



Solidus

Protecting Inter-Generational Wealth Transfers

Protecting the DIS Benefits of Married Couples





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Generally, few married clients receive adequate advice on the protection and inter-generational tax planning of their estate, be it pensions, Death in Service (DIS) benefits, life cover, property assets, savings and investments or lifetime inter-generational transfers.

Integrated financial planning and effective legal planning are essential in delivering guaranteed outcomes, and DIS benefits are one of the most significant considerations often neglected by providers of legal services. This is largely because married clients are unaware of the risks to their DIS benefits and do not understand what simple steps can be taken to address them.

The unpredictability of life requires us to be prepared. DIS is an excellent employer benefit that will pay out tax free (in many cases at the discretion of your employer) to your chosen Beneficiaries if you are employed by them when you die. It is good practice to check the details of your employer's scheme and its benefits and establish the value of any likely payment.

Your DIS benefits will be paid to the approved nominated Beneficiary (usually your spouse) and it will be their choice how to use the funds. For example, to pay off a mortgage if required or to be invested by your financial adviser to provide a long-term income source.

You should consider any possible future outcomes once your spouse receives the DIS payment (tax free).

- If your spouse enters into a new relationship could there be a potential risk to the funds intended for your family (especially if your spouse is younger)?
- If, historically, your spouse is not good with money, will the DIS benefits be used wisely?
- Would the DIS benefits be exhausted if they were required to pay for care for your spouse, with the result that your children would not then benefit?
- If your estate is likely to attract Inheritance Tax (IHT), will the addition of a DIS benefit make the requirement to pay tax more likely, resulting in your children (Beneficiaries) inheriting less?
- When the DIS benefits pass to your children as part of your residual estate, would you like them to do so in a protected and tax-efficient manner?

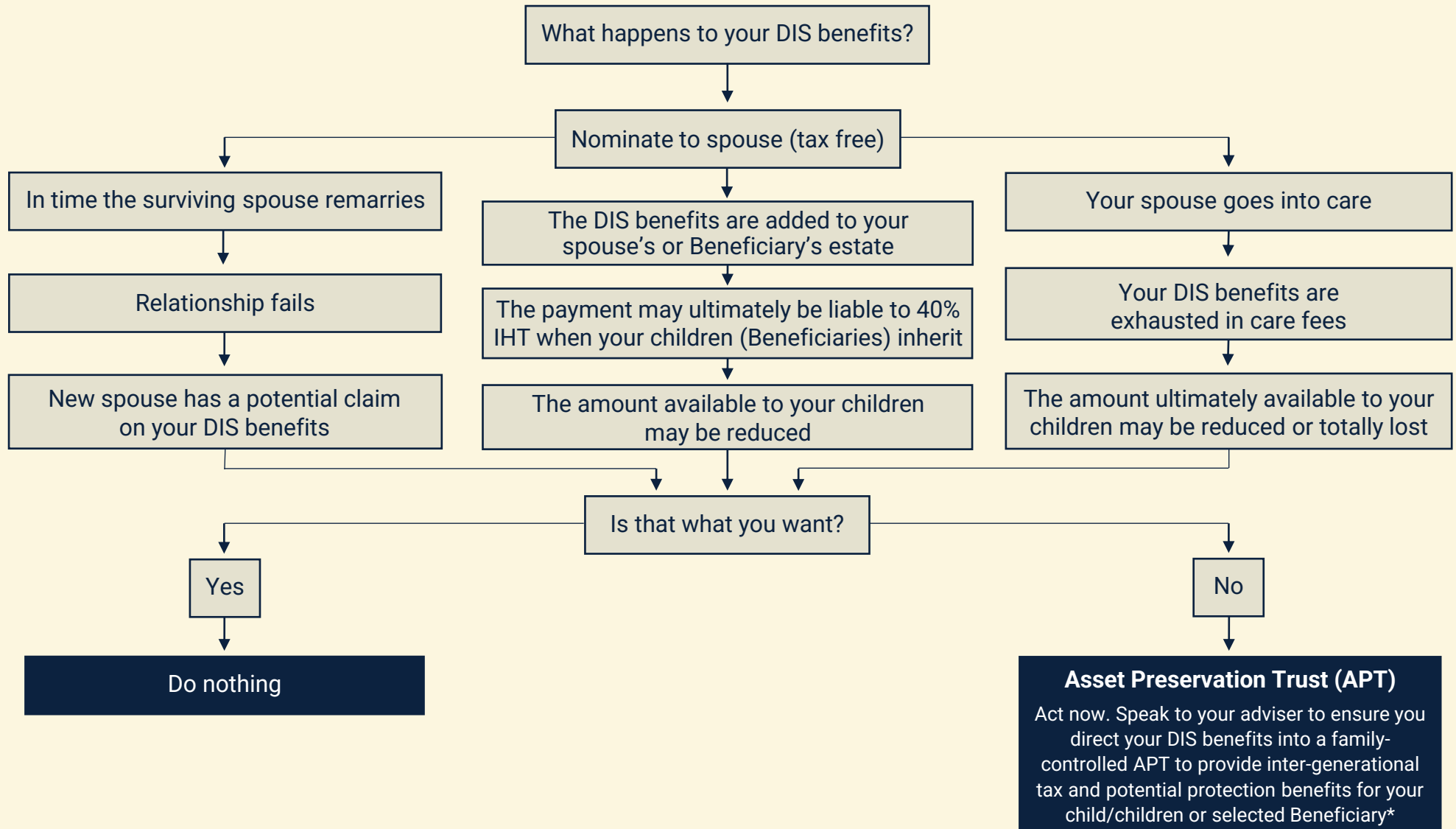
If you look ahead, you will see the potential threats that may arise in the future.

