SPRING 2016

For Life

PLANNING FOR YOUR OR YOUR CHILDREN'S FUTURE

Don't ignore inheritance tax

Just under 18,000 families pay inheritance tax every year. With the average bill on an estate now standing at £170,000, inheritance tax is a topic that everyone should think about.

This increase in the number of estates liable to inheritance tax (IHT) makes it in everyone's interests to think about their own position, and that of their close family, if their estate is likely to exceed their available nil rate band thresholds (see separate article on page 2 of this newsletter).

IHT becomes payable on death, at the rate of 40% on the value of an estate above the available nil rate bands. One way to minimise or eliminate an IHT charge on death is to give property away during one's lifetime.

There are certain helpful exemptions in this regard which include:

- an annual exemption of £3,000, which can be carried forward to the next year if not used;
- small gifts of £250 per year per recipient;
- gifts in consideration of marriage/ civil partnership of up to £5,000 by parents (£2,500 for grandparents or £1,000 anyone else);
- normal expenditure out of income. This is where the donor can establish a regular pattern of giving over a period time, using their income but leaving the donor sufficient income to maintain his usual standard of living after all normal expenditure is considered. There is no limit on this exemption;
- gifts to charity; and
- gifts to a spouse or civil partner.

Other non exempt gifts made within 7 years of death will be brought back into account and included as part of the deceased's estate on death, although taper relief may be available to reduce the IHT payable.

Alternatively, travelling the world and taking that long wished for cruise will help to reduce the value of an estate and IHT! Either way, and having said the above, we should always remember not to let the tax tail wag the dog and to keep sufficient assets to provide an appropriate income into old age.

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Agreements before you marry...

...may prevent disagreements afterwards!

There has been a significant rise in the number of people entering into pre-nuptial agreements. Perhaps the attractions of such an agreement are becoming more evident; this could certainly be backed up by the findings of a recent survey by Cassell Moore (a Liverpool based law firm) who discovered that one in ten people regretted not making a pre-nuptial agreement.

Part of the rise in these type of agreements has been attributed to the number of people marrying for a second time. A pre-nuptial agreement provides clarity and certainty. It enables you to protect pre-marriage assets, inheritance and children from a previous relationship. The document sets out your individual rights in relation to property, debts, income and other assets purchased together or acquired individually (such as inheritance) or that you brought into the marriage.

Some have described such documents as unromantic; however, others view them as an aid to communication. Dealing with financial issues at the outset of a marriage can lead to the kind of openness that strengthens a relationship, as these agreements, by necessity, cover areas that are often some of the most difficult to discuss. The transparency that both parties need to bring to the agreement can not only reduce acrimony in the event that the marriage fails, but also save you money as bitter disputes will inevitably incur higher legal fees!

Co-habitation agreements are similar to pre-nuptial agreements in that they allow a couple to provide certainty and protection for themselves and their families.

A co-habitation agreement sets out who owns what and how properties may be split if the relationship were to fail.

There remains confusion among the general population as to the rights of cohabitees. The law does not recognise the concept of common law husband and wife, leaving couples who choose to live together with limited legal rights. Without a cohabitation agreement which provides certainty and clarity for both partners, a failed relationship could mean lengthy and expensive litigation.

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Bare essentials

Main residence nil rate tax band

In his 2015 summer Budget, the Chancellor announced an additional inheritance tax allowance when a residence passes, on death, to direct descendants. The additional allowance starts at an extra £100,000 after 6 April 2017 and increases to £175,000 from April 2020. It has been publicised that, from 2020, this will enable families to leave estates of £1m before inheritance tax is due.

However, the Government has not been so keen to publicise that the new provisions will only favour a limited number of families; these include families with children, step-children and fostered children, and in limited circumstances those where downsizing is of particular concern.

Furthermore, for those with over £2 million of assets there will be a sting in the tail, as the allowance will be tapered away.

The media has implied that 'thousands will miss out unless they make changes and take advice', both when they are planning for the future - for example, making their will - and again when they are dealing with an estate after a death in the family.

