Waymark financial

0203 427 3205

www.waymarkfinancial.co.uk

Case study 4: Take advice before it's too late

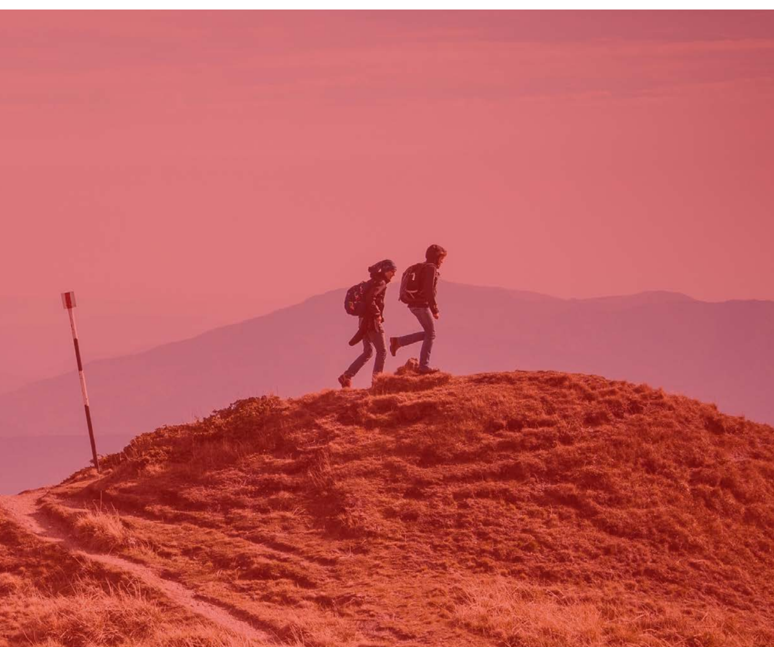
Why did Margaret get in touch with us?

Margaret's daughter, Jane, contacted us following an online search of independent financial advisers.

Margaret's husband, Bernard, Jane's father, had died four years ago. Unaccustomed to dealing with pensions, savings and investments, Margaret had taken very little interest in this area of her life and things had become rather untidy.

Furthermore, Jane was also concerned about the amount of Inheritance Tax (IHT) that would be payable when her mum died. Naturally, she was keen for as much as possible to be passed to her and her brother.

Margaret was in her late 70s and in reasonable health, while Jane and her brother, Paul, were both in their late 40s; neither had married.



What did we advise Margaret to do?

We started by getting to know Margaret and her daughter. This included discussing their objectives, while investigating Margaret's financial affairs.

She had inherited a range of investments when Bernard died and had done very little with them since then.

We also discovered that some basic planning had already been done. A will trust had been put in place when Bernard died which put half of their marital home in trust, with Jane and her brother as beneficiaries. Margaret retained her half share of the property and the right to live in it until her death.

We then calculated the IHT payable when she died. We discovered this was approximately £120,000, reducing to £100,000 as the new residence nil-rate band takes effect.

We discussed the options available to Margaret and soon concluded that she didn't want to give money away just yet, or lose access to her capital, just in case it was needed in the future. Furthermore, given her age taking our life assurance to pay the IHT bill on her death was unaffordable.

This pointed therefore to an option which utilised the benefits of Business Property Relief (BPR). This type of investment attracted preferential IHT treatment and once it has been held for two years the value, plus any growth, would be outside of Margaret's estate. Investments of this nature usually carry a significant degree of risk. However, that is not always the case and we chose a solution which aims to preserve capital and deliver a 3% return per year while still qualifying for BPR. We explained the risks to Margaret, including that she might experience a capital loss, despite the investment targeting a modest annual return, and she was happy to proceed.

This solution had the added advantage that Margaret retained control of the capital and could have access at any time. Although, as with any investment of this nature we explained that it should be held for the long-term.

We also took the opportunity to reorganise Margaret's other investments to better align them with her attitude to risk and simplify things for her, by placing them on one investment platform.

How did Margaret and her children benefit?

Margaret is healthy and expected to live for at least two years, which will reduce the IHT liability, providing the investment is still held when she dies, to zero.

Furthermore, although she has other savings and investments, she still has access to the capital if it is needed.

Finally, her other investments now match her attitude to risk and have been simplified significantly. We will continue to monitor these, leaving Margaret free to enjoy her retirement, free from the stress of worrying about the investments or the tax she will have to pay in retirement.

What can we learn from Margaret's situation?

If Jane had not insisted her mum take independent financial advice, the amount of unecessary IHT paid, would have been £100,000.

The key lesson therefore must be to act and seek advice. The fees paid by Margaret were only a tiny proportion of the tax saved.

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