S JOHNSON WEALTH MANAGEMENT LLP

INVESTMENT SPECIALISTS

Risk & Return - Balanced Investing

Investment News

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Introduction

Inheriting the Family (Mis)fortune

'One day son, sixty percent of all of this will be yours...'

In this edition I look at Inheritance Tax (IHT) – possibly the most unpopular tax of all, paid as it is from the estates of those who have already suffered tax in their lifetimes (taxed to death?). IHT is currently under scrutiny by HMG and is topical. In my postscript I look at my son's ideas for saving IHT.

Markets Commentary

Currency Wars - Trump vs Xi, recession possible. Business as usual. Danish bank imposes negative interest rates for larger depositors – charging them to have an account.

Inheritance Tax (IHT)

Having scored 'nil points' in the popularity contest, IHT tries to make up for it with a nil-rate band (NRB) that allows the first £325,000 of a person's estate to be inherited tax-free. Furthermore, since that amount is roughly equal to a broom cupboard in Greater London, this was recently followed by the main residence nil-rate band (MRNRB) that grants an additional tax-free £150,000 for one's primary home, rising to £175,000 in the 2020/21 tax year. The problem of course is that property prices continue to rise, most taxes increase the better off you are, and at the higher end you start to lose some allowances. What started as a tax originally designed for the super-wealthy is now a weapon of mass taxation.

How can I pay less IHT?

- **Gift Allowances:** You can make gifts of £3,000 per year (two lots the first time) out of your saved assets. Bear in mind, however, that you can also gift much higher regular amounts out of your normal income, providing that you can demonstrate that you can afford to do so. This sometimes allows significant amounts to be gifted. Keep records.

- **Give some or all of your money away:** Potentially Exempt Transfers (PET's) are where you give away money and try to live for seven years (better not to read too many articles about tax in this regard). There is no limit to the amount. The problem here are the four D's – if the beneficiary dies, gets into debt, divorces or suffers debility (illness, particularly mental illness). Any combination of these can be bad for effectiveness of your gift.

- **Life Insurance:** This can work, providing you are in good health. You take out cover and place it under trust so that it falls outside of your estate and on pay-out it clears any IHT bill without exacerbating the tax situation. The premiums are paid from normal income (see first point).

- **Use (new) Pension Freedom:** Pension freedom has been with us since 2015, but still not enough people are using it to its full extent. If you have a private pension fund, this method can work really well. You do your best not to spend all your pension fund before you die (e.g. by living off your other assets as far as possible), and then when you die, any unspent fund will pass tax-free to your kids or grandkids etc. (provided you have set things up properly). Money can therefore cascade down the generations. Remember though: you don't use your will to do this! Pensions don't form part of your normal estate, so you need to make your wishes clear with each pension provider.

- **Charitable Donations:** Making gifts to charity will reduce the size of your taxable estate (obviously) – but even better, it can reduce the overall rate at which you pay IHT (from 40 per cent to 36 per cent). Bear in mind that to achieve this you'll have to give at least 10 per cent of your net estate to charity.

- **Move Abroad:** This can work but be careful about out of the frying pan into the fire and also be careful about visiting the UK or keeping property here.

- **Fancy Stuff:** We do not get involved in fancy stuff since it often attracts HMRC interest, preferring instead to leave it to those much cleverer than us.

SUMMARY

Plan to spend it, lose it, give it away, move abroad, leave it in pensions or to charities; failing some planning then die and get taxed.

As you can probably tell, the above is written with a conscious effort to combat narcolepsy. This means it's only a quickfire summary of what can be complex situations full of caveats, traps and pitfalls. Therefore, if any of this might apply to you, you should really consider paying someone like us (or even us) for advice in this area. Especially if you might be losing a lot more to the taxman otherwise...

'Financial Medical'

Our offer of a free review of your existing investments or a strategy report for recipients of this newsletter is still open; call us if you would like a chat.

Help us, please -

Firstly: Many of you will remember my views on investing in FAANGS (Facebook, Amazon, etc). On the basis that if you can't beat them… We would be very grateful if those of you who have Google accounts could give us a (hopefully nice) Google review – just click **here**. Many thanks to those of you who have already left reviews for us.

And finally…

Please continue the feedback – telephone us or send an email. In the next edition I look at global investment.

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p.s.

Son number 1 (not Martyn who works with us) has briefly considered the issue of IHT and his feeling is that we should give him all of our money as soon as possible to avoid 'us' paying tax. In many cases parents are put off from this course of action on the basis that their child might later take up with an unsuitable partner who would make off with half of their offspring's inheritance. In this case however the odds are whoever he does take up with will result in a fiscal improvement.

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