

VIEWPOINT

BRAYBROOK & CO

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

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Tools for successful estate planning

Successful estate planning is about balance and compromise.

It means you can avoid 40% inheritance tax (IHT), by ensuring that your estate is worth less than the tax-free threshold of £325,000 when you pass away.

But life is complex. You don't know when you're going to pass away or how much money you may need in later life. You also can't predict what will happen to your loved ones, and you may want your assets to be used in a certain way.

Let's consider some ways that could help reduce your IHT liability:



1. Lifetime gifts

You can give away up to £3,000 tax-free each year to one person or split the £3,000 between several people (this is known as your annual exemption). You can give a further £250 per person each year to individuals who haven't benefitted from your annual exemption.

Other gifting options such as wedding gifts, gifts from your surplus income and gifts to help with living costs are also available.

2. Exemptions and reliefs

There are lots of other legal ways to reduce IHT besides gift giving, including:

- Any amount left to a spouse or civil partner is exempt from IHT.
- Any unused IHT allowance will also pass to your spouse (note that you must be married or in a civil partnership for these conditions to apply).
- Leaving your home to your children or grandchildren could boost your tax-free allowance by up to £175,000 to a total of £500,000.
- Any money you leave to a UK registered charity, community amateur sports club is free from IHT and the IHT rate on your taxable estate falls from 40% to 36% if you leave more than 10% of it to one of these groups.

3. Trusts

Trusts help you control what happens to your assets after you pass away. Trustees are legally obliged to manage the assets on behalf of your beneficiaries, and you can make the terms as rigid or flexible as you like. Trusts can also be useful for minimising IHT.

4. Pension arrangements

You can pass many pension products on to loved ones when you die and they're not usually subject to IHT so it can be a smart way to leave a legacy if you don't think you'll use all your pension in your lifetime. But it can be complex, and the person inheriting may have to pay income tax.

5. Life assurance

Estate planning may not eliminate the IHT liability on your estate, but the payout from a life assurance policy can be used to pay off all or part of the eventual tax bill. Alternatively, your Executors might need to take out a loan to cover the cost because the assets in your estate can't be realised until they've been granted probate, and that doesn't happen until IHT is paid.

We can help you create a legacy to be proud of

Setting up your estate to support your loved ones can bring you real peace of mind. We'll work with you to explore your options and explain the best way to achieve your goals.

Figures based on the IHT figures for the 2024/2025 tax year.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes, which cannot be foreseen. Please contact an accountant or tax specialist for specific tax advice.

Trusts are not regulated by the Financial Conduct Authority.

