

David and Susan removed their inheritance tax liability after two years, while enjoying a regular and predictable income stream.

KEY POINTS

- ★ **IHT Relief:** IHT liability reduced to zero after two years.
- ★ **Returns:** target income of 4.5% per annum. In addition, value of inheritance increases by 65%.
- ★ **Control:** capital remains at David and Susan’s disposal should they need it.

THE CLIENTS

Married couple David and Susan are in their early seventies and have an estate worth £800,000. Their combined allowances in respect of inheritance tax (IHT) amount to £650,000, leaving £150,000 from their estate exposed to a potential IHT liability of £60,000 (at the 40% rate).

Naturally, David and Susan would like to reduce that potential liability for their children. They are concerned that if they give their capital away as gifts or tie it up in a trust, it could leave them with insufficient money to pay large healthcare bills should they arise in the future.

They asked their financial adviser to help them find a flexible solution to reduce their IHT liability and give them a predictable income to fund their day-to-day lifestyle.

OUR SOLUTION

David and Susan chose to invest in Stellar ESP Income because it qualifies for 100% relief from IHT after just two years.

It generates a target income of 4.5% p.a. which they receive twice a year, importantly the income is generated naturally so their investment will not be diminished and they can pass the full amount on to their children free from IHT.

RESULTS AFTER THREE YEARS

	Estate without IHT planning	ESP Income
Estate value	£800,000	£800,000
Less combined nil rate band	(£650,000)	(£650,000)
Taxable estate/gross investment value	£150,000	£150,000
1% initial fee	-	(£1,500)
1% dealing fee	-	(£1,500)
Net investment in ESP Income	-	£147,000
Income received over two years	-	£13,500
Inheritance tax at 40%	(£60,000)	-
Value of inheritance left to beneficiaries	£90,000	£147,000

The difference, illustrated in the table, means that David and Susan’s beneficiaries will receive an inheritance of £147,000 compared to £90,000 without the value of IHT planning; an increase of 63%. In addition, David and Susan received almost £7,000 per annum in annual distributions.

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