Investec
Wealth & Investment

Estate Planning explained

“Our job is to offer you, as a client or potential client, a service of the highest possible standard delivered by high calibre people with expertise and integrity. It is as simple as that ”

Jonathan Wragg, CEO

Introduction

If you own more than £325,000 of assets, HMRC will charge tax up to 40% on all that you own over this amount when you die. Inheritance Tax (IHT) is now so significant, and is affecting more of us than ever, that HMRC itself has forecast it will receive around £21 billion between 2014 and 2018. In fact, IHT now raises a similar amount every year as duty on spirits and beers, and only marginally less than Capital Gains Tax.

It is perhaps not just the numbers themselves that compel us to take action – it is the feeling shared by many that this last tax to impact us might just be too much, especially as we have all paid our fair share of taxes along the way in saving what we have.

You aren't alone in considering the impact it can have on a legacy to your children, grandchildren or wider families, but the tax is not completely out of your hands.

Whether you are a taking a principled stand or a practical one, you do have some control.

> "Inheritance Tax is, broadly speaking, a voluntary levy paid by those that distrust their heirs more than they dislike the Inland Revenue"
>
> Lord Jenkins, MP

Tax and protection – which is your motivation?

Although we are all individuals and our thought processes are unique, there are many things we have in common. The desire for protection and fairness are two of those things.

For most clients, when their Financial Planner first mentions 'IHT planning' the initial perception is that we mean 'saving tax'. While that is true in many cases, and when you see some of these tax bills on paper it is entirely understandable, it misses a major part of why planning of this nature is so important.

Protection

Money, or more importantly, the freedom and choice it affords those we choose to give it to, can very easily be attacked and diluted or squandered and not used in the way it might have been intended.

A sad fact is that families don't always live happily ever after – and inheriting too much too soon can also cause unintended challenges both for the person giving the money, as well as the person receiving the gift.

Finally, we also know that one of the main concerns of giving away too much too soon is the fear that your own security and peace of mind could be compromised.

The worry about needing and paying for care in our later years looms large – this is understandable, and we are sensitive to these matters.

What should I do first?

It may be unexciting, but a properly drafted Will and Power of Attorney are crucial. The most elaborate planning can be undone simply by not laying the foundations.

As with wealth management firms not all being equal, the same is true of solicitors. We make a point of working with those who share similar values, and who are experts in their chosen field.

If you are not sure where to go or who to see and would like to be introduced to an individual or a firm we know and trust, please ask.

The next stage is having an awareness of your allowances and using them. We can each freely:

- Make certain gifts to others, sometimes with restrictions
- Give away any excess income, provided doing so does not compromise our own standard of living
- Give to charity.

Anybody making gifts that aren't covered under an exemption will need some well laid plans. For most clients, the impact of these allowances is minor and more action will be needed.

Sensible spending is also a legitimate form of tax reduction, but as with giving too much away too soon, care also needs to be taken not to spend too much too quickly.

What are the next steps?

IHT planning is not an all or nothing exercise, but the next stages do involve more structural planning and the help of a well qualified Financial Planner.

You might find yourself at a bit of a fork in the road, perhaps what we could call the 'turn left or turn right' decision.

Timescale and how aggressively you want to attack the situation are probably the pivotal questions at this point. Your health and age are also key factors.

Do you want or need to see the tax savings within the next two years? Or can you wait longer, say seven years or more?

If you can't wait, you will need to turn left.
If you can wait, you can choose either, or both.

Turning left

The road will be shorter – the tax savings can happen as quickly as two years, but the road will be bumpier.

You will be looking at investments where you retain ownership and control, but where income is a secondary consideration.

These solutions tend to be investment based, and rely on well established and transparent tax reliefs for their success.

There will still be many options open to you and so we will advise you on the most appropriate ones for your personal situation.

As always, the skill comes in blending these with your other needs and goals.

Turning right

This road will be longer, with the tax savings normally coming after seven years, but you will probably have a smoother ride.

You may be able to continue to receive an income, and you may even have the flexibility to choose and alter this on an ongoing basis.

