

Estate planning with a regular income

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

The Clients

David and Susan, a married couple, 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.

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 healthcare bills should they arise in the future.

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

Our Solution

David and Susan chose to invest in the Stellar Income Inheritance Tax Service because it should qualify for 100% relief from IHT after two years.

It seeks to generate a target dividend income of 4.5% per annum, paid half yearly. The income is generated naturally so their investment should not be diminished and they should be able to pass the full amount on to their children free from IHT.

Key Features



IHT Relief

Investments should qualify for 100% IHT relief after two years.



Control

Clients retain ownership of their capital so they keep control.



Target Return

Target income of 4.5% per annum.

The difference, illustrated in the table below, means that David and Susan's beneficiaries should receive an inheritance of £145,500 compared to £90,000 without the value of IHT planning; an increase of 62%. In addition, David and Susan received approximately £6,500 before tax per annum in dividends.

Results After Two Years

	Estate without IHT planning	Stellar Income IHT Service
Estate value	£800,000	£800,000
Less combined nil-rate band	(£650,000)	(£650,000)
Taxable estate/gross investment value	£150,000	£150,000
1.5% initial fee	-	(£2,250)
1.5% dealing fee	-	(£2,250)
Net investment in the Stellar Income IHT Service	-	£145,500
Dividends received over two years	-	£13,095
Inheritance tax at 40%	(£60,000)	-
Value of inheritance left to beneficiaries	£90,000	£145,500

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