Helping your loved ones

Simple steps to providing for your family and friends

Standard Life
Part of Phoenix Group

Contents

Before you make any financial planning decisions, you need to know what the risks and commitments are. Read the relevant key features document. It will help you decide if the product is right for you. If you're still not sure what to do, speak to your financial adviser. This guide should not be considered as financial advice.

Laws and tax rules may change in the future. The information here is based on our understanding in June 2024. Your personal circumstances and where you live in the UK will also have an impact on tax treatment.

How can I take control of who gets what?

'Family wealth transfer', asset protection, inter-generational planning. There are lots of different ways to talk about estate planning. And usually it sounds complicated. But in a nutshell, it's just making sure that your money, property and possessions end up in the hands of the people you love. In other words, it's all about control.

It's about planning your finances and protecting your assets, both now and in the future. And of course no-one really wants to think about dying. But wouldn't it be reassuring if you knew that what you've worked for would be enjoyed by your family or friends?

Simple steps to protecting your assets

You need to know how much everything you own is worth before you start. Once you know that, you can figure out if your estate might have to pay inheritance tax.

Taking steps to reduce your inheritance tax

There are gifts that don't attract an inheritance tax charge when you make them. These gifts can also reduce the value of what your estate will be taxed on when you die. So you should make the most of these first if you can.

The importance of making a Will

Make sure your possessions are given to the people you choose, and make things easier for your family and friends at a difficult time. A Will is an essential part of your plans. Turn to page 10 for more information.

Granting a power of attorney

Make sure your finances aren't frozen if you become unwell. Appoint someone you trust, so your finances tick over while you're unable to manage them.

More control over who benefits from your pension pot

Your Will doesn't normally control who inherits your pension pot. Have you nominated who you would like to inherit your pension pot on your death?

You can do this by completing a Beneficiary Nomination form, indicating your preference and your pension provider will take this into account when they decide who to pay it to.

Using a trust for control

A trust can help protect your assets both now and in the future, so that your assets end up in the hands of your chosen loved ones when you die.

Our trusts provide flexibility, control and tax efficiency. Details of our range of trusts start on page 15.

Some important definitions

An 'estate' isn't just for people with country houses and acres of land. Everyone leaves behind an estate when they die. It's just the total of all your possessions and property minus debts. And your estate can be liable for a tax bill after you die.

When we talk about your 'assets', these can be anything you own that could be worth something. For example some of your assets are your house, your car, and the cash in your bank account.

And when we talk about 'protecting' your assets, we're not referring to the value of your assets. The value of assets can go down as well as up. Instead, we're referring to making sure that only the people you want to get your assets will get them.

If you are unsure or need a further information you should speak to a financial adviser.

Inheritance tax

Why planning for inheritance tax is important

You've worked hard all your life to get where you are and no doubt having the ability to pass on your wealth to those you care about is important to you.

Without careful planning and advice from your financial adviser, your loved ones could face a tax bill that they would need to pay before your estate can be settled.

This could cause your loved ones additional stress exactly at the time when they need it least. Putting plans in place now could make a big difference and give you peace of mind that those you want to benefit from your estate will.

Inheritance tax receipts

Although inheritance tax accounts are still a relatively small proportion of total UK tax receipts, it is still a significant amount.

In the past, the view was that inheritance tax was only ever paid by the very wealthy in the UK.

However, owning your home and having sufficient savings to provide a comfortable life after work, could leave your estate with an inheritance tax liability.

How it works

Inheritance tax used to just be a tax on the very wealthy. But things change, and it's now likely to affect more people, who may end up leaving a tax bill when they die.

Inheritance tax is usually paid on your estate when you die, if it's over a certain value. It's sometimes payable on gifts made during your lifetime too.

Your estate is worth less than £325,000	**=**	**No inheritance tax**
Your estate is worth more than £325,000	**=**	**40% inheritance tax charge on the excess***

* unless an inheritance tax exemption and/or the residential nil rate band is available

When we refer to your estate here, it includes any gifts made in the seven years before death.

