with the sum insured and potential charge reviewed regularly.

The regular premiums to the protection policy are likely to fall under the gifts out of income exemption, so it is essential that the protection policy is written under a suitable trust to ensure the proceeds fall outside of the deceased's estate and are paid to the desired beneficiaries of the estate. Providers' "off-the-shelf" trusts can be used but be careful as they are generic and do not always match clients' requirements.

Provider products such as discounted gift trusts and gift and loan schemes can be useful IHT planning tools as the whole of the gift into the trust falls outside of the client's estate after seven years.

Corporate advisers should bring the use of business property relief against IHT on the sale of business assets to the attention of clients. The use of agricultural property relief on the sale of certain farmland or buildings should be discussed with farmers.

Inheritance tax planning is a simple way to ensure clients' estates on death are passed to their loved ones and not the taxman. It is a painless and cost-effective exercise, and advisers should help educate clients to the benefits.