THE BENEFITS OF PROFESSIONAL COLLABORATION

INHERITANCE TAX AND ESTATE PLANNING GUIDE

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CONTENTS

INTRODUCTION

ICAEW and Octopus Investments have produced this guide to raise awareness of the opportunities for chartered accountants to work more collaboratively with regulated financial advisers and other personal financial planning professionals.

Estate and inheritance tax planning offer a natural point of convergence for delivering integrated advice that generates better results for clients. This, in turn, will help you to build a more profitable and sustainable business. The opportunity to deliver collaborative advice is particularly relevant for professional advice firms that operate in the small and medium-sized enterprise (SME) sector and private client market.

In this guide we present the case study of SME owners Peter and Pat Pickle to bring the concept of collaborative working to life. This example emphasises the importance of having an empathetic client discovery meeting to reveal the deeper-rooted personal goals and priorities of the Pickle family. This will enable their trusted ICAEW Chartered Accountant to provide an integrated service proposition that delivers real value to their clients.

The ability of the chartered accountant's firm to deliver a premium value service pivots around its collaborative business model, with an established network of regulated financial advisers, lawyers and other professionals. The firm can also leverage its competitive advantage through the integratory mechanism that forms part of the regulatory permissions under its ICAEW Designated Professional Body (DPB) licence and if it is an ICAEW-registered probate firm.

Probate is a reserved legal activity that requires authorisation or a licence from an approved regulator or licensing authority under the Legal Services Act 2007. ICAEW was designated as an approved regulator and licensing authority in 2014.

ICAEW's Personal Financial Planning (PFP) Community supports firms and individuals that have an interest in the personal financial planning sector. This thriving community is open to both ICAEW members and other professionals. There is no charge to join at www.icaew.com/pfp. Community members can access webinars, workshops and conferences and download guides and other topical material delivered by ICAEW and its content partners.

John Gaskell
ICAEW Head of Personal Financial Planning

THE GREAT WEALTH TRANSFER

The £5.5tn financial planning opportunity

Over the next 30 years, it is estimated that £5.5tn of wealth will cascade down family generations, according to the Kings Court Trust. This has increasingly been referred to as the great wealth transfer. The £5.5tn is made up of a variety of assets, from financial investments to property and business assets.

For each of the last four years, inheritance tax (IHT) receipts have exceeded £5bn. By 2026/27, HMRC's IHT receipts are expected to increase to £7.6bn, according to the Office for Budget Responsibility's October 2021 Economic and Fiscal Outlook. This is even more likely given that IHT thresholds in the UK have been frozen until 2026. If asset prices continue to rise in value, more estates will be liable for IHT bills. Families can plan for this if they are helped along the way.

No two clients have the same financial or family situation, but research conducted by Octopus Investments shows that many clients miss out on advice that could support their family's future financial wellbeing.

The research by Octopus Investments found that:

- 86% of 30 to 60-year-olds do not receive financial advice, and this includes those who expect to inherit more than £250,000.
- 81% of retirees say that they have already spoken to their children about their wills, with a further 12% saying they plan to speak to them.

Source: The Great Wealth Transfer, Octopus Investments, January 2019

Conversations are underway, but perhaps they need a helping hand from a team of trusted professionals who can bring objectivity, perspective and greater efficiencies through an integrated plan. Very few clients have joined-up discussions with their accountant, solicitor and financial planner, investment adviser or private banker.

So how can professional advisers help put their clients' affairs on a solid footing?

While the focus of this guide is on IHT planning, there are wider opportunities for you to take the lead in establishing a client's goals and objectives by leveraging your trusted adviser status, professional knowledge and skills to hold these broader and deeper family conversations.

By positioning your business at the centre of a family's network of professional advisers, there are a range of potential fee-generating opportunities, including:

- probate and estate planning;
- ongoing trust accounting;
- succession planning if it is a family business;
- corporate advice to the business owner on a potential exit;
- strategic tax planning in advance of a business exit;
- supporting clients on insurance and mortgage needs where gaps are identified; and
- advising clients on trust structuring for protection policies during the wealth accumulation phase.

Beyond this, there is also significant potential from reciprocal referral flows. Well-established relationships with both financial and investment advice firms regulated by the Financial Conduct Authority (FCA) and lawyers can help grow your business by delivering an integrated service offering to help retain existing clients and develop new profitable business.

By developing a rounded private client offering, you not only differentiate yourself from other accounting firms, but also showcase your business to attract referrals from other professionals in your network.

Why should this matter to your firm?

For many SME owners, their personal and business assets are simply seen as their assets. If you are covering both aspects, you are uniquely positioned to help SME owners and their families have an integrated approach and an efficient financial plan that will enable them to realise their business and personal financial planning goals.

Against the backdrop of the £5.5tn wealth transfer, having a client engagement strategy that positions you, the trusted chartered accountant, at the centre of supporting both SME owners and their families can deliver significant short, medium and long-term commercial benefits to your business.