Each person can have an estate of up to £325,000 before their estate will be charged inheritance tax. This £325,000 threshold is often called the 'nil rate band' and has been frozen since 2009. In addition to the £325,000 nil rate band you can claim a residential nil rate band of up to £175,000 where your family home passes to your children and/or grandchildren when you die. This means you could have no inheritance tax to pay if your estate is worth less than £500,000. It may be possible to transfer any unused nil rate band and your residential nil rate band to your spouse or civil partner. So if you're the surviving spouse or civil partner you could have a threshold of £1,000,000 to use on your estate when you die. If you wish further information on this please speak to your financial adviser.

Does everyone in the UK have to pay inheritance tax?

This depends on your **domicile**. You are normally domiciled in the UK if you have your permanent home in the UK. It is not the same as nationality or residence.

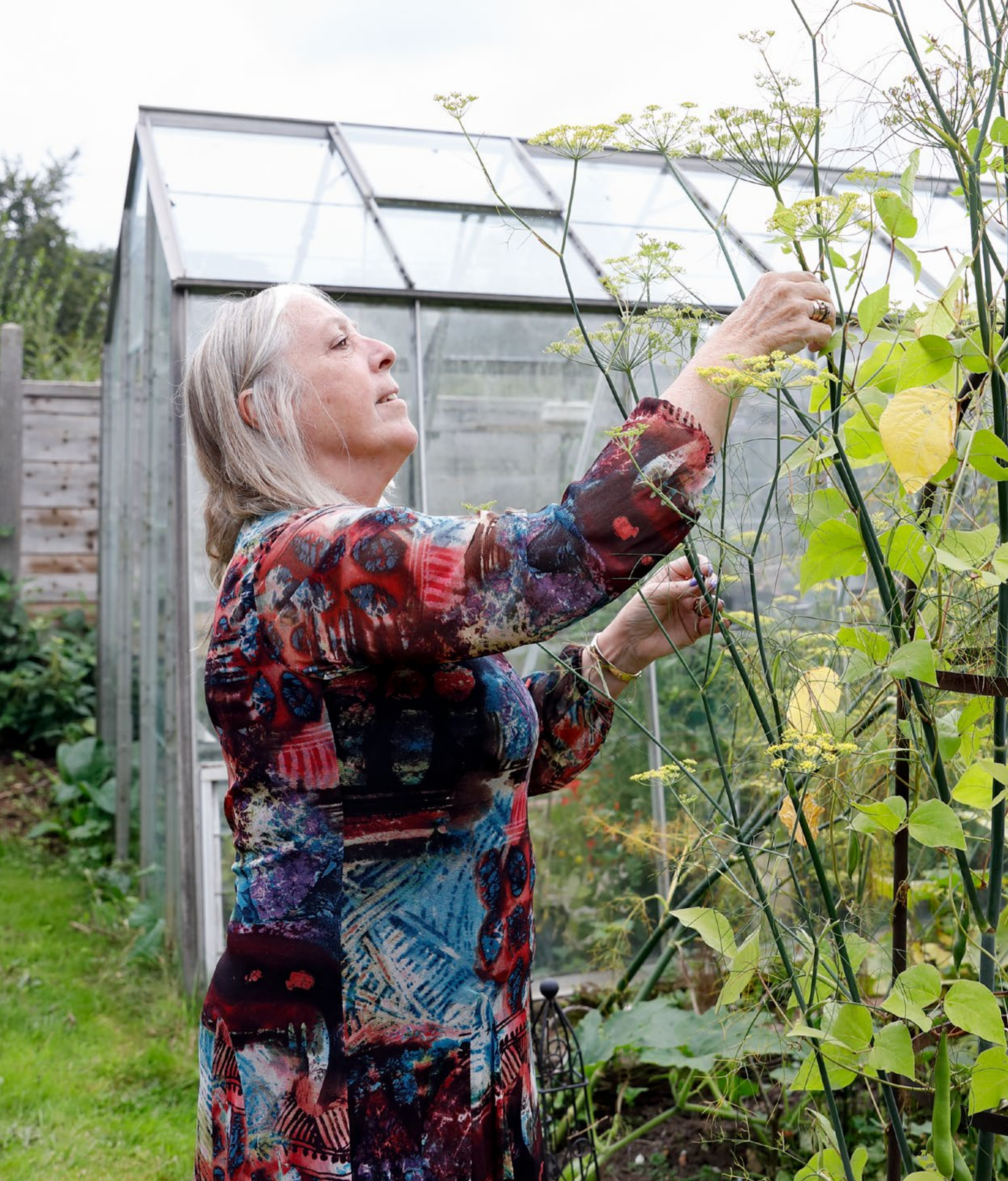
Sometimes you will be treated as domiciled in the UK even if you don't have your permanent home in the UK at the moment.

