WHEN IT COMES TO SAVING UK INHERITANCE TAX…

THANK GOODNESS FOR THE EUROPEAN UNION!

When applied to tax planning, this advice from St. Francis of Assisi means giving away assets at least 7 years before death in order to receive the advantage of avoiding inheritance tax on the value of the assets.

The inheritance tax system encourages this lifetime giving. At the time of death, the total value of the deceased's estate over £300,000 (the "nil rate band" applicable for the current tax year, and usually increased each year) is taxed at 40% before being paid to the beneficiaries. However, if you give your assets away before you die, they do not form part of your estate and are not taxable – the beneficiary of your gift receives the full value without the deduction of inheritance taxes. The only caveat to that is if death occurs within 7 years of a lifetime gift then some tax becomes payable on that gift.

So if you are confident you have more than enough to live on for the rest of your life and would like your beneficiaries to avoid inheritance tax on the excess, tax planners will say, "give it away".

However, for most of us the idea of giving significant wealth to our children or grandchildren now, without qualification or condition, is out of the question. They may be too young or immature to manage such a gift and assets may be squandered through either frivolous spending or mismanagement. Although 18 is the age of legal majority, few of us would have been ready emotionally to handle the acquisition of wealth at that age. And even fewer of our parents would have believed us ready!

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So it was that the Accumulation and Maintenance Trust emerged as the leading tool to give whilst still imposing some conditions over the use of the gift. Instead of a direct gift to beneficiaries, assets would be placed in a trust where they would 'accumulate', could be used for the 'maintenance' of a beneficiary, but would only pay out the capital at some pre-determined age, such as 25 years old. Such Trusts are common – the tax authorities estimate that over 50,000 are currently valued in excess of the nil rate band. And perhaps that is the reason Gordon Brown, in his last budget as Chancellor, moved to stop this solution to inheritance tax planning.

From the time of his last budget in March 2006, he made the transfer into this type of Trust taxable. Many experts agree that the use of traditional Trusts in inheritance tax planning is over, but most wealthy individuals would agree that the alternative of an outright gift could be potentially damaging for inexperienced or immature beneficiaries. Indeed, HM Revenue & Customs HMRC's own research into the use of Trusts, published in January this year, shows that the main motivation of Settlors in creating a Trust was the ability to pass assets to selected members of younger generations whilst still retaining a measure of control over these assets.
A solution to this problem - to give but limit beneficiary control without suffering a tax penalty - is emerging from the life insurance industry. Historically, offshore life insurance (usually from the Isle of Man) was often used with Accumulation and Maintenance Trusts to provide a solution to both income tax and inheritance tax planning in a simple and affordable way. The new tax change hit the Isle of Man industry hard and their Accumulation and Maintenance solutions were quickly withdrawn, with no serious alternative yet coming to light. In Luxembourg, however, at the very heart of the EU, one insurance company was used to solving such problems without the use of Trusts. In continental Europe, the concept of the Trust is not widely recognised, but parents and children there have just the same characteristics as in the UK. Parents still want to give but limit control, and giving a life insurance bond with built in restrictions have been a common practice. Along with Dublin, Luxembourg is the leading centre for the use of cross-border life insurance for tax-efficient wealth management in the EU. The largest cross-border insurance company in that country is Lombard International Assurance, a part of Friends Provident, which focuses exclusively on tax and estate planning for wealthy families. And the really good news is that they have successfully applied their continental know-how of building estate planning into a life policy to create a new Accumulation and Maintenance Plan for UK investors.

Lombard's new plan does not use a Trust. Instead, it builds-in Trust-type planning to a customised offshore life assurance bond, achieving both the estate planning and the tax planning advantages the popular Trust structure had before HMRC intervened. This innovative solution will allow families to minimise inheritance tax liabilities without the worry of 'spoiling' younger generations with uncontrolled access to wealth too soon. Unlike traditional life assurance investments, there is no medical underwriting. The assets are placed in the life assurance policy to gain advantage of income tax and capital gains tax concessions which the HMRC applies to such structures. And by using a policy issued by a Luxembourg life company instead of a UK company, the investments will also enjoy tax-free roll-up growth similar to your ISA or pension. There is, however, no upper limit to how much you can shelter in this way. The assets held in such a tax efficient wrapper can be invested in cash, property, fixed interest and equities and yet they will also all benefit from the unique Luxembourg 100% policyholder protection with no upper limit. Just compare that unlimited level of investor protection to that currently offered on your UK bank deposits! That type of cast-iron guarantee would have meant no queues outside Northern Rock branches last month!

Luxembourg policies are now available in the UK under European single market legislation. Kellands (NI) Ltd is one of only two Independent Adviser Firms in Northern Ireland currently authorized by Lombard to advise on such solutions. In liaison with your other professional advisers, Kelland can help refine your existing planning and advise on innovative ways to reduce your exposure to punitive taxation, while allowing you to retain both personal access to your investments as well as setting up appropriate structures to safeguard your hard-earned assets so that these can be passed on to your children and grandchildren as free from tax as possible. Kelland's would be more than happy to meet you for an initial discussion, and would also be pleased to outline to your Accountant or Solicitor how its wealth management service will benefit you. The company will shortly be hosting seminars on this important innovation. Spaces will be limited, so please contact Kelland's in order to register your interest!

So when it comes to the future of inheritance tax planning, Kelland's must end this piece with a comment not often seen in the UK press – thank goodness for the European Union!

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