THE CLIENT DISCOVERY MEETING

The client discovery meeting is key across the professions. It represents the pivotal opportunity to tease out a client's core goals, objectives and priorities.

The discovery meeting enables you to show your client that your firm can deliver value-added services and provides an opportunity to establish a long-term professional relationship.

In the world of financial planning, a chartered accountant can position themselves as the architect or financial engineer who has the vision, expertise and trusted status to help clients achieve their goals in the most practical and efficient way possible.

The process: it's all about the SPIN

SPIN is a simple question process that helps structure the discovery meeting to establish objectives and priorities, and set out the foundations of a strategic plan and next steps.

The SPIN process involves:

S = situation (questions)

P = problems and priorities (questions)

I = implications and insight

N = needs and planning.

When working with business owners, it is logical to construct a business plan that is attuned to their personal objectives as this is often what drives their business and is therefore at the heart of their priorities. Having a clear understanding of this represents the DNA of the special relationship. A productive discovery meeting should be structured around this core principle.

CASE STUDY: MEET THE PICKLES

To illustrate how the discovery meeting can be structured, we have created the example of the Pickle family and fictional business entities.

Peter and his wife established a specialist engineering business 25 years ago. Peter is 58 and had envisaged working until he was in his late sixties. However, the unexpected death of his father has triggered Peter and Pat to reassess their priorities.

Peter and Pat have reviewed their life goals and want to sell their business in the next two years, provided they will have enough to enjoy a long retirement together. They also want to ensure that Peter's 84-year-old widowed mother is financially secure and help their daughter, Sam. As a priority, the Pickles need professional help with the probate on Peter's late father's estate, and advice on updating wills, inheritance tax liabilities and estate planning.

Limited Horizons Ltd: the end of a long professional relationship

Peter and Pat approached their long-standing accountants, Limited Horizons Ltd, to explain that, given the reassessment of their life goals and current situation, the family needed a range of professional advice but had been disappointed at the response they had received. The partner explained that his firm could help with a trade sale and provide advice on minimising tax liabilities, but did not get involved with personal financial planning advice and did not have a probate licence.

Progressive Horizons Ltd: the start of a new chapter of integrated professional advice

Nigel, a family friend, suggested that Peter and Pat contact his ICAEW Chartered Accountant, Progressive Horizons, as he had needed similar advice a few years ago. Nigel explained that he had been delighted with Progressive Horizons because the company had facilitated the delivery of an integrated range of professional advice services along the lines the Pickle family seemed to need.

Peter and Pat contacted Progressive Horizons and were put through to someone who took the time to understand the background to why the Pickles had contacted the firm and explained the range of services it could offer. An initial meeting with a partner who specialised in this area was subsequently booked.

Pre-meeting fact finding

Ahead of the meeting, the Pickles were sent a link to an e-questionnaire so they could summarise their situation to explain their key goals and priorities, and immediate and longer-term needs. A simple spreadsheet was included so the Pickles could input their main assets and liabilities and summarise their current income and expenditure. To help them complete the process, they were given a telephone number and e-link so they could discuss any issues they had in advance of the meeting.

Also included in the pack was a straightforward statement of the services the firm offered and its fee structure, general terms of business and compliance checks.

Initial meeting: enriching the data to establish goals and priorities

Building on the pre-meeting fact find, the partner structured the discovery meeting in the format of a listening session designed to tease out Peter and Pat's core goals, prioritise their needs, wants and aspirations, and agree the practical issues that needed to be addressed. This was a difficult time for the Pickle family and represented a watershed moment for them.

When engaging with a potential client it is, of course, important to have a fee discussion early in the discovery meeting so there is a clear understanding of the service on offer and the fee structure that applies to those services. However, a careful balance needs to be struck so that the flow of the discovery meeting is not derailed at an embryonic stage until there is a clear understanding of the specific goals and priorities and how these can be met. It is about timing and setting and managing expectations.

By the end of the discovery meeting with the Pickles, the following picture had emerged:

Hard facts:

- Peter's father, Percy, had recently died.
- Percy left the family home worth £600,000 and an estate worth £1m to his 84-year-old wife Nora, whose health is beginning to fail.
- Peter is sole executor to his father's estate.
- Peter has little knowledge of what pensions his mother will be receiving as a widow and does not have any understanding of what specific investments are in the estate.
- Peter and Pat are aged 58 and 57 respectively and are in good health.
- They have a 30-year-old daughter Sam, who is a vet. Sam is single and does not have any children. Sam wants to buy her first home.
- SME owners Peter and Pat run a well-established and profitable specialist engineering business. They need help with a valuation and trade sale.
- Peter and Pat want to ensure that when the business is sold, it is undertaken in a tax efficient way. They also want to appoint someone who will manage the family's tax affairs in a proactive manner going forward.
- Peter and Pat have a range of pension policies and personal investments.
- They both have wills, which were made 10 years ago.