If you are domiciled or treated as domiciled in the UK, inheritance tax can be payable on certain lifetime gifts and on death, wherever your assets are in the world.

Where you are domiciled is an important issue, as it has an impact on how inheritance tax will be applied. If you think this issue could affect you, speak to your adviser for more information and advice.

Your estate is the total of all your possessions and property minus your debts.

And if your estate is worth more than your inheritance tax threshold, your estate could be charged inheritance tax – unless you act now.



Do you know how much you're worth?

Most people don't know the answer to that question. And even if you make an educated guess, there will probably be things that you forget about.

If the total value of your assets is over £325,000, 40% of anything over that may have to be paid in inheritance tax, unless an exemption applies.

Please see page 2 for details of the residential nil rate band that can be used on your family home.

Things to consider

Assets you might own	An example	Your assets
Your home (i.e. your share of it)	£900,000	
Any other property e.g. holiday home		
Your household contents including jewellery	£55,000	
Cars, boats, caravans	£25,000	
Cash (including bank accounts)	£110,000	
Investments (including stocks and shares)	£200,000	
Life assurance (which is paid to your estate)		
Anything you've inherited (from a relative or friend)		
Any gifts you've made in the last seven years (including into a trust)		
Total	**£1,290,000**	

And debts your estate could have to pay

Debts your estate might have to pay	An example	Your debts
Your share of any outstanding mortgage		
Funeral expenses	£5,000	
Other loans outstanding		
Other debts (overdraft, credit cards, utility bills etc.)	£1,000	
Total	**£6,000**	

Here's how the tax bill is calculated

Total assets	–	Total debts	=	Value of your estate
Value of your estate	–	Your additional/nil rate band entitlements and any exemptions	=	Value that could attract an inheritance tax charge

Where we refer to your estate here, it includes any gifts made in the seven years before death.

Take 40% of this value, which gives you the total inheritance tax bill

Remember, anything passing to your surviving spouse or civil partner is exempt, but you need to consider what happens when they die. If your spouse or civil partner is domiciled outside of the UK, this exemption may be limited.

For a married couple, or civil partners, on second death[1]

Total assets £1,290,000	–	Total debts £6,000	=	Value of the estate £1,284,000
Value of the estate £1,284,000	–	£1,000,000	=	Value which could attract inheritance tax: £284,000
Inheritance Tax is charged at 40%			=	£113,600

[1] This example assumes the surviving spouse/civil partner inherited the inheritance tax nil rate band and residential nil rate band in full. And that the family home qualified for the residential nil rate band.

Are your assets below your inheritance tax threshold?

Then you don't need to worry yet about losing some of your estate to pay an inheritance tax bill. But have you made sure that your assets are protected now and in the future, so that they'll end up in the hands of your chosen loved ones when you die?

A trust could still be beneficial and a Will is absolutely essential. Make sure you read these important sections.

Making lifetime gifts

Exempt gifts

Gifts reduce the value of your estate, which can lead to a lower inheritance tax bill when you die. And there are a number of gifts which are free of inheritance tax when they are made.

Taking the first steps

Reducing the inheritance tax that could be paid by your estate doesn't have to be complex. There are some simple and effective ways to do this. And you can start now.

Record keeping

It is vital to keep a note of the gifts you make. That's because it makes it easier for your family to claim exemptions if you die within seven years.

We can provide a gift record to help you with this. Keeping a record of who you made the gifts to, their value and the date they were made, should speed up any of the checks that may have to be made with the government.

Non-domiciled spouse or civil partner?

There are different ways that inheritance tax could apply to non-domiciled spouses or civil partners.

If you think this may affect you, speak to your financial adviser for more information.

