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Out and About in the Financial World

Welcome to our newsletter sharing items that we feel may be of interest to you, our clients, as well as your family and friends.
If you read anything of interest and we can be of further help please don't hesitate to give us a call.

Happy New Year from Ben & John

Pensioners rewrite wills to avoid labour's IHT changes targeting pensions

Pensioners across the UK are updating their wills in an effort to navigate Labour's upcoming inheritance tax expansion, which will bring pensions under the 40% tax rate, as reported by The Telegraph.

Despite the rule changes not taking effect until April 2027, many wealthy savers are already making plans to shield their families from potentially substantial tax obligations. James Ward from Kingsley Napley law firm noted that clients are particularly focused on reworking their "expression of wish" forms. Since pensions are not included in wills, beneficiaries must be named separately, usually via an "expression of wish" or "nomination of beneficiaries" form.

Lawyer Russell Kaminski of JMW also confirmed a rise in clients interested in redrafting their wills, with many seeking flexible structures such as trusts that could adjust to future tax changes. The recent Budget has forced many retirees to reconsider retirement plans, as many had previously been advised to keep pension funds intact for their children to inherit without tax penalties.

The Treasury estimates that from 2027-28, an additional 38,500 estates will incur higher tax bills due to the inclusion of pensions, with another 10,500 estates impacted that would otherwise have been tax-exempt. Some pensioners are now expected to begin drawing on their pensions to reduce the taxable portion of their estate.

Kaminski suggested that clients are increasingly likely to access pension funds during their lifetimes instead of leaving them untouched.

Kieran Bowe of Russell-Cooke highlighted the value of spousal exemptions. He advised that pension holders could nominate their spouse as the beneficiary, allowing a surviving spouse to later gift the capital sum. If the surviving spouse lives another seven years, the gift would be exempt from inheritance tax.

Todays Wills & Probate November 8, 2024

The Autumn Budget announcement was accompanied by the launch of a technical consultation. The consultation is only seeking views on the implementation and processes required to bring pension within the scope of IHT. So, it's fairly safe to say that this will go ahead largely as proposed.

Find out about life insurance and tax and how you can avoid it!

Did you know that your loved ones could face a tax bill, even on your life insurance pay out, if you die unexpectedly? Here's what you need to know to make sure that doesn't happen to the people you care about most.

Key takeaways

- Life insurance provides a financial safety net for beneficiaries if you pass away
- If your estate totals to more than £325,000 or £650,000 for married couples/civil partners your beneficiaries could pay 40% inheritance tax
- To avoid paying IHT write your life insurance into a trust to separate it from your estate this ensures full payout to beneficiaries

Life insurance is a financial safety net and a form of protection insurance. At its core, life insurance is a contract between you and an insurance provider: You pay a monthly premium, and in return, if you were to pass away suddenly, the insurer would pay out a lump sum or regular payment to your beneficiaries. This payout is typically free from income tax or capital gains tax, direct benefit to your loved ones such as children or grandchildren.

The inheritance tax dilemma

However, there's a catch that could significantly affect the value of the life insurance payout: inheritance tax (IHT). If your estate—comprising everything you own, from property to jewellery, investments to cash—totals more than £325,000, or £650,000 for married couples or civil partners, your beneficiaries could be hit with a 40% IHT bill.

For instance, a £100,000 life insurance payout could be reduced to £60,000 after IHT, a substantial loss and tax liability for your family.

Your beneficiaries pay taxes if your life insurance payment forms part of your estate and becomes subject to inheritance tax .

What exactly is inheritance tax?

Inheritance tax is a levy on the estate of someone who has passed away. It's designed to tax the wealthier estates, but with property prices on the rise, more individuals find themselves within its reach. If your estate is valued at £500,000, for example, it would be £175,000 above the IHT threshold, resulting in a £70,000 HMRC tax bill for your heirs.

The 'trust' solution

But don't panic, because you can legally avoid paying that tax by writing your life insurance into 'trust'. This is a legal qualifying arrangement that separates the policy from your estate, ensuring the full payout goes to your beneficiaries without being subject to IHT.

Understanding the value of your estate

The value of an estate is the total value of all a person's assets at the date of their death, minus any debts and liabilities. It includes everything you own, and calculating this figure accurately is crucial for understanding potential IHT liabilities.

To calculate the value of an estate:

- Add together the value of all relevant assets. This encompasses property, bank accounts, valuables, shares, and insurance policy payouts, including gifts over £3,000 made in the last seven years.
- Account for any outstanding debts. This includes mortgages, loans, credit card balances, and any other debts.
- Subtract the total debts from the asset value to determine the net estate value.
- Remember to exclude costs that arise after death, such as solicitors' fees and probate cases, and keep detailed records for HMRC.

Source: Moneysupermarket

To find out more about strategies to help with inheritance tax planning including life insurance as a tool for this please contact us.