Canaccord Genuity Wealth Management

For your family's future

Preserve your wealth
for future generations

You have worked hard to build and protect your wealth and you want to make sure it continues to be preserved as far as possible, even when you die. Perhaps to help create a secure lifestyle for your friends and family, or maybe so that your wealth continues to support the causes important to you.

However, your wealth might one day be liable for inheritance tax (IHT) and, without the right arrangements in place, this could affect how much you can leave behind.

That is why it's essential to know how IHT will affect you, your relatives and any other beneficiaries, and how to make sure they do not pay more than they need.

IHT planning should be a considered process and cannot be rushed, so it is important not to plan in isolation. Instead, IHT planning should be part of an overall strategy that encompasses all your lifetime financial goals and assets, even though the constituent parts of the plan may be executed separately and at different times.

Planning is often started when you retire and designed to ensure you have a sustainable level of retirement income to cover your expenditure for the rest of your life. It should also take account of when you might need to access your capital.

How IHT works

IHT is a tax payable on the assets (such as money or possessions) you leave behind when you die. These assets, which together make up your estate, can include:

- Cash and savings in the bank
- Investments
- Properties
- Vehicles
- Businesses you own or have shareholdings in
- Pay-outs from life insurance policies not held in trust
- Pensions not held in trust
- Chattels – including art and jewellery.

Your taxable estate may also include gifts that you have made within the seven years before your death. Any liabilities or funeral costs are usually deducted from the taxable estate. In certain situations, IHT may also be payable during your lifetime.

IHT is usually paid by the executor/s of your Will or the administrator of your estate, using funds from your estate. It's due within six months of the end of the month in which you die, although if it proves difficult to sell some of the assets in the estate, it may be possible to pay the IHT bill in instalments.

It's important to keep your Will up to date, to ensure it continues to reflect your wishes and the latest legislation.

Introduction to basic IHT calculations

When you die, inheritance tax (IHT) is usually charged at a rate of 40% on the value of your estate over and above the nil-rate band of £325,000.

Your estate may pass inheritance tax free to a surviving spouse or civil partner, providing they are UK domiciled. A surviving spouse or civil partner may also inherit their late spouse's or civil partner's available nil-rate band.

Example: A single individual dies, leaving an estate of £1m

Estate:	**£1,000,000**
Less nil-rate band:	**-£325,000**
Chargeable estate:	**£675,000**
IHT charged at 40%:	**£270,000**

The rules on tax are at our interpretation only, which may alter. Tax benefits will depend on your individual circumstances.

Residence nil-rate band (RNRB)

The 'residence nil-rate band' (RNRB) was introduced in 2017. It's a separate allowance to the nil-rate band described above, and applies when someone leaves their main residence to any direct descendants (such as children or grandchildren). Both bands have now been frozen. The individual allowance is currently up to £175,000, depending on the value of your property. As with the usual IHT allowance, you can transfer it to a surviving spouse or civil partner. So if one partner dies, the surviving spouse or civil partner may inherit an IHT allowance of £325,000 plus £175,000 for their main residence, i.e. £500,000. On the death of the second partner, the couple's combined allowance could potentially reach up to £1m of allowances before their heirs have to pay IHT, although the combined main residence nil-rate band of £350,000 can only be set against the main residence.

This allowance is gradually reduced if your estate is worth more than £2m and completely exhausted for joint estates worth more than £2.7m

Example: Mrs Smith, a widow, dies. Neither she nor her late husband made any lifetime gifts and her husband's entire estate passed to her on his death. Her estate is now worth £1.5m, including a main residence valued at £900,000.

Main residence:	**£900,000**
Rest of the estate:	**£600,000**
Total estate:	**£1,500,000**
Less:	
Nil-rate bands:	**-£650,000**
Main residence nil-rate bands:	**-£350,000**
	-£1,000,000
Chargeable estate:	**£500,000**
IHT charged at 40%:	**£200,000**

Six tips to help manage the IHT due on your estate

There are many ways in which you can legitimately manage the IHT due on your estate – but make sure that any arrangements don't leave you struggling to maintain your lifestyle.

Overleaf you'll find our six tips for managing the amount of IHT your heirs will have to pay.

If you want to make use of any of these techniques, we can work with you to decide the right order in which to set them up. This is important, as doing things in the wrong order can actually harm your IHT position.

Tip 1: make the most of your allowances

Some gifts are not included in your estate for IHT purposes, even if you die within seven years of making them.