Type of exempt gift	Exempt value
Transfers between UK domiciled spouses or civil partners	Unlimited
Annual exemptions You can make gifts every year using this exemption. If you don't fully use it one year, you can use what's left in the following year.	£3,000 a year (or up to £6,000 if you didn't use it the year before)
Small gift exemption You can give small gifts to as many people as you like in one tax year up to £250. You can't use it towards the value of a gift for more than £250. And you can't combine it with the £3000 annual exemption as one gift.	Up to £250 a year per gift per recipient
Gifts on marriage You can make a gift to a family member or friend who is getting married/ entering into a civil partnership. How much is exempt depends on your relationship to the recipient.	£5,000 from each parent £2,500 from each grandparent £2,500 by the bride and groom to each other £1,000 to anyone else
Gifts to charities	Unlimited
Normal expenditure out of income Regular gifts made from surplus income could be exempt. But you need to prove that you have enough income left to maintain your usual standard of living. And there needs to be a pattern to the regular gifts.	Varies, depending on your surplus income

"I know I'm lucky – I don't have to worry about getting by. So when Christmas comes around, I like to give my daughter extra help with the cost of presents for my grandchildren. I don't miss it, and I know it means a lot to her."

Gifts which may attract a charge

Potentially Exempt Transfers (PET)

These gifts come with a seven year clock – they'll only be exempt from inheritance tax if you live for seven years after making them. If you die within seven years of making the gift, the value of it gets added to the value of your estate. This may change the amount of inheritance tax due when you die.

Chargeable Lifetime Transfers (CLT)

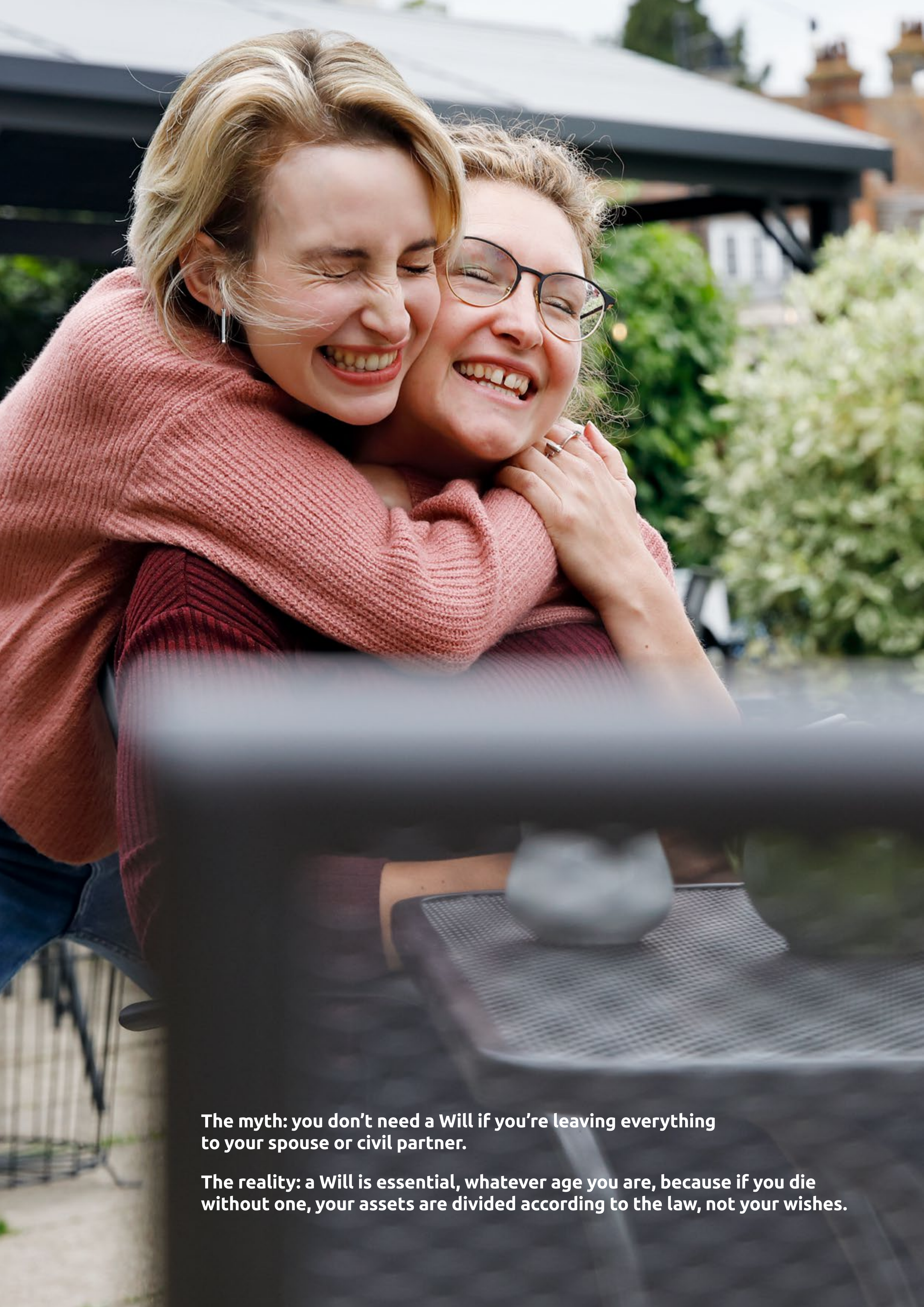
These gifts might involve an immediate 20% inheritance tax bill and a further inheritance bill if the date of death is less than seven years later. Many gifts don't have this immediate tax bill because they are under £325,000 and the person making the gift hasn't made this type of gift before.