Peter and Pat own their main residence as joint tenants. They do not own any other property.

Goals and priorities

- Peter and Pat want to ensure that Peter's mother is financially secure and has a support network given she has recently been widowed and her health is beginning to deteriorate. It was noted that Mr Pickle senior had managed the finances and had been an amateur investor.
- Peter must ensure his father's estate is properly administered and inheritance taxes are paid, but he also wants to make sure the inheritance is managed in a tax-efficient manner.
- Peter and Pat want to retire by the time Peter is 60 and, therefore, want to sell the business. However, this is subject to the proviso that on the sale of the business they will have sufficient wealth to have a secure and comfortable retirement, are able to help their daughter buy a home and start her own veterinary practice.
- Peter and Pat would like to buy a holiday home in either France or Portugal.
- They want their financial affairs to be in good order, including updating their wills and ensuring that their family is well provided for when they die.
- The Pickles are not knowledgeable in managing their personal finances and have not been very impressed with some financial advisers that they have seen over the years. Therefore, a key priority is finding someone they can trust to look after the family's personal finances, pensions, investments and tax planning moving forward.
- Pat Pickle had indicated that their daughter, Sam, had an interest in green investing and was also opposed to animal testing. Pat Pickle did not want her money to be supporting the arms trade.

Next steps

During the discovery meeting, the partner had explained that the firm would be able to deal with all aspects of Peter's deceased father's estate because it had an ICAEW probate licence. He also explained that, although the firm was not directly authorised by the FCA to advise on regulated products such as pensions, it held an ICAEW DPB licence. This meant the firm worked closely with a panel of regulated financial advisers to help clients in this important area. The discovery process enabled the accountant to identify advice areas where referrals to third parties were needed so that an integrated solution could be delivered.

Peter and Pat were very pleased with the way the meeting went, especially given that Progressive Horizons could deliver an integrated service. They agreed that the next step would involve receiving a summary of the main points from the discovery meeting, with a proposal for how Progressive Horizons would address these key issues and the likely costs.

PROPOSED SOLUTIONS: THE ADVICE MATRIX

Probate and estate administration	Progressive Horizons
Inheritance tax	Progressive Horizons
Regulated IHT solutions	DPB referral to selected FCA-regulated adviser
Deed of variation	Panel solicitors
Wills and powers of attorney	Panel solicitors
Business valuation, trade sale and capital taxes	Progressive Horizons
Ongoing tax advice	Progressive Horizons
Pensions and investments	DPB referral to selected FCA-regulated adviser
Mortgages and insurances	DPB referral to selected FCA-regulated adviser
Overseas property	Referral to a specialist regulated adviser

THE COLLABORATION DIVIDEND

It pays to collaborate

The following examples illustrate how the benefits of professional collaboration could deliver a dividend to all concerned.

Family trust

In this example, a well-developed relationship between accountants, financial planners and lawyers laid the foundations for delivering a more comprehensive solution that meets the client's wider objectives. This collaborative approach also transformed a modest annual income tax client into a meaningful fee-generative relationship for an accountancy firm by delivering a better client outcome within a f ormalised arrangement.

A client discovery conversation to understand the client's personal goals and family and succession plans revealed the absence of an integrated plan.

Tackling the simple question of "what is the money for?" is often a hard one for clients to answer. However, the discovery process helped the client to reflect and better articulate their aspirations and concerns.

The second phase of the process was building a plan to achieve those core goals and manage risks. The plan was broken down into key steps. The goal was to provide support for the family well into the future, with checks and balances to protect the family members, possibly from themselves and real-life risks including divorce.

The client had worked hard to grow their family's wealth and wanted to ensure it would be passed on securely. After several discussions between the professional team and client, they settled on a family trust. This required professional trusteeship as well as an accountant to oversee the trust accounts. This key aspect of the client's plan for their family transformed the professional relationship for the accountant from a modest annual tax return to complex and involved support on the trust's tax situation and ongoing reporting requirements.

The example laid the groundwork for more referrals. Importantly, the client had a coherent plan in place to achieve their goals from a team of trusted professional advisers working together to act in the family's best interests.

A company with a silent risk

In this example, which relates to a company with a large cash balance, there was an established process for dialogue between the business owners, their accountants and a regulated financial advice firm.

The business undertook qualifying trades and was highly cash generative. Over the past two years, the balance sheet had steadily increased as the business grew and its owners aged, thereby creating a large pot of what could be deemed by HMRC to be excepted assets.

The owners had been reluctant to extract larger dividends due to the tax charges and the company had regularly made substantial contributions into directors' pensions. However, for whatever reason, the owners had underestimated the growing risk of a substantial IHT liability within their business and the potential complications related to business assets disposal relief (BADR) that could arise on sale.

The financial adviser, who specialised in estate planning, had recently met with the company's accountant and they had discussed this risk. While HMRC has a degree of tolerance for companies where the cash balance swells and falls with the seasonality of their business, or if the monies are actively earmarked for future growth, these monies were now well beyond that tolerance level.

