Estate and trust planning for your clients

Case Study

Meet Eva and Ravi

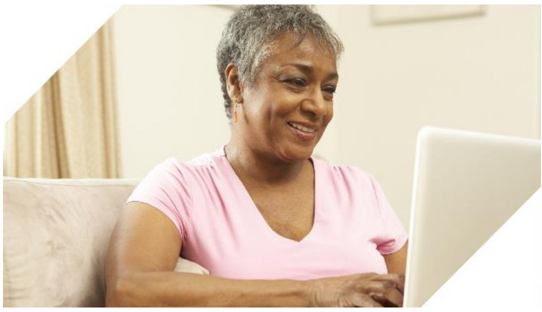
"We want to pass on all that we have saved to our family, but do not want to give up control of our money while we are still around."

The clients

Eva and Ravi are retired GPs in their late seventies. They are fit and well now, but know this might not last and are keen to make secure plans for the future. They have two sons and three teenage grandchildren, one of whom is disabled and will need lifetime care.

Later life can get complicated

Eva and Ravi want to pass on their savings to their children and grandchildren. In particular, they want to ensure that they leave enough funds to help pay for the care needed by their disabled grandchild, Ash. The problem is that their legacy could be liable for 40% inheritance tax.



One of the options they had read was putting money in a trust. This can safeguard assets against inheritance tax. However, standard trusts take seven years before they are free from inheritance tax.

Eva and Ravi are worried that they may not live that long and so will have to pay the 40% anyway. Standard trusts can also create further tax complications depending on the beneficiary.

The other big snag with most kinds of trusts is that Eva and Ravi would have to pass over control of their assets.

However, the couple want to have access to some of their money and have a full say over its management, especially if they need it at a later date to pay for long-term care for themselves.

There is a solution

Eva and Ravi contacted a financial adviser to explore the options and create a plan. The adviser asked whether they had heard of Stellar Asset Management and the solutions they offer.

He explained that the big difference between Stellar's approach and other estate planning solutions is that clients' capital can be free of inheritance tax after just two years.

Clients can also retain control over their assets and keep building up their wealth throughout their lifetime free of inheritance tax.

The reason that Stellar can turn seven years into two is that they invest exclusively in assets that qualify for Business Relief, such as land, property or AIM-quoted companies. It's a tried and tested formula that seeks to avoid complexity.

How we helped Eva and Ravi

The adviser contacted one of Stellar's estate planning specialists and explained Eva and Ravi's situation so that they could gain a full understanding of the couple's circumstances and preferences.

Stellar then presented a range of options for the adviser to propose to Eva and Ravi to meet their needs. These included:

- Updating their wills to include nil-rate band (NRB) planning to reduce inheritance tax liabilities in the short-term.
- Establishing a Trust for the capital that they want to set aside for their grandchild.
- Investing £500,000 into an AIM portfolio to remove the inheritance tax liability in two years.

- The adviser suggested that after two years these investments could be transferred into the trust with the following benefits:
  - No chargeable lifetime transfer fee of 20%.
  - To protect the value from inheritance tax and create the certainty they required.

The net effect of this planning would be to remove £500,000 from the estate under Business Relief and further improve tax efficiency in the estate by using NRB planning.

Setting up a trust

One of the advantages of opting for a trust is that not only does it allow Eva and Ravi to make provision for their children and grandchildren. They can also make specific provision for vulnerable persons like Ash.

However, setting up and running a trust can place a significant burden on both the client and adviser.

Stellar can also help to take care of this. Our specialist partners can advise on all the legal aspects of will trust planning, powers of attorney, trust administration, the creation of lifetime trusts and deeds of variation, and respective post-death inheritance tax planning.

These essential services form the solid foundations for all estate and succession planning and are critical elements to leaving a lasting legacy.

Benefits for Eva and Ravi

After two years, the Business Relief assets held by Eva and Ravi's estate would no longer be liable for £200,000 in inheritance tax (40% of the £500,000), money that can benefit their children and grandchildren.

The other big plus is that they retain control of their investments and can pass them to their family in much the same way as owning a company. With returns coming in from their investments, they can enjoy their free time to the full. The assets going into trust after two years will be exempt from the Chargeable Lifetime Transfer charges of 20%, making a saving of £35,000 for Eva and Ravi.

Benefits for the financial adviser

The adviser earns initial and annual fees for the investments held with Stellar (subject to client agreement). The seamless generational transfer we offer also allows them to develop relationships with Eva and Ravi's children, who also have savings and assets they can advise on.

Once the portfolio is transferred to the trust, they also have the opportunity to develop a professional relationship with the trustees, which can lead to mutual client referrals.

Key features

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

Control
Clients retain ownership of their capital so they keep control.

No CLT
No need to pay 20% Chargeable Lifetime Transfer (CLT) tax.