Many gifts to a trust fall into the category of being a chargeable lifetime transfer.

Inheritance Tax Taper Relief

Inheritance Tax Taper Relief may be available to reduce the inheritance tax bill on the gift, depending on the years between making the gift and the date of death.

Please speak to your adviser for further information and advice.



The myth: you don't need a Will if you're leaving everything to your spouse or civil partner.

The reality: a Will is essential, whatever age you are, because if you die without one, your assets are divided according to the law, not your wishes.

The importance of making a Will

It's the key to protecting your possessions, and passing them on to the people you choose. And it makes things easier for your family and friends at a difficult time. So why do so many people put off writing a Will?

Reasons for making a Will

- To choose how you distribute your personal possessions
- To provide for your children and choose their guardians
- To make your funeral arrangements clear
- To leave money to your favourite charity
- To choose the right people to distribute your assets and look after your estate

Get advice and keep up-to-date

Professional advice is always recommended when it comes to legal matters. If you want to be sure that your assets are protected for your family and friends, taking legal advice is a good idea.

And you need to keep your Will up-to-date. Significant life events like getting married, divorced or having children all have a major impact on where you'd want your money to go, so it's essential that your Will reflects this.

What happens if I don't have a Will?

The law will decide what happens to your estate. So it won't necessarily be distributed to the people you want to have it. Your surviving spouse or civil partner may not automatically inherit the whole estate. And children would inherit at age 18 (16 in Scotland) which you might feel is too young.

So if you want to protect your assets, and make sure they go to people you love, a Will is essential. It also allows you to delay the age at which children inherit.

Do your family and friends know where to find your Will?

Once you've made your Will, you need to keep it in a safe place. And you need to tell your close family or friends where it is. If you've asked a solicitor to make your Will, they'll usually keep the original and send you a copy too.

If you have a financial adviser you should ask them if they would also like to have a copy of your Will. This will ensure your advisers are aware of your beneficiaries.

Granting a power of attorney

Myth

A power of attorney is only needed if you have concerns about dementia in later life.

Fact

An accident or illness can happen at any age which makes a power of attorney a useful tool for many people.

What's it for?

A Lasting Power of Attorney (Continuing Power of Attorney in Scotland) allows you to name someone who will look after your finances if you are unwell and cannot manage them yourself. This is key to keeping your finances ticking over. There is also a separate option to grant powers which relate to your welfare, if you wish.

Do I need to bother?

If you are not able to deal with your finances as a result of illness or accident, and you haven't granted a power of attorney, your family may have to go to court to have someone appointed to act on your behalf. Going to court is an expensive process which takes time. So you can save your family time and money by granting a power of attorney.

Guidance

Taking legal advice will keep you on track, as a power of attorney usually needs to be signed a certain way.

Control who benefits from your pension plan

In the past, a pension plan was often a fixed income for life. Now, with more flexibility both during your lifetime and for your loved ones later, some pension plans give you options to save, spend and pass on your wealth tax efficiently.

If you die before taking pension benefits, pension wealth may be passed to anyone you have nominated to receive your pension benefits, with no requirement for them to wait until they reach age 55 (rising to 57 from 6 April 2028) to access it.

Remember that your Will doesn't normally control who inherits your pension plan. You can add beneficiaries online, by telephone, or by completing our Instruction for payment of death benefits form (PPP36) which you can find on **standardlife.co.uk**

If you need any further help or support with this, you can call us on 0345 279 8861. We're open Monday to Friday. Call charges will vary.