The accountant and financial adviser discussed this cash position and took a summary of the tax implications and solutions to the clients.

The option chosen was to redeploy a portion of the cash into a qualifying trade by joining a trading partnership. This partnership provided loans secured against properties to a diverse group of established property developers.

In a low interest rate environment, this also offered the potential to beat inflation, which had been eroding the real value of cash, presenting a further silent risk.

The company owners took comfort from a joined-up plan from their trusted advisers, whose collective expertise had identified a real problem and presented solutions to minimise the risk of incurring substantial tax liabilities.

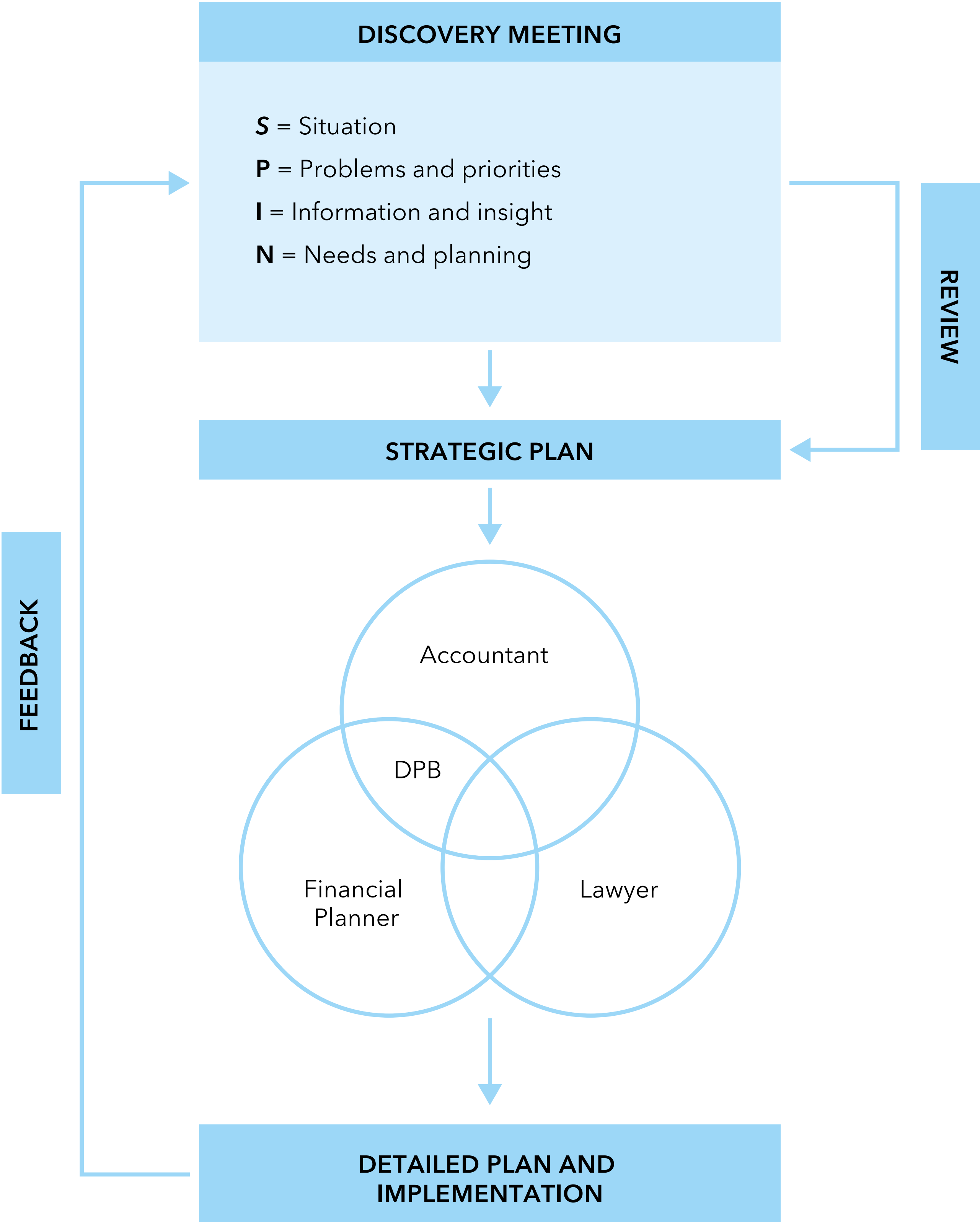
The investment of the cash surplus within the company into the partnership re-established the net assets of the company as trading assets, allowing the shareholders to treat their share of the company as exempt business property for IHT purposes.

It is the creation and implementation of a flexible tax-efficient plan, which could only be achieved through close collaboration between professionals, that is so valued by clients and allows a premium service to be delivered.

