Case Study – IHT Planning

BACKGROUND

Single male aged 78 in poor health, he has angina, chronic kidney disease and osteoarthritis. He currently has an IHT liability of £72,000 based on the value of his estate. He has surplus income each month building up in a savings account so this liability will increase. He has one son and a daughter who is disabled and lives in assisted living accommodation. He is making regular gifts to his son and ad hoc payments for help with home improvements, he does not wish to gift to his daughter as she will lose her benefits and can't manage her own money. His full estate is due to go to his son. He has reasonable financial knowledge and experience and is a cautious to moderate investor.

OBJECTIVE

The client's main objective is to ensure that following his death, the tax man doesn't get his hard-earned money but that he can retain control of and access to the capital.

DISCUSSIONS

Protection

Following an initial meeting we agreed to look at an insurance policy to cover the liability in the short term whilst we do some planning however, the policy was declined by the providers due to the clients ongoing health conditions.

Gifting/trusts

Due to the insurance company declining to protect the client, we needed to consider the fact that he may not survive long enough to make sure any gifts to his son were not subject to the 7-year rule. The client did not wish to get involved in more complex trust planning or lose control of his capital.

Investments

A further meeting was arranged, and we discussed BPR qualifying investments which would fall out of his estate for inheritance tax purposes after being held for 2 years.

This type of investment is relatively high risk by default as it is 100% equity and invested in smaller, less established companies. However, the client was keen to look at all options as he felt his capital was at more risk due to the 40% tax liability. He has plenty of cash available on deposit for emergencies and his capacity for loss is such that he can afford to risk some of his capital in order to reduce his IHT liability.

SOLUTION

I investigated a BPR solution with the lowest risk possible. Octopus are a large independent investment company specialising in inheritance tax planning and other tax efficient investments. They invest in businesses that generate power from renewable sources, build retirement villages,

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and support valuable smaller companies. Their charges are higher than with standard investments, but this is because of the tax breaks available. An investment of £180,000 is required to fully mitigate the current liability but the client wanted to tread carefully to begin with. We agreed an investment of £50,000 with a view to a further investment at annual review dependent on his circumstances at that time. Growth on the investment is targeted (but not guaranteed) at 3% but the motivating factor is the tax treatment of the investment.

FUTURE OPPORTUNITIES

This would be appropriate for any clients looking to reduce their inheritance tax liability who have investment knowledge and sufficient available funds on deposit for emergencies. BPR investments are time sensitive, so planning is essential to ensure potential tax savings are not missed.

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