



## WAY Investment Services Limited

**Benjamin Franklin once said.....**

**“Don’t put off until tomorrow what you can do today...”**

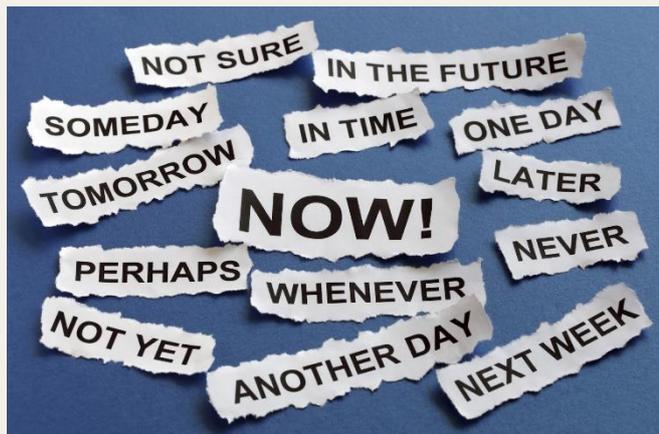
**Procrastination is rarely a good strategy, and sometimes it can be calculated as a real cost in pounds and pence.**

John Humphreys, Head of Sales at WAY Investment Services, discusses a real-life case study on estate planning and the cost in inheritance tax (IHT) that a client’s family could be faced with.

It was back in late in 2012 that Mrs T’s IFA first contacted me. Mrs T was age 66, had been recently widowed and her husband’s Nil Rate Band (NRB) for IHT had been fully used. Her IFA had recently attended one of our seminars and felt that the flexibility of the WAY Flexible Inheritor Plan would appeal to his client. The Adviser and I met to discuss the potential case and he put forward a recommendation to his client to gift an amount equivalent to her NRB via the plan.

For whatever reason, Mrs T decided not to proceed with the recommendation at that time. But each time I saw the IFA over the following years, we would discuss Mrs T and how much IHT she could potentially have saved had she proceeded with his recommendation.

Fast forward to 2018 and a new IFA joins the firm and contacts me to discuss Mrs T’s IHT liabilities. I immediately recall the case and we arrange to meet to discuss it in more detail.



Mrs T is now 72 and her net estate is valued at £2,550,000. I immediately identified that her estate would not qualify for all of the available Residence Nil Rate Band (RNRB), as her net RNRB-assessable estate exceeded the £2m threshold at which tapering begins. With an average life expectancy of 16 years (as per the ONS Average Life Expectancy data released in 2016), Mrs T could potentially conduct two rounds of NRB-planning and reduce her estate below the £2m RNRB taper threshold. She would then still have her NRB back to offset against her estate following her death.

The new IFA, once again, recommended Mrs T either gift her NRB via the WAY Flexible Inheritor Plan or £467,222 via the unique WAY Duo Inheritor Plan (which combines a Discounted gift Trust and a WAY Flexible Inheritor Plan in one trust deed). Subject to underwriting, with the latter option, this would result in a net transfer of £325,000 and therefore avoid an entry tax charge for a Chargeable Lifetime Transfer. It would also likely avoid any Periodic Charge, as at least 40% of the trust fund would have been paid out to Mrs T in the first 10 years. Once again, Mrs T did not proceed with his recommendation.

Fast forward again to May 2020, and I mentioned this potential case to the IFA again. We discussed that had Mrs T proceeded with the planning initially recommended in late 2012, she could have recycled her NRB again late in 2019/early 2020 and her RNRB assessable estate would now be below £2m. The original proposed gift of £325,000 would have been growing in the trust (not in her estate), with the growth immediately outside of her estate and the original gift removed from her estate in late 2019/early 2020.

On recycling her NRB in late 2019/early 2020, her estate would have been below the £2m RNRB tapering threshold. Assuming she met the other RNRB qualification criteria, Mrs T could have immediately reclaimed all of the RNRB allowances for herself and that of her late husband, even though he died before the RNRB was even conceived, let alone introduced. In the 20-21 tax year, that would give her an extra £350,000 of allowances (via the RNRB), resulting in an immediate £140,000 IHT saving (40% of £350,000). Plus, the original gift and growth in her 2012/13 trust would be outside of her estate, along with future growth in her 2019/20 trust too.

Thankfully Mrs. T is still alive (and I believe well). According to the latest ONS Average Life Expectancy Tables, at 74, Mrs T has an average life expectancy of 14 years, so she can still potentially do all of the planning outlined above. But if she wishes to save her family hundreds of thousands of pounds in unnecessary IHT liabilities, she really ought to get a move on.

June 2020