Although we will take your wishes into consideration, Standard Life will decide who will receive your death benefits. And if we choose some or all of these people you nominate, they can decide to:

- take a lump sum,
- use it to buy a guaranteed income for life (an annuity) or,
- Keep the inherited pension plan invested tax efficiently, accessible at any age, drawing as much or as little as they choose (this is known as inherited drawdown). They can also nominate the next generation of beneficiaries to inherit the pension plan on their subsequent death. This allows pension wealth to be cascaded down the generations, with fully flexible access.
- if you die under the age of 75, these benefits will be paid free of income tax no matter which option your beneficiaries choose.

This flexibility means that using a beneficiary nomination to pass on pension wealth could meet the needs of most people.

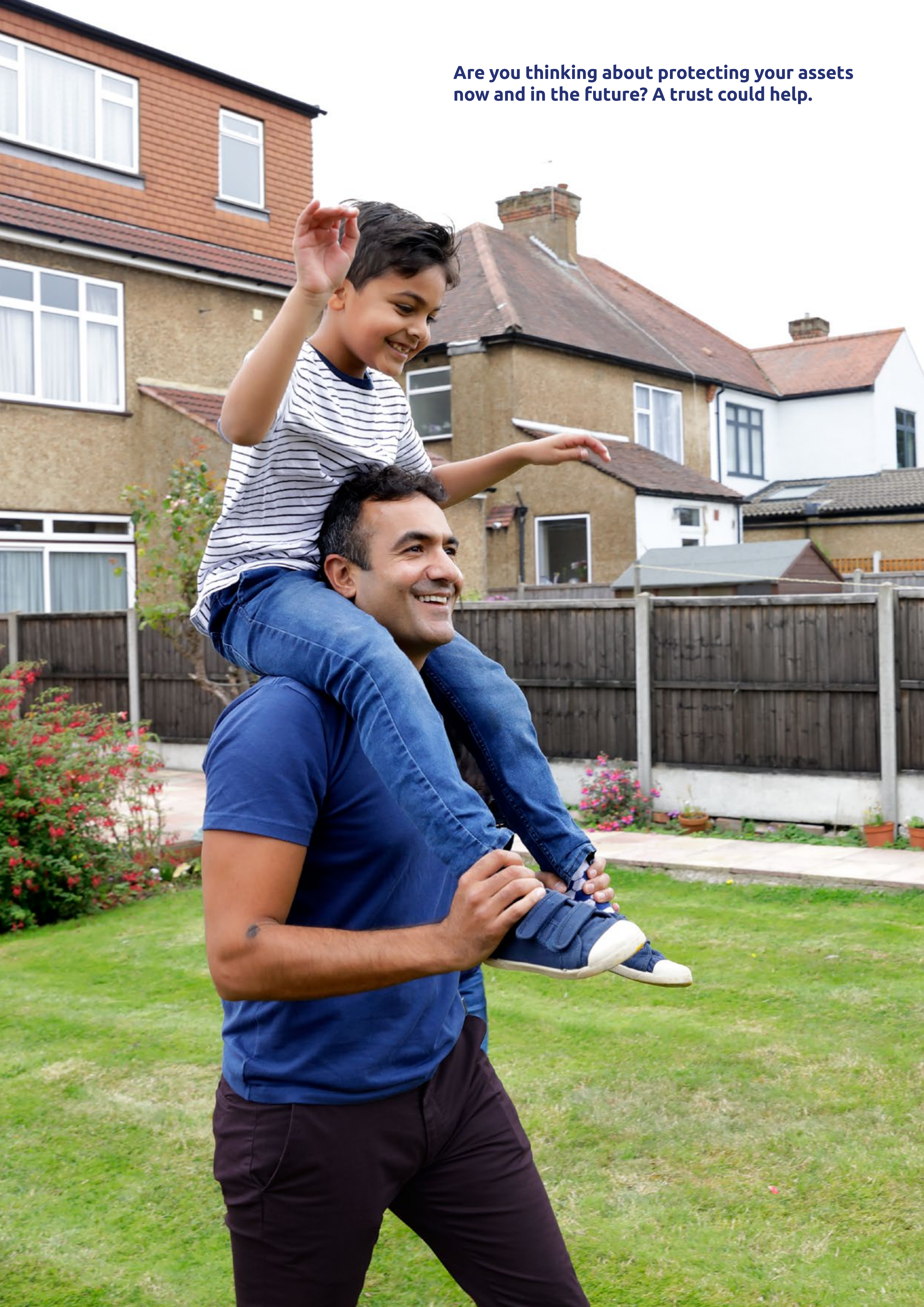
If however your circumstances mean that you want more control over who inherits your pot, and when, a bypass trust can sometimes be used to put your own chosen trustees in charge over who benefits and when – instead of the pension scheme administrator making that decision. This control may be a comfort where there are children from previous relationships, complex family structures or potential beneficiaries that may not be good at managing their money.

