

Protection of the Estates of Blended Families



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Generally, relatively few blended families receive adequate advice on the protection and inter-generational tax planning of their estates, 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 the desired outcomes for blended families. The use of lifetime and deathtime Trust frameworks is a popular, reliable solution but many clients are rarely advised to use them by legal service providers and may be led to believe they are overly complex and expensive to maintain which need not be the case.

Many couples within blended families do not even have Wills and do not fully understand what difficulties can be created at probate, and that their assets may not be directed where they would like them to go under intestacy rules. Their spouse is often excluded from benefiting from the residual estate.

Thankfully, the majority of blended families at least have simple Wills that direct assets “absolutely” to their chosen Beneficiaries which is effective for directing wealth but inefficient in protecting it and extremely tax ineffective when assets are directed to a Beneficiary where spousal exemption rules do not apply.

If you are a parent or have family members who you wish to benefit from the wealth you have created during your lifetime, you must consider possible future outcomes that may befall your chosen Beneficiaries and address any concerns that you may have now or that may emerge in the future.

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Common concerns many blended families have are:

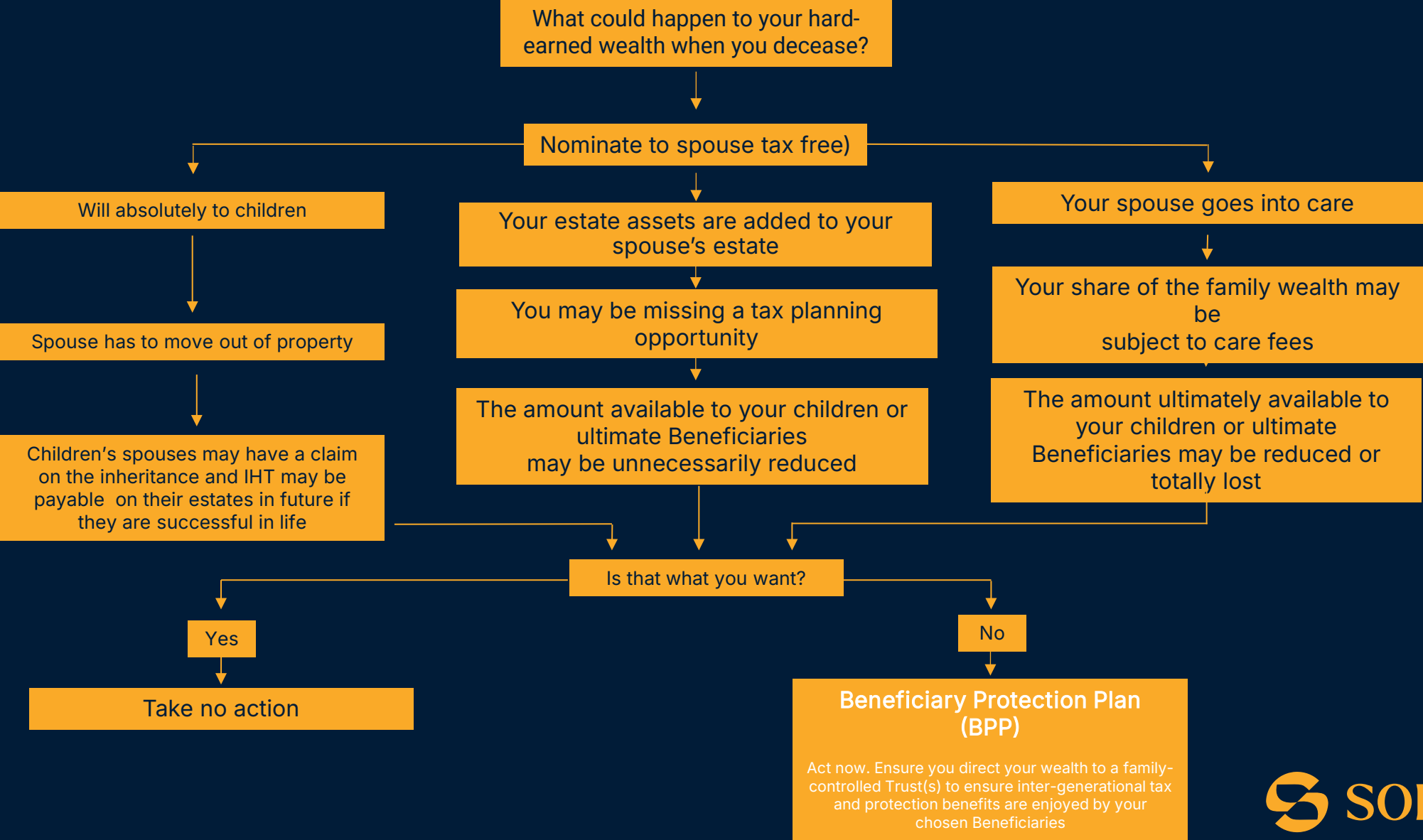
- If your spouse enters into a new relationship after you die, your share of the estate will be protected for your spouse and ultimately guaranteed for your chosen Beneficiaries.
- What is the risk to your wealth following your death?
- If you leave your estate to your spouse and they require long term care, what will happen?
- Loss of tax allowances because your Wills are tax ineffective.
- Will your assets ultimately pass to your chosen Beneficiaries after your spouse deceases if they change their Will?
- What would happen to the inheritance the chosen Beneficiaries receive if they were to divorce?

