



News Article

SEVENTYSEVEN WEALTH MANAGEMENT

Are turkeys really voting for Christmas? A reminder of the key attributes of Trusts

BY PAUL LUETCHFORD, CEO, SEVENTYSEVEN WEALTH MANAGEMENT

In our experience inheritance tax receipts have doubled; we are about to see the largest transfer of wealth between the generations than ever before; and the number of family trusts being established have halved. This begs the question, are turkeys voting for Christmas?

Somewhat perplexed by this and with a sense of responsibility we have given this much consideration. Is it that there is a sudden sense of benevolence toward the country's tax coffers, or perhaps we are collectively embracing the Warren Buffet mantra of "leave your children enough to do anything but never enough to do nothing"? A line if taken literally is perhaps lost on the mere mortals amongst us. The sentiment however is echoed quite regularly when discussing passing of your life's labour to your chosen few.

Neither of these two arguments really make sense. We have seen little shift in our clients' desire to pay more tax than is morally and legally demanded of them even if it comes with some limiting factors. What is far more plausible is an assumption that the inheritance tax regime has softened along with our inherent knack of putting the matter of death and taxes off to tomorrow.

My last article, The Great Wealth Migration and the Silent Estate Killer, generated much debate. The reason for this is that we are heading for a period of unprecedented intergenerational wealth transfer at a time where tax rates have effectively risen – over the last decade we have seen a doubling of estate's tax bills just before the baby boomers' wealth moves to the next generation at its highest concentration.

The interest in my article prompted me to look closely at the level of action being taken by tax payers to legitimately avoid paying tax. Measuring purely the number of family trusts being effected by our private clients we have seen an almost 50% fall in the number of trusts being established. This is despite there being no obstacle to doing so and in fact many benefits.

I'm sure that we don't want to pay more tax and consequently pass down less to our loved ones. We are either unaware of the problem or unaware that there are solutions. In reality it appears to be a combination of the two coupled with a degree of general and rather concerning apathy for the subject.

Let's explore the other benefits of family trusts. The most important is to protect inexperienced beneficiaries. We've all heard stories of footballers blowing their fast money on fast cars. We don't want an 18-year-old inheriting a lump sum with no life experience. The trustees work with the beneficiaries to ensure that funds are allocated in the most effective manner and safe-guard assets for future generations.

Another benefit of Trusts is that the assets are kept in the wider family unit. The saying goes that you trust your children but not necessarily who they marry. If discretionary trusts are well used, they're a strong defence against predatory acquaintances of beneficiaries.

Discretionary Trusts which are used most commonly by our clients are very flexible. The assets do not form part of anybody's estate. In the event of death the assets are not subject to any delays waiting for probate so can be distributed immediately. You can also change the beneficiaries. They are adaptable – as life changes the trust can change with you. When you write a Will* it is set in stone until you rewrite it. Despite often writing it several years before we die. Making it at best a guess. This causes us to vary a large number of Wills* after death with deeds of variation. In our practice almost half our clients Wills* are varied.

A final benefit, along with being relatively inexpensive to establish is the ability to manipulate assets for tax purposes. Trustees have the ability to allocate funds to beneficiaries based on tax allowances. A direct beneficiary may be a higher rate tax payer but their spouse is not, so the assets can be allocated to the spouse.

Given all these benefits, and little downside, we encourage more clients to consider family trusts. After all, the paying of inheritance tax is largely voluntary. If you can spend a little time early on structuring your affairs before the inevitable, not only will you pass on a larger legacy but also peace of mind.

The levels and bases of taxation, and reliefs from taxation, can change at anytime. The value of any tax relief depends on individual circumstances.

*The writing of a Will involves the referral to a service that is separate and distinct to those offered by St. James's Place and along with Trusts are not regulated by the Financial Conduct Authority.



SeventySeven
Wealth Management



telephone: 01892 770 077
email: 77wm@sjpp.co.uk | web: www.77wm.co.uk