The value of a member's interest in a partnership, and any profits from it, could fall or rise. Investors may not get the full amount of capital they contribute back. Investments in limited liability partnerships are likely to have higher volatility and liquidity risk than shares quoted on the main market of the London Stock Exchange. These shares may also be harder to sell. Tax reliefs depend on the investing company and the limited liability partnership maintaining their qualifying status. Tax treatment will depend on the personal circumstances of shareholders and could change in the future.

THE COLLABORATION DIVIDEND

Client-centred advice



AN INTERVIEW WITH ERIC CLAPTON, FCA, CLAPTON CONSULTANTS LTD

JOHN GASKELL: Before sharing some of your insights into why it pays to build a collaborative business model, can you tell us a little about your background and Clapton Consultants?

ERIC CLAPTON: Looking back at my career, I spent 28 years working directly within financial services, with 14 of these spent running both a financial advice firm and a discretionary fund manager (DFM) within a chartered accountancy practice. The collaboration between the financial services businesses and the accountancy practice, particularly the private client department, led to double-digit annualised growth as clients benefited from the combined expertise and specialisms of each area.

The opportunity to extract capital value came when the DFM was merged with another investment business to create Wellian Investment Solutions which, after three successful years, was subsequently bought by an even larger business. During those three years, I had maintained close relationships with long-standing clients, who formed the backbone of the client bank of Clapton Consultants Ltd.

Clapton Consultants Ltd is a chartered accountancy practice which specialises in tax-based planning for both private clients and businesses. This means that there continues to be close cooperative relationships with other professional firms and particularly regulated financial planners. I always knew that it would be vital to continue to collaborate closely with regulated financial planners and for that reason have always held a DPB licence from ICAEW as part of my membership.

You have experience working across different advice areas and in different roles, as well as building an accountancy practice as a sole trader. Would it be fair to say that you attribute a large part of this success in having built your practice around the concept that it pays dividends to collaborate with financial advisers, lawyers and other professionals?

As a sole trader it becomes apparent very quickly that you cannot know the answer to every question a client asks, and often regulation restricts the advice that can be given. Knowing where the relevant expertise can be found and being able to make the introduction is one of the most valuable services that can be provided to a client.

This does not mean that you step away once the introduction has been made – clients will often ask your opinion on the advice that they have received, particularly with reference to their overall financial objectives. The DPB licence that I spoke about allows me to effect introductions and continue to be closely involved with fellow professionals throughout the client planning process.

As clients value this ongoing involvement and advice, they are happy to pay for this service, which is seen as complementing the expertise of fellow professionals.

It strikes me clients really value having a trusted chartered accountant at the heart of both their business and personal affairs, one who takes the time to listen to what is important to them as individuals and as a family unit. Would you say that this is correct?

I think that any professional worth their salt will always take time to understand their client's needs and objectives as much as they can before they consider the next steps. Within a family unit there are often different views and helping to find an optimum solution that satisfies the unit is not only immensely satisfying but also tends to lead to very happy clients.

It is also important to take time to document your knowledge of your clients. Not only will this provide a sound base for any report that you write, but it will also save time when you effect a referral to a fellow professional. Clients tend to value not having to repeat themselves and sharing knowledge with their permission can help to create trust between clients and advisers.

Please can you share your experience of how you have built a network of trusted professionals?

As I have said, it is almost impossible for one person to hold all the expertise and regulatory permissions required to achieve the optimum solution for clients. Recognising that fact leads you to seek out other professionals who can fill the knowledge gaps. This does take time and a network is built over quite a few years. Sometimes the connection is made because you are actively seeking specific expertise. In other cases, the connection may come from a referral that you receive, and you recognise the expertise of the fellow professional, which is then filed away until it is needed.

There is often a small number of people within the network that you work with much more than others, both because their expertise is complementary and because you find them a good fit for you and your clients.

Please can you draw on your experiences of working in a chartered accountancy practice to give some tips on how others in practice can move towards a more collaborative business model?

One thing that makes for good collaboration is to get the active buy-in of all the key individuals within the business. All business owners will have built a network with a view to winning and maintaining client trust. When a new service line is offered, those key individuals within the business will be asked to let their clients know of the service and also to consider effecting introductions. It is always useful to take time with each key individual to learn about their own expertise, opinions of the new service and any concerns that they may have. We also championed an open-door policy that meant being available wherever possible to answer questions. Once initial trust had been developed, we also sought to bring in key individuals from other departments to client meetings to help showcase the expertise across the firm. Referrals went both ways.

Small things can often make the difference between a successful launch and a damp squib. For example, the seniors within the private client department valued the link with financial services because of our ability to provide them with up-to-date details of stock values and dividends because that helped their compliance tax work. This in turn led to a much closer integration between the two teams and consequently a much greater willingness to refer work to each other at all levels.

I would say running a new service line profitably requires the business leaders to understand how the new venture will integrate with, and possibly enhance, the current processes and services offered by the firm.