1. Spouses or civil partners can gift any amount to each other during their lifetime, as long as they are both domiciled in the UK.
2. You can make gifts to other people, of up to £3,000 in total in each tax year. This is known as the 'annual exemption'. You can carry forward a maximum of one year, so you could gift up to £6,000 in a single tax year.
3. You can make any number of gifts of up to £250 each year to separate individuals. These gifts are meant to cover things like birthday and Christmas presents. You can't combine these with the annual exemption described in the paragraph above.
4. You can make gifts to UK-established charities, national museums, universities and certain other bodies.
5. You can make gifts to people getting married, up to: £5,000 from each parent of the couple, £2,500 from each grandparent or more remote relative, £2,500 from bridegroom to bride (and vice versa) and between civil partners, or £1,000 from anyone else.

Tip 2: gift excess income

The simplest and easiest way to reduce the amount of your estate liable for IHT (other than spending it!) is to give away income not required for day-to-day expenses, i.e. 'excess income'.

This exemption allows you to give away money from surplus income, as long as the gift does not reduce your standard of living, is not from capital, and forms some pattern of regular spending. However, if you opt to do this, it is very important that you keep careful year-to-year records.

You can distribute any unspent income that otherwise simply accumulates and increases your estate. You may also be able to use this to fund a life assurance policy (see Tip 4).

Tip 3: gift assets

Making gifts of assets (cash, art, property etc) can also be an efficient way to reduce the value of your future taxable estate. However, having made a gift, it's imperative that you no longer benefit from the assets (known as 'gifts with reservation'). You must also survive for seven years to be IHT effective. Such gifts are known as 'potentially exempt transfers'. If you die within seven years, the recipient may have to pay IHT on the value of the gift.

Assets can be given to people and certain trusts. Trusts are complex, but at Canaccord Genuity Wealth Management (CGWM) we have many experienced Financial Planners who can help guide you through your options if you are considering the use of a trust.

Tip 4: insure your IHT bill

It is possible to insure your potential inheritance tax liability, particularly for assets that are difficult to gift and put into trust, such as property. If you have excess income (see Tip 2) you may be able to take out a 'whole of life' assurance policy that pays out a fixed amount to cover your potential inheritance tax liability on death.

If premiums are paid out of excess income or using your annual gift exemption of £3,000, they would not be counted as chargeable lifetime transfers. The policy should be written into trust to prevent the eventual benefit forming part of your estate.

Tip 5: leave money to charity

Leaving part of your estate to charity will reduce your inheritance tax liability on death. However much you choose to leave to charity in your Will won't be counted towards the total taxable value of your estate. This is known as a 'charitable legacy'. If you leave at least 10% of your estate to charity, you can also reduce the IHT rate on the remainder of your estate to 36%.

Tip 6: use specialist investments

There is a range of assets which qualify for a tax relief called Business Relief (BR). With an IHT portfolio* for example, once qualifying assets are held for two years, they can then achieve exemption from IHT (providing they are still held at the time of death). Many are unlisted and certain Alternative Investment Market (AIM) listed stocks qualify. This approach carries a higher investment risk when compared to other options; however, you do not have to give any assets away, you have ongoing access to your capital, and you don't have to survive for seven years – just two.

*This service should be regarded as high risk as it is exclusively focused on equities. The portfolios can include certain AIM stocks, as well as other qualifying investments. We select managers with a long track record of investing in these activities, which can include renewable energy and infrastructure projects. These companies are therefore more volatile and whilst they offer great potential, growth is not guaranteed. It is important to note that this should be seen as a long-term investment.

The current inheritance tax rules and tax treatment of AIM shares may change in the future. We strongly recommend that clients discuss their financial arrangements with their tax adviser before investing, as the value of tax reliefs available is subject to individual circumstances.

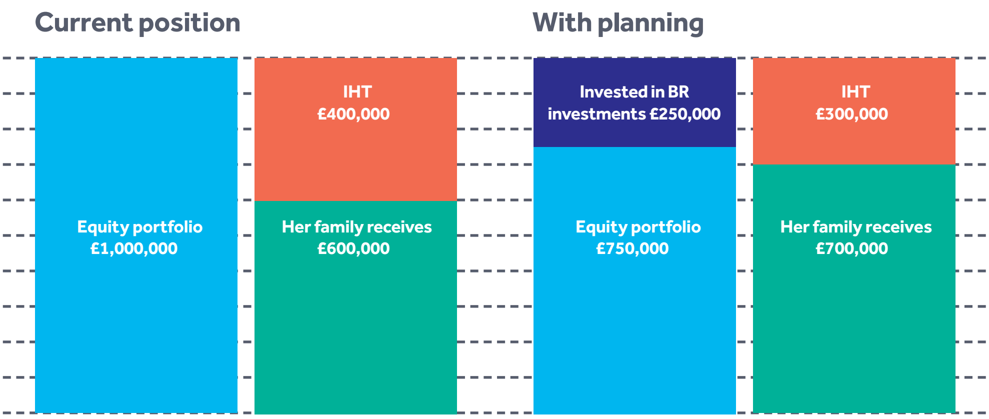
What your **beneficiaries** could save with Business Relief (BR) investments

Case study: Mrs Turquoise and her family

Mrs Turquoise wants to make sure her children and grandchildren get as much of her estate as possible when she dies.