- There may not be IHT payable when you die but it means your spouse's estate is highly likely to pay IHT because of your combined wealth.
- If you have an estate that may creep into the realms of IHT when the second of you deceases, a Beneficiary Protection Plan may help to reduce the tax burden for your primary Beneficiaries.

If you look beyond the inheritance to the Beneficiary, you will appreciate the many potential issues that exist and some of them are unique to blended families.

Many of the protection and tax issues can be effectively addressed with enhanced planning and advice using a Beneficiary Protection Plan from Solidus.

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The Beneficiary Protection Plan (BPP) Only from Solidus



On first death your estate passes into a bespoke Trust framework on your death



Trustees receive guidance from your "Letter of Wishes"



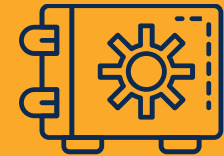
Trustees can engage Solidus through their estate planner for advice



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



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



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



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- Instead of nominating your spouse to receive all of your share of the family estate you can direct some or all of it on your death in a protective and tax efficient manner into a suitable framework to achieve your desired objectives, whilst still supporting your spouse.
- This will not require any lifetime transfers or change your control of assets.
- On the death of your spouse the assets which you have protected can pass into one or more BPTs for the benefit of your children or ultimate Beneficiaries.
- Your spouse's estate will pass into one or more Beneficiary Protection Trusts for your children or ultimate Beneficiaries. There may be IHT to pay depending on the estate value and assets.
- The Trustees can invest the sum to provide a regular income or alternatively, Trustees have powers to make loans to your children or chosen Beneficiaries, which means such advances can potentially be protected from a third party (e.g. their spouse).
- The Trustees will take advice from your estate planner, or from Solidus on claiming any available RNRB tax allowance, maintaining the benefits for the surviving spouse and will ensure protection is delivered in a tax efficient manner.
- The Trust assets are outside the Beneficiary's estate for IHT purposes and will not be subject to inter-generational taxation.
- The framework can be set up and controlled by the family and can be maintained in a relatively low-cost efficient manner.

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Case study

Brian and Claire are a married couple who have a modest estate with no IHT concerns currently. They both have children from previous relationships. The main asset is their house, which they own 50% each. They have Wills leaving their assets to their own children but as they have now been together for a significant time, they would like their spouse to continue to live in the house when the first of them decease but want to ensure their wealth ultimately passes to their own children in a protective manner.

Brian's son is divorced and has a new partner who Brian and Claire are less than fond of. Claire's daughter is in a stable relationship but is independently wealthy. Their priorities are to support each other but wish their liquid assets to pass to their own children when each of them decease and to maximise the inter-generational wealth transfer to their children. They established an advanced Beneficiary Protection Plan structure with their adviser to address their estate planning concerns. Their estate assets are directed to Trust on death. They have chosen their Trustees carefully and, with the assistance of their adviser, have briefed the Trustees on how their residual estate assets are to be used.

Claire predeceases Brian and her share of the main residence is protected in Trust. Brian continues to benefit from the house and after a few years downsizes and moves closer to his son. Claire's savings and investments pass to her daughter in a protective manner via a family trust so as not to add to her daughter's estate for IHT purposes. When Brian dies Claire's share of the property is guaranteed to pass to Claire's daughter's Trust, 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 benefits,

Brian's estate (after the payment of any IHT) will be directed to a separate Trust for his son. Their son receives some capital, but the bulk of his inheritance is invested within the Trust structure, in order to provide an annual income. He continues to have an uncertain relationship and he wants to ensure the capital will potentially be protected for his children. Similar protective Trusts have been put in place for Brian and Claire's DIS, pension and life cover.

This is a common situation that many blended families have to deal with, along with other issues such as care fees for older clients. With more advanced planning using a Married Couples Beneficiary Protection Plan from Solidus, protective benefits for the spouse and children can be readily provided, which enable the surviving spouse to continue to live in a property, and guarantee that ultimately it will pass in an IHT efficient manner to their own children or chosen Beneficiaries.

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Frequently Asked Questions

- **Can all our property and investments be directed into a BPP when we die?** The majority of personally owned assets can go into a BPP apart from specific assets like ISAs which may be transferred to a spouse or cashed in.
- **Is a BPP expensive to set up?** No, as a proportion of the value of the estate you want to protect is fractional.
- **Is a BPP expensive to run?** No, apart from some minor admin costs until the first spouse deceases, there are no other costs. There are some costs when each of you decease. After both of you have passed away, we encourage continued family involvement where costs are kept low by paying for advice and services only when required. There may be an occasional cost, e.g. for changing a Trustee.
- **Who should our Trustees be?** We encourage you to consider each other and adult family members, or trusted friends. Speak to your adviser for guidance.
- **What happens if we want to change our estate distribution?** No problem, often your new Wills do not need changing and your wishes can be accommodated with new instructions to your chosen Trustees by means of a Letter of Wishes.
- **How long does our BPT last for?** 125 years in England and Wales and 80 years in Northern Ireland. Most families use them for at least one further generation.
- **Will our BPT be taxed?** There is no tax on funds going into your BPP framework. After that 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 our executors claim the RNRB if our residual estate passes into a BPT?** Yes, at probate your Trustees can elect to appoint out any required value within two years of your death. Unlike simple Wills which may impact RNRB allowances the BPP planning should maximise available allowances.
- **Can a BPP be contested?** Trusts can face claims from third parties but without a BPP there is no protection.

Contact your estate planner in order to progress your Beneficiary Protection Plan application

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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