This means:

- having a clear understanding of current offerings, including the charging structure and resultant profitability.
- having a clear understanding of the proposed offering using the same metrics.
- undertaking a thorough review of the internal and external resources required to be able to create a strategy to put those resources in place.
- considering how the new service is to be marketed to clients and which clients should be targeted specifically.
- obtaining a firm-wide buy-in from other decision-makers who will support the new service line.

The ability to chair a meeting is a skill that most senior executives develop during their career. Qualified accountants in practice have the important additional advantage of having built key long-term trusted relationships with their clients, which in turn has led them to liaise with fellow professionals when the need arose.

Within the firm's leadership team, the skills and contacts to expand the client offering are very likely already in place, but the profit opportunity afforded by the new service line may not have been recognised explicitly. The subsequent review of the firm's network of professionals will better establish those contacts that offer complementary services and may lead to other business opportunities for existing services lines.

PROFESSIONAL STANDARDS

ICAEW Code of Ethics and the Designated Professional Body (DPB) Licence

There are many areas where an ICAEW accountancy firm can help SME owners and families. To add value, an integrated approach is needed to facilitate the delivery of a rounded package of services to meet the broader needs of clients.

Firms routinely provide advice to their clients alongside accountancy services. For example, tax advisory work involving generic investment advice, or advising on the availability of grants and assisting with forecasts to support a loan application. However, firms need to be constantly vigilant that the advice doesn't stray into mainstream investment business – a regulated area requiring FCA registration. This can restrict the accountant's role in providing clients with a complete service and limit the benefits of collaboration.

This is where DPBs, of which ICAEW is one, play a pivotal role in licensing accountancy firms, which permits them to provide a large range of investment business activities that are incidental and complementary to the other accountancy services offered to their clients. The DPB regime is 'light touch' regulation. However, it is not an alternative to FCA authorisation, but rather a way for accountancy firms to work alongside independent financial advisers to ensure that their clients get the best possible advice.

One of the most common uses of the DPB licence is making introductions to third parties or referrals involving investment business. Without the DPB licence, the nature of such referrals is limited mainly to providing contact details of an independent financial adviser, or making an introduction in relation to advice on investments. However, a DPB licence allows firms to go further by arranging a meeting for the client with the independent financial adviser to discuss pensions or contracts of insurance.

Depending on the needs of particular clients, there may be circumstances when it makes sense for firms to work with restricted advisers. A restricted adviser only recommends certain products and/or product providers and advice that, by definition, is not independent. Referrals to a restricted adviser for almost all regulated products using the firm approach (where the firm approaches the financial adviser either to provide the client's contact details or to arrange a meeting between the client and the financial adviser) are regulated and require a DPB licence. When making such referrals, firms should always ensure that they follow the ICAEW Code of Ethics and should document the considerations that led to the referral. Firms must assess the client's requirements and then consider whether the restricted adviser places business with the product providers that account for a large majority of the relevant market, or offer the sector of the market that is most suitable for the client's needs.

After the client has met and discussed their affairs with the independent financial adviser, the DPB licence allows the firm to facilitate all steps in an investment transaction, including:

- explain and evaluate advice given by an appropriately authorised firm and identify whether it is suitable or not (although it cannot provide alternative advice on specific products);
- arrange, under the guidance of an authorised firm, the implementation of an investment plan, including buying and selling investments; and
- provide a client with advice that leads to the disposal of investments, which could be a selection of investments with unrealised capital gains, to make use of available tax allowances.

SME owners will no doubt see the value of accountancy firms that can explain the independent financial adviser's advice.

A DPB licence also includes extending corporate finance activities to enable firms to act for minority shareholders, offering fee protection insurance where the client acquires the right as an insured party and allows involvement in other insurance activities, including insurance claims handling.

Providing this range of important financial planning services reinforces the accountancy firm's position as the client's trusted adviser.

To help firms understand if a DPB (Investment Business) licence or FCA authorisation is needed to undertake a particular investment activity, ICAEW created a Traffic Light Guide to Investment Business Activity, which was reissued in November 2021.

SUMMARY OF INHERITANCE TAX LEGISLATION

Inheritance tax (IHT) is often seen as one of the most emotive taxes. It is a tax on chargeable transfers made during your lifetime and on the value of your estate after death. There are many ways to reduce IHT liabilities, which will usually involve depriving yourself of access to an asset in some way. It is easy to save the tax if you could afford to give everything away, but the reality is that most cannot do that. Planning for the tax is therefore a balance between tax planning and financial security.

The Office of Tax Simplification (OTS) published its second paper on IHT on 5 July 2019. The most notable of its 11 recommendations included replacing the various gifting allowances with a single allowance, and considering the removal of capital gains tax uplifts where a relief or exemption has been given for IHT. The government responded to the consultation on 30 November 2021, stating that it had “decided not to proceed with any changes at the moment”.

So there has been a stay placed on changes for now. This highlights the importance of keeping plans and strategies under review.