For help and advice on this complex topic, contact Caroline Dowding.

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Security and peace of mind

for parents and first time buyers

In the current housing market of ever climbing prices, first time buyers often look to their parents for help with raising the 5-10% mortgage deposit needed for their first home, but some parents express concern about what would happen to their 'gifted' money should the couple separate.

There are ways in which parents can protect such money in the event of a break up. This is particularly relevant in circumstances where one set of parents contributes the majority, or all, of the deposit. Early planning and honest conversations that are properly documented before money is given away, is the best method of ensuring that everyone knows where they stand.

One way of providing protection is through a legally binding deed known as a "declaration of trust". This deed will record that the money is for the purpose of buying a home. It will also provide security for the parents as the deed will evidence that the money is to be returned to them if the relationship breaks down. Alternatively, if the parents intend the money to be a gift, the deed can state that, in the event of a break-up, the proportion of the home with which the parents assisted passes to their child rather than their child's ex-partner.

There are many options when it comes to protecting the interest of individuals in transactions such as this, but it is important to take professional advice at the time. Here at Birkett Long we are able to set out your options clearly and provide advice that is tailored to your needs when you, or your children, are making that important first time property purchase.

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Meet the team

Lisa Collins

Lisa is head of our family team in South Essex. She joined Birkett Long as a trainee solicitor in September 2008 and completed training in each of a number of different disciplines, moving between specialist teams within the firm.

Once qualified in 2010, Lisa became a permanent member of the firm's family team where she now specialises in family law, divorce and the legal aspects of relationships. She is a member of Resolution, a national organisation of family lawyers committed to non-confrontational divorce, separation and other family problems, and is an accredited member of the Law Society's Family Panel. This is an assessed accreditation scheme, which recognises those with family law expertise and experience.

Lisa studied law at the University of Kent and was awarded an LLB (Hons) before going to the College of Law in Bloomsbury, London, where she achieved a distinction.

“Lisa has an ability to listen to her client and give tailored advice, specific to the case.”
A client recommendation.

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independent
financial advice

Don’t under-estimate your value as a parent!

Most parents insure their houses, their cars and even their pets but don’t stop to consider how important it can be to insure themselves!

A recent study by LV* suggested that the cost of raising one child to the age of 21 is more expensive than the average family home - £231,843. The same study found that less than half (49%) of parents have not considered what they would do should either parent lose their income, for example because of an accident, illness or death, and that only one in ten parents have an income protection plan in place which could provide a safety net for their family.

Most people do not think that they need to worry as they believe that they are not likely to become ill, suffer a serious illness or die, but sadly this is not always the case. For instance, according to the Association of British Insurers (ABI), each year one million workers in the UK unexpectedly find themselves unable to work because of injury or illness**. Given the expense of raising a child, as demonstrated by the LV study, clearly losing a parent’s income could have a devastating effect on a family. When having to deal with the emotional consequences of illness, accident or death, protection such as life assurance, income protection and critical illness cover can at least help to ease the financial worry at such a difficult time.

Taking out life protection is not necessarily as expensive as you might think and will leave your family in a better position to cope with everyday needs. A policy could pay out a lump sum in the event of a parent’s death, for which monthly premiums could cost as little as £23.53 for a joint life level term life assurance policy for a sum assured of £150,000, payable on first death***. Often we consider a Family Income Benefit (FIB) policy, which can provide an affordable way to protect the family and generate a monthly income if a parent dies or becomes seriously ill. A regular income can sometimes be preferable to a lump sum and these policies often cost less than a level term assurance or income protection policies.

Don’t under-estimate your value as a parent. By taking action you can help protect the future of those that you love.

Our team of independent financial planning managers can assess your life assurance requirements. As part of the process we also recommend that you write a will, if you haven’t already done so, and consider making a lasting power of attorney.

**LV Cost of raising a child 2016*
*** Money Advice Service website*
****Aviva Level Term Assurance quotation male and female, joint life, first death, non-smokers, term 25 years*

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