

# Protection of the Estates of High Net-Worth Couples



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Generally, relatively few high net-worth clients 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 guaranteed outcomes for the distribution and protection of your estates. If you do not have Wills, you may be unaware of the complexities and misdirection of wealth that can occur under intestacy rules. If you, like so many couples have simple Wills directing your estate to each other and then to your chosen Beneficiaries in equal shares you should achieve your desired distribution, but you may be missing an opportunity to protect the surviving spouse's interests. Importantly, you may also be missing key tax planning opportunities which are overlooked in most higher value estates, and you will not provide inter-generational benefits to your chosen Beneficiaries.

The unpredictability of life requires us to be prepared but you ought to act now to address the shortfalls of the most common estate planning arrangements, particularly the taxation considerations which require bespoke planning. On the death of the first of you, protective and tax efficient planning can be put in place and similarly protection, flexibility and inter-generational tax planning can be delivered to the ultimate Beneficiaries of your estate when both of you have deceased.

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A customised plan for your family may address any number of concerns such as;

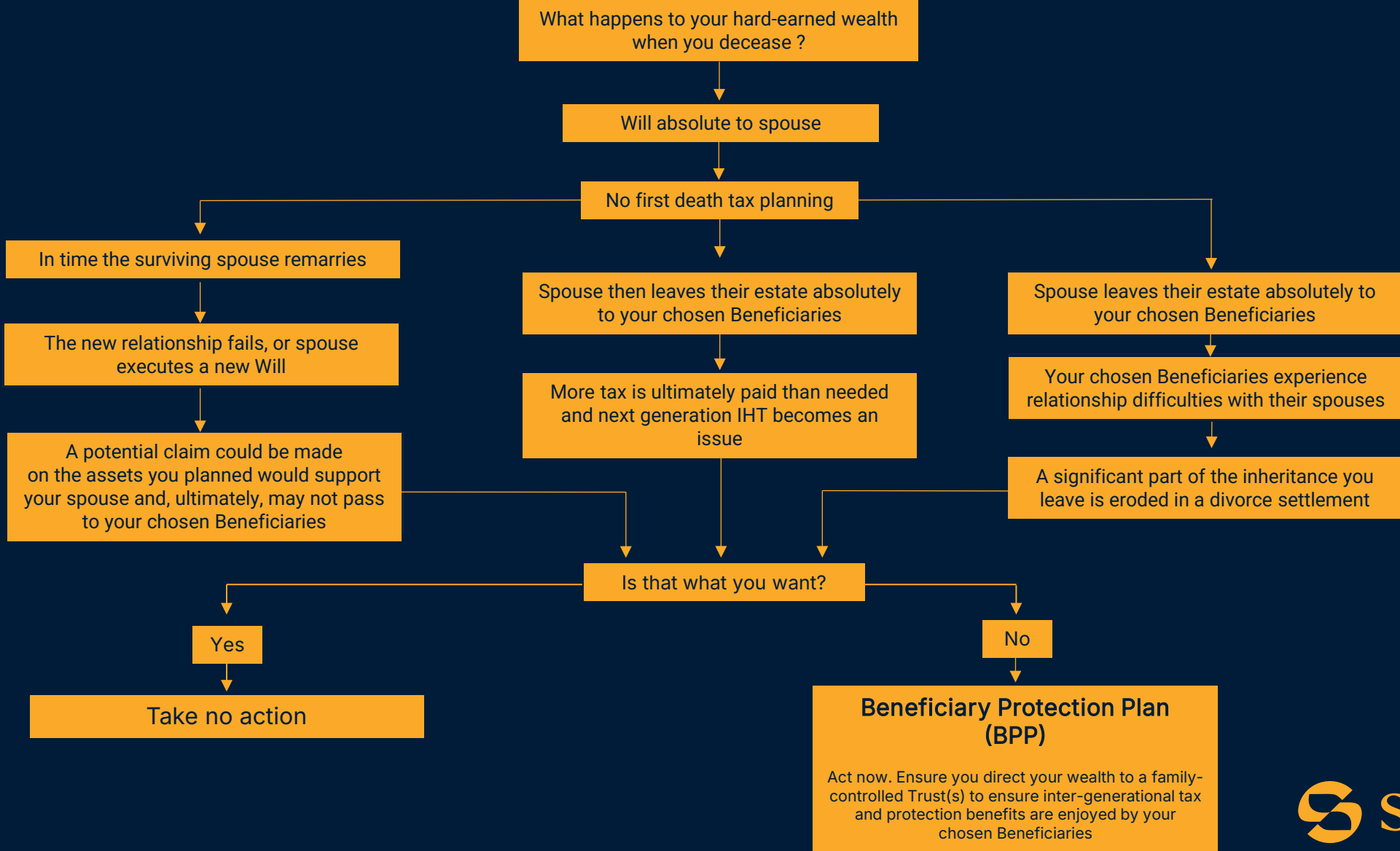
- Risk to your wealth following the death of the first spouse e.g. remarriage.
- Loss of tax allowances because your Wills may not maximise available tax allowances.
- Redirection of the first to die's estate if the surviving spouse changes their Will.
- Potential loss of the inheritance left to your chosen Beneficiaries 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.
- Erosion of wealth when the inheritance left to your Beneficiaries is left to future generations e.g. your grandchildren.