Rates and reliefs

Where a taxable estate is worth more than the available exemptions, inheritance tax is usually payable at 40% on the excess. You can reduce the rate of tax to 36% by giving 10% of your taxable estate to charity as part of your will.

Chargeable lifetime transfers (gifts into certain trusts and companies) will be taxed at 20% where the gift exceeds your exemptions. If tax is payable on death within seven years of making the gift, then an allowance is made for any tax paid during your lifetime, but it is not possible to reclaim any lifetime taxes already paid.

For those with estate values of less than £2m, they should have two main exemptions:

- the nil rate band of £325,000; and
- the residence nil rate band (RNRB) of £175,000 to set against the value of their main residence.

These bands are fixed at their current levels until 2026.

It is therefore possible for individuals to have an estate value of up to £500,000 before any IHT is payable. Widows and widowers can inherit their spouse’s unused nil rate bands on death, so a married couple could have an estate of up to £1m before any IHT is payable. This wasn’t previously the case, so anyone with wills made before October 2007 should review their will provision.

The RNRB is only available up to the extent that their share of the property is worth more than the exemption. The property also has to be left to a direct descendent of the deceased, so is not available if left to nieces and nephews. Furthermore, if the deceased’s estate is worth more than £2m, the RNRB is tapered back by £1 for every £2 the estate is over the £2m threshold.

It is worth reminding ourselves of the other reliefs available:

- Annual exemption of £3,000, which can be carried forward if not used the previous tax year.
- Gifts in consideration of marriage of £1,000 to £5,000, depending on the nature of your relationship with the couple.
- Small gifts to any individual of up to £250 per annum. This cannot be used alongside the £3,000 exemption where you are giving to the same individual.
- Normal expenditure out of surplus income – if you gift on a regular basis out of income that is surplus to your expenditure needs, this can be immediately exempt. It is worth noting that the OTS recommended that this exemption is repurposed or removed, so it is worth claiming while available.
- Taper relief – again, the OTS recommended that this be addressed. Where tax is payable on death within seven years of making a gift, the tax payable is reduced if the donor survived more than three years.

REGULATED PLANNING STRATEGIES

Pension

Pensions with an underlying pot of money (money purchase/defined contribution pensions) can generally be passed on to any beneficiary of your choosing. Most modern pensions of this type are subject to master trust arrangements, which mean they are most likely outside of your estate for IHT purposes. For anyone with older pension schemes, it is worth considering whether they are outside of the estate for IHT purposes.

If death occurs before the age of 75, pension assets can be passed to any beneficiary free of income tax or IHT. If death occurs after 75, beneficiaries will pay income tax on what is drawn from the fund. It is possible for beneficiaries to keep the inherited fund as a pension, choosing when to draw and, therefore, when they need to pay any income tax. Not all pension schemes allow this flexibility, so it is worth reviewing your scheme to ensure this option is available.

Most people would hope to survive past the age of 75, so you should review your pension withdrawal strategy to consider the level of income tax both you and your beneficiaries would pay.

Many choose not to touch their pension as it is outside of their IHT estate, but it could be more tax efficient to draw income from the pension as that would allow you to give taxable assets away. The ability to take tax-free cash is also lost on death, so it is worth reviewing retirement income strategies to ensure they are IHT efficient.

Life assurance

Life assurance is often used as a way of pre-funding any IHT due. For example, a couple would like to pass the family home to their family, but there is not enough cash in their estate to settle the tax. Normally, the property would need to be sold or a loan taken out to pass it on to the next generation. The couple can take out a life assurance policy to fund the tax on the property, paying a premium in advance to ensure future generations can enjoy it without needing to find large sums to pay the tax bill.

The same strategy could be used to insure the potential tax due on any large gifts if death occurs within seven years. Insuring for a term of seven years should be more cost effective than insuring for a lifetime.

Gift and loan trust

A gift and loan trust is usually set up with a nominal gift, usually £10. The creator of the trust (the settlor) would then loan a more significant sum into the trust. The settlor can recall the loan whenever they like to pay for unexpected costs like care needs. The benefit of this arrangement is that, if the trust invests the capital, the growth is kept outside the estate of the settlor.

For example, Nora Pickle loans £200,000 into the trust, which she can call on at any point if she needs to pay for care costs. The trust then invests the capital for the benefit of Nora's chosen beneficiaries. If the trust grows by 5% per annum over 10 years, the fund would be worth £325,779. The £200,000 is still part of Nora's estate, but the family will have saved 40% of £125,779 (£50,311).

Nora could choose to write off the loan at a later date, which would be a gift with the usual seven-year clock.

Discounted gift trust

A discounted gift trust (DGT) allows an individual to give away capital, so it is outside of their estate, while allowing them access to a regular income stream. It is best demonstrated in an example.