Act now to address any concerns you may have.

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*Check with your employer if (at their discretion) you can nominate your DIS benefits to your APT for your chosen Beneficiaries.

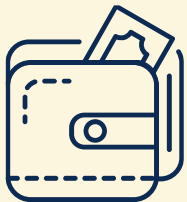
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Protecting your DIS Benefits – The Asset Preservation Trust (APT) from Solidus

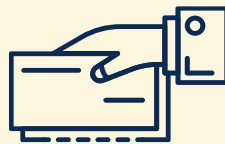
- Instead of nominating your spouse to receive your DIS benefits, your employer's scheme may allow you to nominate a family Trust to receive the tax-free lump sum.
- This will not affect the tax treatment of the payment.
- The payment will be made to your chosen Trustees, who are often also the Beneficiaries.
- The Trustees will take advice from your estate planner or their successor or from and Solidus.
- The Trustees can invest the sum to provide a regular income (useful if a spouse only requires income).
- Alternatively, Trustees have powers to make loans to the surviving spouse, which means such advances can potentially be protected from a third party (new partner). This can also have tax benefits.
- The DIS benefits are outside the surviving spouse's estate for IHT purposes and will not be subject to inter-generational taxation.
- Capital sums can also be advanced to the surviving spouse with the agreement of the Trustees.



DIS benefits pass into the APT tax free on your death



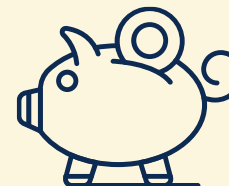
Trustees receive guidance from your "Letter of Wishes"



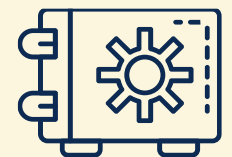
Trustees can engage Solidus through their estate planner



Assets are invested to provide income or loaned to the surviving spouse



Any loans are repaid on death are available for the next generation tax free



The APT offers potential protection for your children or Beneficiaries and inter-generational tax efficiency

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Case study

Raj and Sarah are married and have two children. Sarah has DIS as part of her benefits package. She has nominated her DIS benefit of four times her salary into her APT on her death. Their daughter is married and financially independent in her own right. Their son is divorced and has a new partner who Sarah and Raj are less than fond of. Sarah and Raj do not want to pay unnecessary tax and their estate is on the margin of becoming liable for IHT in the future. Their priorities are to support each other and to maximise the inter-generational wealth transfer to their children.

As Sarah's DIS benefits are directed to Trust she has chosen her Trustees carefully and, with the assistance of her estate planner, has briefed the Trustees on how the six-figure Trust Fund (her DIS benefits) is to be used.

She predeceases Raj and her APT receives the full proceeds of her DIS benefits. The sum is loaned from the Trust to Raj and invested in his name by his estate planner. Raj never remarries and does not go into care, so these potential risks do not materialise.

When Raj dies, his estate is over the IHT limit. However, as the loan value is deducted from his estate the gross estate falls below the IHT threshold and there is no IHT to pay.

Their daughter receives her share of the Trust Fund by means of a loan, as her marriage is stable. The daughter is a Trustee, and she understands that this approach will give her access to the funds to invest but will not add to her own family wealth for IHT purposes. Ultimately her own children will inherit the sum free of IHT as part of the inter-generational tax planning.

Their son's share is invested to provide an annual financial return as income because of his personal circumstances and his uncertain relationship. The capital will be protected.

Similar protective Trusts have been put in place for Sarah's pension, life cover and property and investment assets.

Frequently Asked Questions

- **Can my DIS benefits definitely go into an APT?** The majority of DIS benefits can go into an APT at the discretion of your employer. We encourage you to check with your employer before establishing your APT.
- **Is an APT expensive to set up?** No, as a proportion of the value you protect it is typically much less than one percent of the DIS benefit.
- **Is an APT expensive to run?** No, nothing goes into your APT until you die, so until then there may only be an occasional cost, e.g. for changing a Trustee. There will be some initial costs for advice when you die.
- **Who should my Trustees be?** We encourage you to consider adult family members or trusted friends. Speak to your adviser for guidance.
- **What happens if I change employer?** No problem, just fill out a new nomination form from your new employer to direct benefits to your APT.
- **How long does my APT last for?** 125 years in England and Wales and 80 years in Northern Ireland. Most families use them for at least one further generation.
- **Are Trusts taxed?** There is no tax on funds going into the APT. A Trust is like a person and has its own tax allowances for Income Tax, Capital Gains Tax and Inheritance Tax. Your Trustees can take advice in the future.
- **Can an APT be contested?** Trusts can face claims from third parties but without an APT there is no protection.

Act Now: Contact your estate planner to progress your APT application.



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Disclaimer – The contents of this e-brochure should not construe as advice, and you should consult your estate planner. The provision of Trusts is a regulated activity administered by the Solicitors Regulation Authority and not the Financial Conduct Authority.

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