If you complete a bypass trust your pension provider will pay a lump sum to your trust from which family members can benefit. It's important to remember that if you die aged 75 or over, a 45% tax charge will be taken off before that lump sum is paid to your trustees. The trustees you appoint can be guided in their decision making by a letter of wishes from you – although they are not bound by it.

A bypass trust may or may not be the right thing for you and you should speak to your adviser to get guidance on what is best.

A pension plan is a long term investment which you cannot normally access until age 55 (rising to 57 from 6 April 2028). The value of your investment can go down as well as up and may be worth less than what was paid in.

Are you thinking about protecting your assets now and in the future? A trust could help.



Control who benefits from your gift

You may be ready to make gifts, but are you ready to give up control? How old and responsible is the recipient? When it comes to children and grandchildren, sometimes it's helpful to stay involved.

Three key questions to ask yourself when considering a trust:

1. Do you need access to your money?

Are you certain that you won't need to access the money in the future?

2. Who will you appoint as the trustees?

You can include yourself as a trustee. This can give you some control over the decisions that are made.

3. Who are your beneficiaries?

Do you know who they are now, or might they need to change in the future?

There are different types of trust depending on whether you've made your mind up about this.

Types of trust

- On the one hand, there's the Absolute Trust. This can suit people who want the beneficiaries to be fixed from the start.
- On the other hand, a Discretionary Trust suits people who want more flexibility and gives their trustees discretion on who gets what and when.
- We have a range of trusts to suit different needs described in more detail in the following pages:
  - If you need some access and don't want to gift capital right away, take a look at our Loan Plan on page 15.
  - If you don't need access to your capital but do need regular payments (e.g. to support your retirement lifestyle) read more about our Discounted Gift Plan on page 16.
  - If you're ready to give capital away completely, our Gift Plan could be useful. See page 17.

Each type of trust has different tax implications. So you should always take professional advice if you're considering a trust.

Standard Life trusts holding onshore bonds must register on the government's Trust Registration Service (TRS) (unless exempt). Those holding Irish offshore bonds (such as the Standard Life International Bond) must register on the government's TRS (unless exempt) and the Irish Revenue's Central Register for the Beneficial Ownership of Trusts.

It's the trustees' responsibility to register the trust. If you are not using a Standard Life trust and are unsure on registration obligations, please check with the solicitor who drafted your trust.

Choosing a trust

Trusts that hold an investment bond

Standard Life offers a range of different trusts that can be used to hold an investment bond. These trusts offer different things so you can choose the one that suits your needs best – this will mainly come down to whether you would like to have access to the money in the future. To find out more about our range of investment bonds please go to **standardlife.co.uk/savings/products**

If it is in trust, any increase in the value of the investment bond will not be in your estate. The Case Studies below assume you have have set aside money that can be used for your children if you don't need it back. The balance of any unpaid loan will be included in your estate when you die.

The details used in the case studies on pages 15 to 17 are for illustrative purposes only and should not be used as financial advice. We are not recommending that you follow the approach.

The Loan Plan

If you like the idea of a trust but aren't yet ready to make a gift, then the Loan Plan could be for you. You can be a trustee and because it's a loan, you can have repayments. You can start and stop them whenever you want and set them at the amount you want. Also, any increase in the value of the bond will not be in your estate when working out any inheritance tax bill. If you feel ready to make a gift of the capital later, you can give up the right to have the loan repaid.

Case Study

Max and Liz Fortune are in their mid-sixties with two daughters and a son. They'd just like to make a start with inheritance tax planning, and need their plans to take into account their concerns about their children.