Nora gifts £500,000 into a DGT, from which she will receive an income of £25,000 per annum to meet her expenditure needs. The trust then invests this capital to provide the required income, preserving the value of the fund and what can be passed on to the family. If Nora survives seven years, the value of the gift is outside of her estate for IHT purposes, saving £200,000 of IHT.

Not only is there a tax benefit after seven years, but there is an immediate discounting of the gift for HMRC purposes. Based on the details above, the expected discount level would be 33%. This means that if Nora dies within seven years of making the gift, 33% of the gift is ignored for tax purposes, saving £66,000 in IHT.

Wealth preservation trusts

Wealth preservation trusts allow individuals to park funds outside of their estate, with the option to make a withdrawal at a later date. When the wealth preservation trust is created, it is agreed that the trustees could surrender a portion of the trust each year, say 10%, to pay back to the settlor. It is at the trustees' discretion whether a withdrawal is paid, so if the money is not paid back to the settlor, it stays outside of their estate.

Again, this is best demonstrated with an example. Nora decides to gift £300,000 into a wealth preservation trust. The underlying fund is invested for growth over the longer term. Each year, the trustees have the option to pay up to 10% of the trust's value back to Nora. As the trust grows in value, so does the amount that could be paid to Nora. If the trust grows by 5% per annum over 10 years, with no withdrawals needed, the fund would be worth £488,668. Nora would have access to withdrawals of £48,867 per annum while the entire fund is outside her estate, saving £195,467 of IHT.

Business relief

Business relief (BR) can be a valuable relief from inheritance tax. Shares in a BR-qualifying company or investment are zero-rated for inheritance tax after being held for two years, provided the shares are still held at the time of death. The investor retains control over the investment and can sell the investment and get the proceeds back if they need to, subject to liquidity. However, shares sold or money taken out of the investment will no longer be exempt from inheritance tax.

For example, Nora decides to invest £300,000 into BR qualifying assets. After two years this investment should qualify for BR, reducing IHT due on the assets by £120,000, assuming Nora holds the shares at the time of death.

Investors can consider BR as an incentive to invest in unlisted trading companies or those listed on the Alternative Investment Market (AIM). The tax incentives can compensate for some of the additional risks associated with investing in such companies.

Enterprise investment scheme

The enterprise investment scheme (EIS) is a government-backed initiative offering tax reliefs to investors who buy new shares in qualifying companies. UK tax-paying investors have a number of tax reliefs available to them if they invest in an EIS-qualifying company – from initial income tax breaks (up to 30% of the amount invested), allowing the deferral of capital gains, to tax-free growth and loss relief. EIS shares held at death should also qualify for BR and be able to be left free from IHT if they have been held for at least two years.

These reliefs can act as an incentive to invest in high-risk, smaller companies. To use an example, if a higher rate taxpayer were to sell a residential property and reinvest £10,000 of the gain into an EIS, the overall tax saving could be £9,800 (30% income tax, 40% IHT and 28% capital gains tax). This assumes the shares are still held at the date of death.

It's important to consider all the risks of BR-qualifying and EIS investments. These investments are high risk. The value of these investments, and any income from them, can fall as well as rise. Investors may not get the full amount invested back. In addition, the shares of smaller companies can fall or rise in value more than shares listed on the main market of the London Stock Exchange. They may also be harder to sell. Investors need to be aware that tax treatment will depend on their personal circumstances, and tax rules may change in future. Tax reliefs also depend on the portfolio companies maintaining their qualifying status for the relevant relief.

Alternative Investment Market

Investments listed on the Alternative Investment Market (AIM) are regarded as 'unquoted' for the purposes of considering whether they qualify for business relief. There are targeted portfolios available that look to invest in AIM-listed shares, to build a portfolio of UK equities that should qualify for business relief after two years, saving 40% of IHT, provided the shares are still held at the time of death.

Since 2013, it has been possible to invest in companies listed on AIM within an ISA. In doing so you do not have to worry about crystallising large gains to then invest in BR-qualifying assets and growth on the investment would be free of capital gains tax. AIM-listed companies can be very volatile, so this type of investment is not suitable for everyone. A careful suitability analysis must be undertaken before investing in this type of fund.

What the DNA of a successful relationship looks like:

Nimesh Shah, CEO, Blick Rothenberg

- "The relationship is so personal to the client that the same has to stand with your relationship with the other professional advisers. That has to be a good thing for the client. That is the magic dust on this working. You have to work in harmony. It makes it work quicker, faster, better."
- "We always ask what is the right outcome for the client? Working with like-minded people, who have that common goal where the client's interest is at the centre of everything. We know our fees and success will come if we do a good job for the client."

CONCLUSION AND ACKNOWLEDGMENTS

I hope you found our guide informative and that it helps highlight some of the opportunities for ICAEW Chartered Accountants and other professionals to work more collaboratively in meeting the needs of their clients, and to build a better business in doing so.

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John Gaskell

ICAEW Head of Personal Financial Planning

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* Source: CAW, 2020 – Interbrand, Best Global Brands 2019