Broadly speaking, the level of flexibility you demand will dictate how aggressively or otherwise the tax savings are achieved.

Any capital (cash, shares, investments and property) you put aside for the future will need to be managed properly and protected from inflation.

In addition, you must consider whether you want or need to keep some strings attached to any amount you earmark for yourself or others.

Trusts

We know the concept of 'trusts' worries many of you, but with careful planning and open dialogue we are confident you will see they needn't be something to fear.

Think of a trust simply as a protective shield. Who and what you are protecting against is largely down to you and whoever you choose to be trustees with you.

Trusts work but they are not for everyone. It is one of the areas rife with mystery and confusion – the language used doesn't help – but the combination of protection and tax saving they offer makes them incredibly beneficial.

Trusts can be established during your lifetime, or at death. The benefits of establishing a trust during your lifetime include the ability to influence how they are managed, who benefits and when.

Costs are always a key consideration and the establishment of a trust will be subject to fees. But by working with professionals who are motivated to help rather than to complicate, you might find it a much more enjoyable and satisfying experience than you first thought.

How can Investec Wealth & Investment help me?

Importantly, Investec Financial Planning delivers **independent** advice. This means we offer unbiased and unrestricted advice and recommendations covering the whole of the market.

We believe that starting each relationship with a blank piece of paper and no products to sell is the best way to deliver professional and comprehensive Financial Planning.

Once we have implemented your personal financial plan, we will continue to develop our relationship with you. So much of Financial Planning is about mutual trust and respect, whether in the context of helping you invest for the future, protect your family or reduce taxes. We understand that the topics we discuss can be sensitive, and the questions we ask can be probing, but the motivation is to make sure we look after you.

We believe in working in collaboration, but also appreciate that this sometimes takes time. Being part of your existing team, or building one around you where you also need legal or complex tax advice, is important to us.

Changes in your personal circumstances such as marriage, divorce, retirement, death of loved ones and inheritance all have an effect on your lifestyle and may require changes to your financial strategies and goals. As taxation rules and other legislation are continuously changing, we will also ensure your plan remains up to date and keep you informed of the changes and new opportunities.

Our financial planners are highly qualified with many having achieved the status of Chartered Financial Planner.

Whether building a financial plan with you from the start or reviewing your existing arrangements, we can provide impartial advice to help guide you through the process to defining your goals, and recommending a tailored strategy to meet your individual needs that will be flexible enough to adapt as your life changes.

Ongoing reviews also allow us to help you avoid hazards which will inevitably appear. Such hazards can result in expensive or frustrating mistakes due to poor tax-planning, missed opportunities or emotional bias that can negatively influence your decision-making. Sometimes, just the speed at which you can react to change can be important, so having us with you as retained advisers can help here too.

Do you already work with Investec Wealth & Investment?

If you already work with us on the investment management side of Investec Wealth & Investment, we provide an integrated approach to wealth management and can recommend and instruct changes to your portfolio risk level or investment mandate where necessary. We can still, of course, recommend and implement alternative strategies, perhaps in relation to tax planning, for example.

Do you have a relationship with another investment management firm?

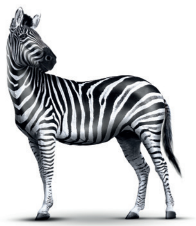
If, however, you have an existing relationship with another investment management firm, our independent status means we can still provide professional Financial Planning alongside your existing portfolio management.

Is all this new to you?

Finally, if you are new to wealth management we will help you choose the correct level of service and where applicable, a specific investment manager or firm to suit your circumstances.

Contact us

If you would like to arrange an initial meeting, at our cost, with one of our financial planners please call your local Investec Wealth & Investment office – contact details are on the back cover. Alternatively, please visit our website and request that one of our financial planners gets in touch with you.



Out of the Ordinary

The information contained within this brochure does not constitute financial advice or a personal recommendation. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. References to taxation are based on our current understanding of the legislation but we do not represent that it is accurate or complete and it should not be relied upon as such. Tax laws are subject to change.

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