Her assets include an equity portfolio worth £1m, and she is using her nil-rate IHT band, spousal transfer relief and residence nil-rate band against the value of the family home and other assets.

When she dies, her equity portfolio will be liable for £400,000 IHT, as shown below.



She decides to take advantage of IHT planning. If she invests £250,000 in BR investments and lives for another two years, her estate will benefit after two years even if there is no growth in her IHT portfolio.

The £250,000 BR investment should result in an additional £100,000 for the family, as the BR shares are deducted from IHT calculations.

These calculations are only an illustration and do not include income and management fees.

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Investment involves risk. The value of investments and the income from them can go down as well as up and you might not get back the amount originally invested.

Introducing our IHT Portfolio Service

Having looked through all the options, in certain circumstances we may recommend our own IHT portfolio, a relatively simple and efficient strategy for managing IHT. It benefits from Business Relief, as described on page 11, and offers growth potential to enhance your legacy.

How it works

Our IHT portfolio is invested in a diversified range of established, profitable companies chosen from the AIM.

The minimum investment into our IHT portfolio is £50,000. We will build your portfolio with shares in 15 – 30 companies, depending on the size of your investment. This concentration of shares is small enough so that each company has a positive impact on the portfolio yet is also diverse enough to reduce risk. If you are interested in learning more about our IHT portfolio, please speak to your CGWM Financial Planner.

This service should be regarded as high risk, as it is exclusively focused on equities. The portfolios are wholly invested in small capitalisation stocks. These companies are therefore more volatile and, while they can offer great potential, growth is not guaranteed.

Investment involves risk. The value of investments and the income from them can go down as well as up and you might not get back the amount originally invested.

Discover our **can-do** approach

At CGWM we will work with you to make sure you don't spend or give away more than you can afford, using cash flow modelling to create a robust forecast of your future income and expenditure.

If you already have an investment portfolio, we'll work with your Investment Manager to restructure your portfolio, so it provides you with an income that you can use for gifts or life cover premiums.

If you use CGWM for financial planning and investment management*, we can help you consider the IHT implications of your portfolio.

We are independently aligned to your needs

We can advise you on IHT planning as part of our wealth planning service, which is independent. Acting strictly on your behalf, our Financial Planners are responsible for assessing your needs, advising you on solutions and carrying them out. We are not tied to any specific products or providers, which allows us to consider all the available options and make sure you have the best structures in place to meet your financial objectives.

If you would like to know more about how we can help with your IHT and wealth planning needs, please get in touch. We would be delighted to answer any of your questions and provide more details of our service.

If you would like to read more about our wealth planning services, please ask for a copy of our wealth planning brochure.

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This service is therefore deemed to be 'restricted' as this entity does not provide advice in respect of pension or life insurance products.

Important information

Investment involves risk. The investments discussed in this document may not be suitable for all investors. The value of investments and the income from them can go down as well as up, and investors may not get back the amount originally invested.

Specific risks of the IHT Portfolio Service investing in AIM-listed companies include the potential volatility and illiquidity associated with smaller capitalisation companies. There may be a wide spread between buying and selling prices for AIM-listed shares. If you have to sell these shares immediately you may not get back the full amount invested, due to the wide spread. AIM rules are less demanding than those of the official list of the London Stock Exchange, and companies listed on AIM carry a greater risk than a company with a full listing.

Inheritance tax rates and Business Relief rules are subject to change. In addition, you must be prepared to hold your shares in AIM-listed companies for a minimum of two years or these assets will be considered part of your estate in the IHT calculation.

The tax treatment of all investments depends on individual circumstances and may be subject to change. Investors should discuss their financial arrangements with their own tax adviser, as the value of any tax reliefs available is subject to individual circumstances. Levels and bases of taxation may change.

This document is for information purposes only and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This has no regard for the specific investment objectives, financial situation or needs of any specific investor.

Where investment is made in currencies other than the investor's base currency, the value of those investments, and any income from them, will be affected by movements in exchange rates. The effect may be unfavourable as well as favourable.

Canaccord Genuity Wealth Management and/or connected persons may, from time to time, have positions in, make a market in and/or effect transactions in any investment or related investment mentioned herein and may provide financial services to the issuers of such investments.

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