If you look beyond the direction of your estate to your nominated Beneficiaries, you will appreciate the many potential issues that exist and some of them are unique to high net-worth clients.

Many of the protection and tax issues can be effectively addressed with enhanced planning and advice using a Solidus Plan or Beneficiary Protection Plan from Solidus, customised to your specific circumstances.

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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"



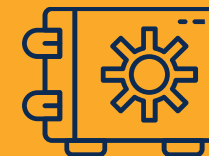
Trustees can engage Solidus through their estate planner for advice



Assets are invested to provide income or loaned to Beneficiaries



Although IHT may be paid when the second spouse dies inter-generational tax savings are provided



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



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- Instead of your spouse inheriting from you absolutely, a new integrated Solidus Will nominates one or more Trusts (customised to your estate needs) to receive the benefits, and your spouse will be the primary beneficiary of the majority of assets.
- The BPP first death framework will provide both protection and the maximisation of available tax allowances and will ensure the inheritance then passes to your chosen Beneficiaries, which typically will be your children and other intended parties.
- The Beneficiary Protection Plan framework deals with assets when the surviving spouse deceases and is established now and unlike a Will Trust may be used during your lifetime to protect some lifetime transfers if appropriate, otherwise no assets will be transferred until you decease.
- The residual estate gift that passes on your death will be managed by your chosen Trustees (who are often family members and can also be Beneficiaries).
- 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.
- Trustees can decide to invest some or all of the Trust Fund in order to provide a regular income (useful if a Beneficiary is not good with money or the capital is ultimately destined for other Beneficiaries e.g. grandchildren).
- Alternatively, Trustees have powers to make loans to Beneficiaries which means with appropriate advice, such advances can be potentially protected from a third party. Capital sums may also be advanced.

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## Case study

Claire and Brian are a married couple who have a significant estate with joint assets worth more than £2 million. They have Wills leaving assets to each other and then to their two children. They would like to reduce their IHT liability if they can and are concerned about their wealth passing to their children unprotected. Their daughter is independently wealthy, and they are concerned that their grandchildren may pay IHT in future years on the inheritance. The son is in a difficult relationship and fears that his inheritance may be subject to a future divorce concerns them greatly.

These are the three most common concerns for many clients with an IHT and protection requirement. With more advanced planning using a Beneficiary Protection Plan, protective benefits for the spouse and children can be provided and potential IHT benefits realised.

Brian and Claire asked their estate planner to put a BPP framework in place for them to replace their simple, ineffective Wills. Brian predeceases Claire. First death planning delivers IHT savings of £70,000 and protection. Claire is also able to downsize from their property and uses the framework for some lifetime gifting which ultimately saves further tax, as she survives 7 more years. When Claire deceases, the planning helps to fully benefit from available RNRB allowances and in total IHT savings of up to £140,000 may have been realised. The children now have access to the funds from the Trusts their parents established.

Their daughter receives the benefit of her BPT 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 benefits,

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 the DIS, pension and life cover.

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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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