

How Jonathan and Rebecca reduced their inheritance tax liability and supplemented their retirement income.

KEY POINTS

- ★ **IHT Relief:** investment qualifies for 100% IHT relief after two years.
- ★ **Returns:** target income of 4.5% per annum. In addition, value of inheritance increases by 65%.
- ★ **Control:** capital remains at Jonathan and Rebecca’s disposal should they need it in the future.

THE CLIENTS

Jonathan and Rebecca are in their late sixties and have an estate worth £950,000, comprised of their home (recently valued at £450,000) and a combination of cash and investments. Their financial adviser felt it was important to discuss their future plans and how to best provide for their two children. She advised them that they have a potential liability of £120,000 once their combined allowances have been deducted.

Although Jonathan and Rebecca would like to reduce the IHT bill for their children, they are apprehensive about giving their money away at this stage in their lives. They currently require regular income in lieu of their limited pension funds and they are worried they will need to fund care in the future.

Their financial adviser recommended a flexible solution that protects their capital from IHT, whilst providing a regular income and allowing them complete control of their money so that they can access it in the future if they need to.

OUR SOLUTION

Rather like an annuity, Stellar ESP Income provides a regular income, but it also allows the couple to keep full control of their capital while qualifying for 100% relief from IHT after two years. It generates an income of 4.5% per annum with bi-annual distributions to deliver a regular and predictable income stream.

RESULTS AFTER THREE YEARS

	Estate without IHT planning	ESP Income
Estate value	£950,000	£950,000
Less combined nil rate band	(£650,000)	(£650,000)
Taxable estate/gross investment value	£300,000	£300,000
1% initial fee	-	(£3,000)
1% dealing fee	-	(£3,000)
Net investment in ESP Income	-	£294,000
Income received over two years	-	£27,000
Inheritance tax at 40%	(£120,000)	-
Value of inheritance left to beneficiaries	£180,000	£294,000

The difference, illustrated in the table above, means that Jonathan and Rebecca’s children will receive an inheritance of £294,000 (even with no investment growth) compared to £180,000 without the value of IHT planning. In addition, Jonathan and Rebecca received £13,500 per annum in annual distributions. ESP Income provides a flexible solution that qualifies for IHT exemption whilst generating an income.

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