

Bulletin

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Providing help to businesses and individuals on all their tax planning needs

feature article

Inheritance tax: a hothouse issue

As house prices rise
in the South East,
dont get caught out
in a potential IHT trap

**BURGESS
HODGSON**

Chartered Accountants

TAXING times

Millions of consumers could find themselves falling into a costly inheritance tax (IHT) trap because they haven't been given - or taken - a simple piece of advice when they take out life assurance.

This is the warning from Mike Horne, partner at Canterbury-based Burgess Hodgson, one of the leading accountancy firms in the South East. The potential financial nightmare comes about because of a frequent foible: the assurance policy is not written in trust. "People are frequently advised to take out life assurance against IHT because they believe - rightly - that, by doing so, their beneficiaries will significantly protect against their IHT contributions," explains Mike, a former fully trained tax inspector with the Inland Revenue.

"But the assurance policy has to be written in trust otherwise it is counted as part of the estate and can easily tip it over the IHT threshold."

Last year, some 32,000 households were caught by inheritance tax (IHT), a 28 percent increase on the previous year.

Inheritance tax no longer just affects the fabulously wealthy. With the rise in house prices - conservative estimates put them at some 250 percent higher than 20 years ago - IHT is now the bane of Middle England.

Large numbers of people are now finding their estates climbing above the current £275,000 threshold, beyond which all your assets are taxed at 40 percent.

In fact, according to figures from the Halifax bank, there are now 2.4 million homes that are worth more than £275,000. So, if you want to preserve the wealth represented by your house - an asset that has probably taken years to pay for - taking out a life assurance policy for, say, £170,000 seems like a sensible option.

Surprise

Even though you may still be decades off retirement, it is a prudent move - particularly when you consider that if you don't make any alternative provision for your assets, the government will simply add to its already swollen IHT coffers.

But, warns Mike, finding that your assurance policy is not written in trust could come as something of a surprise.

"Frequently, consumers buy these policies without fully understanding their implications, and what they should do, of course, is write them in trust," he explains. "This means that you've paid the premium and you've given away the benefit of the policy. By doing so, it sits outside your estate, allowing the beneficiaries to have a pot from which they can pay the tax on your death."

The problem arises because many people simply don't bother filling in the trust forms. And, as Mike explains, this means the policy is then counted into the individual's estate and the beneficiaries pay 40 percent tax on it. "You end up paying tax on the money you'd intended to pay off your IHT in the case of your death. It's a double whammy." Writing the policy in trust can protect against this unfortunate occurrence. A trust is simply a legal device that allows you to keep some of your assets separate from your estate, therefore avoiding IHT. There is no IHT because the money in the trust belongs to the beneficiary and not to you as the policyholder.

In addition, as the payment is made to the trustees and doesn't form part of your estate, payment won't have to wait for probate to be granted. Setting up a trust at the time you take out a term assurance plan is a straightforward procedure - but it's amazing how easily it is overlooked.

Scrutiny

"We had a recent example where a bank had sold a £170,000 policy but not written it in trust," says Mike. "We found this when we picked the case up, talked to all the insurance companies and managed to restructure the policy. Now the client has died, we are dealing with the estate and there's been a £60,000 saving in tax. The cost of reorganising it was less than £500!"

Most trusts are flexible trusts that let you nominate who you want the money to go to - whether that's children, grandchildren or other family members.

Getting the policy altered is not a complicated procedure, but it does help to have an expert on hand to see the process through smoothly.

"It's a very simple adjustment, but frequently people who sell life policies say they are going to put them in trust, and then never get round to doing it," says Mike.

"Many consumers simply don't understand what it means. For new clients, we would carry out a comprehensive review of their tax affairs and that would include evaluating IHT and other 'higgles' that are frequently missed."

"Our client had had two previous advisers - neither of whom had noticed that the assurance policy was not written in trust."

It's not something that's likely to be missed by the experts at Burgess Hodgson, where individuals can expect forward thinking business advice and flexible solutions that consider nearly all eventualities.

Burgess Hodgson: forward thinking business advice

"Hundreds of families could find themselves facing costly IHT bills because they haven't been given - or taken - a simple piece of advice when they take out life assurance."

IHT
life
assurance

£275,000

written
in
trust

future

assets

estate

children

FAMILY

TAX

»VISION« »STRATEGY« »PLANNING«

Partner profile



Ken Jones

Catching a minute with Ken Jones is not easy. When he's not engrossed in complicated taxation issues, mergers and acquisitions, he's usually indulging his love of outdoor sports. A keen runner, cyclist and climber, Ken enjoys the thrill of competition and can often be seen in his lunch hour catching a vital 30 minutes training - although convincing the rest of the team to indulge is proving a little tricky.

Born in London but brought up in Canterbury, Ken went to school at Vernon Holme and Kent College. He has a strong local knowledge, which often stands him in good stead. And it's not just sport where Ken's a winner: in his Institute of Chartered Accountants exams, he was placed third in the overall order of merit, and won the prize for the taxation paper. He then took the specialised Chartered Institute of Taxation exams in 1983 and came first overall, winning the prizes for the papers on personal and capital taxation.

Ken's taxation experience covers the entire range of clients, from personal through to complex company tax planning, VAT and investigations, including those for the Special Compliance Office, and large matrimonial cases. On the corporate finance side he has been involved with numerous sales and purchases of companies, fund-raising, flotation, stock exchange reporting and a £75m public to private take-over.

We are a leading firm of chartered accountants and business advisers, specialising in personal and corporate tax planning. Our experienced professionals have a strong reputation for providing quality technical advice and the ability to implement practical financial solutions as flexibly as our clients demand.

Building relationships has always been at the heart of our business. We understand that business success is measured by the strength of our relationships with clients. Our partners' technical skills, professionalism and business acumen is complemented by the commitment of our staff to provide our customers with the best service possible.

**BURGESS
HODGSON**

Chartered Accountants

Camburgh House
27 New Dover Road
Canterbury, Kent, CT1 3DN

T: 01227 454627

F: 01227 452967

info@burgess-hodgson.co.uk

www.burgess-hodgson.co.uk