Since the couple don't like their daughter's partner and their son is currently going through a divorce, they want to be cautious about giving away any of their capital so that it doesn't end up in the wrong hands.

Their solution

- They have loaned the trustees £75,000 to invest into an investment bond.
- Max and Liz have decided to have some control over the trust, so have chosen to become trustees, with one of their daughters as the third trustee.
- The Loan Plan is set up using a Standard Life Investment Bond and a discretionary trust.

The outcome

Max and Liz can take regular loan repayments to give them some extra funds.

They can demand that the loan is repaid at any time (if they need their capital back).

The Discounted Gift Plan

This plan balances "something for me" with "something for my loved ones". "Something for me" is your right to regular payments for life or until the fund reduces to zero. "Something for your loved ones" is the gift of capital, for their future benefit.

At the start of the plan you decide how much you want to give away and how much you want to be paid. You will be paid this amount for the rest of your life or until the trust has nothing left. Because you are giving money away, there is a seven year clock that runs. If you die within seven years from making the gift, your estate might have to pay inheritance tax. Tax on this will generally be calculated on the amount you gifted less a discount for the amount you said you wanted to be paid.

The discount is worked out when you take out the plan based on how much your regular payments are, how old you are and how healthy you are at the start of the plan. We will tell you how much we think the discount will be but it is not guaranteed. When you die, the government can decide if it should be more or less than we have said.

Case Study

Stuart Wilson is 65, recently retired and proud grandfather to Rebecca and Andrew. His estate is valued at £1.2 million, including his home which is worth £600,000. and as Stuart is divorced he only has his own nil rate band and residence nil rate band to set against this value. Although Stuart is aware of his current inheritance risk, he feels that he cannot give up access to his capital entirely. He is concerned his pension plan may not be enough to maintain his standard of living in future.

The solution

Stuart gifts £300,000 into a Discounted Gift Plan. He wants to be paid £12,000 each year. As his health is normal for his age, we think he will get a discount of £147, 617. This reduces the value of his gift from £300,000 to £152,383 if he dies within seven years.

The outcome

Stuart doesn't have to pay any inheritance tax when he makes the gift. And after seven years, inheritance tax won't have to be paid on the gift when he dies. Stuart will have saved inheritance tax and set aside money for his family's benefit.

If Stuart dies before the end of the seven year period, his estate could be worth £1,052,383 if we add back the value of his gift. This is the £900,000 he had left after investing into the Discounted Gift Plan, plus the £152,383 discounted value of that gift.

Using the Discounted Gift Plan could have saved Stuart £59,000 in inheritance tax if he died within seven years.

The Gift Plan

If you know you have capital that you can afford to give away to benefit your family, then our Gift Plan could be right for you. And, the amount that you give away will be out of your estate after seven years. This could save inheritance tax.

Case Study

Robert and Sarah Henry are in their early sixties and have one daughter who is currently going through a very messy divorce. They're aware that inheritance tax will be an issue and want to make sure that their daughter and teenage grandchildren are protected in the future and that their former son-in-law won't benefit from the gift.

They have not made any gifts before and have just decided to downsize to a smaller home, freeing up a lot of cash that they can use to plan their future.

Their solution

- They decide to gift £150,000 into a Gift Plan using a discretionary trust.
- They decide to be trustees, along with their daughter.
- The £150,000 is used to buy a Standard Life Investment Bond.

The outcome

- No inheritance tax has to be paid when Robert and Sarah make the gift.
- And no inheritance tax will have to be paid when they die if they live for seven years after making the gift.
- Any increase in the value of the bond will not form part of their estate even if they die within seven years from making it.
- The investment in the trust belongs to the trustees (on behalf of the beneficiaries) which means their daughter should be able to benefit from it without it being part of a financial settlement should she get divorced.

Each type of trust has different tax implications. So you should always take professional advice if you're considering a trust.

The amounts in these case studies are examples only and should not be treated as financial advice.

As with any investment the value within an investment bond can go down as well as up and may be worth less than you invested.

Find out more

For more information on any of the information covered in this guide, speak to your financial adviser.

Or call us on 0345 279 8861

We're open Monday to Friday. Call charges will vary.

Or you can find out more about what we offer on our website:

standardlife.co.uk

www.standardlife.co.uk

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