Financial Strategies

A lifestyle report prepared for

Keith Patterson and Kathryn Patterson

Estate Planning

Presented by:
Ross Mackereth

For Evaluation Purposes Only

ABC Financial Services
Old Grammar School House
School Gardens
Shrewsbury, Shropshire SY1 2AJ
Phone: 01743 248515
Fax: 01743 236214
Email: ross@bmcprofiles.com

PLEASE READ CAREFULLY

Important Notes

This report illustrates your financial lifestyle, or your hypothetical cash flow and its effects on your net worth. This analysis provides only broad, general guidelines, which may be helpful in shaping your thinking about your planning needs. It can serve as a guide for discussions with your professional advisers. The quality of this analysis is dependent upon the accuracy of data provided by you. Calculations contained in this analysis are estimates only.

Actual results may vary substantially from the figures shown. All rates of return are hypothetical and are not a guarantee of future performance of any asset, including insurance or other financial products. All inflation rates are estimates provided by you.

This analysis contains very specific computations concerning the value of your assets today. These computations are based on assumptions you provided concerning the value of your assets today and the rate at which the assets will appreciate. These assumptions must be carefully reviewed for their reasonableness. These assumptions are only a "best guess". The actual values, rates of growth, and tax rates may be significantly different from those illustrated. The actual taxes due may be significantly greater or smaller than those illustrated. No guarantee can be made regarding values and taxes when actual appreciation rates and tax rates cannot be known at this time.

For illustrative purposes, many assumptions must be made concerning the sale of properties or the change of property ownership. These are for illustrative purposes and not to be considered as legal advice; only your solicitor should provide such advice. No legal or accounting advice is being rendered either by this report or through any other oral or written communications. Please discuss legal and accounting matters directly with your advisers in each of those areas. Because your planning concerns and goals may change in the future, periodically monitoring actual results and making appropriate adjustments are essential components of your program. Annual updating allows a year of estimated values to be replaced with actual results and can be very helpful in your determining whether your plans are on your desired course. Strategies may be proposed during the course of planning, including the acquisition of insurance and other financial products. When this occurs, additional information about the specific product (including a key features document, if required) will be provided for your review.

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Confirmation of Facts

The right plan must start with the right facts.

A financial plan must be dynamic; that is, able to change as quickly as your situation changes. Your plan is based on your facts and assumptions. You should be sure that all of the assumptions and facts listed here correctly reflect your situation and desires.

CONFIRMATION OF FACTS

Your Facts

Keith Patterson

Age: 48 **Male** **Born:** 23 Jan., 1961

Email Address: keithkath@aol.com

Do not use Email for Notifications

Kathryn Patterson

Age: 48 **Female** **Born:** 23 Jan., 1961

Email Address: keithkath@aol.com

Do not use Email for Notifications

Keith and Kathryn are married.

Home Phone: 0208 233 8967

Business Phone: 0870 455 644

Mailing Address

312 Great Charles Street
London, 0, WC2 3AJ

Children and Dependents

Name	Date of Birth	Gender	Relationship	Dependent of
Jack	02 Feb., 1996	Male	Child	Keith, Kathryn
Julie	14 Aug., 1998	Female	Child	Keith, Kathryn

Salaries

Employer	Employee	Current Salary	Frequency	Inflation Rate
GLC Development Board	Keith	£5,540	Monthly	3.000%
Kathryn's Part Time Editor Work	Kathryn	£1,900	Monthly	3.000%

Current Bank Accounts, Savings, Deposit

Account Name	Owner	Current Balance	Balance As Of	Interest Rate	
Current Account	Keith, Kathryn	£2,670	06 Jun., 2006	0.000%	This asset is the Cash Account
Kathryn Bank Account	Kathryn	£1,200	06 Jun., 2006	0.500%	
Deposit Account	Keith, Kathryn	£12,900	06 Jun., 2006	4.750%	

Tax-Efficient Investments

Account Name	Owner	Current Balance	Balance As Of	Interest Rate
University Funding ISA	Keith	£52,100	06 Jun., 2006	6.000%
School Funding ISA	Keith	£23,560	06 Jun., 2006	6.000%
National Savings	Kathryn	£4,908	06 Jun., 2006	6.000%

Investment

Account Name	Owner	Current Balance	Balance As Of	Interest Rate
Other Investment	Keith	£26,420	06 Jun., 2006	2.000%

Your Facts (Continued)

Investment Trust

Name/Symbol	Owner	Current Value	Balance As Of	Basis	Rates: Div. Rate	Rates: App. Rate
ABC Investment Trust	Keith	£36,429	06 Jun., 2006	£33,450	1.000%[1]	5.000%
XYZ Investment Trust	Keith	£49,279	06 Jun., 2006	£34,250	1.400%[1]	5.700%
Unit Trust / OEICs	Keith, Kathryn	£43,560	20 Jun., 2006	£35,000	1.000%[1]	6.000%

Stocks

Name/ Symbol	Owner	Current Value	Balance As Of	Basis	Rates: Div. Rate	Rates: App. Rate
BRITISH AIRWAYS PLC (BAB)	Keith, Kathryn	£5,150	02 Mar., 2006	£2,345	0.000%[1]	4.300%

Investment Bonds

Name/Symbol	Owner	Market Value	Balance As Of	Face Amount	Growth Rate
ABC Bond	Keith, Kathryn	£14,320	06 Jun., 2006	£13,500	4.500%
ACME Bond	Keith, Kathryn	£51,320	06 Jun., 2006	£35,500	5.400%

Bonds

Name/ Symbol	Owner	Market Value	Face Amount	Coupon Interest	Frequency	Maturity Date
Government Bonds	Keith	£6,260	£45,500	4.500%	Semiannual	04 Feb., 2012

Retirement Plans

Name	Owner	Current Balance	Balance As Of	Growth Rate	Owner Contrib.	Employer Contrib.
Kathryn PPP	Kathryn	£900	06 Jun., 2006	6.000%	£100	£0
GLC Dev. Money Purchase	Keith	£7,800	06 Jun., 2006	6.500%	£250	£250

Final Salary Scheme

Name	Owner	Benefit	Lump Sum	Death In Service Lump Sum	Inflation Rate	Start
Final Salary	Keith	£0	£55,000	£35,000	0.000%	Starting when Keith retires

Rental Property

Buy to Let

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Keith	£350,000	12 Mar., 2007	£250,000	5.000%

Rental Income	Frequency	Monthly Expenses	Annual Expenses	Rental Inflation
£650	Monthly	n/a	n/a	3.00%

[1] Dividends are assumed to be reinvested in similar investments.

Your Facts (Continued)

Residences

Family Home

Owner	Current Value	Balance As Of	Cost Basis	Appreciation Rate
Keith, Kathryn	£545,000	06 Jun., 2006	£425,000	3.000%

Personal Loan Secured by this Asset

Balance as of	Mortgage Balance	Payment	Frequency	Interest Rate
06 Jun., 2006	£93,000	£642	Monthly	5.200%

Life Insurance-Individual

Name	Insured	Owner	Beneficiary	Face Amount	Premium	Frequency	Cash Value
Mortgage Protection Policy	Keith	Keith	Kathryn	£100,000	£32	Monthly	£0
ABC Term	Keith	Keith	Kathryn	£150,000	£45	Monthly	£0
XYZ Endowment	Keith	Keith	Kathryn	£25,000	£46	Monthly	£0

Disability Insurance-Individual

Name	Insured	Owner	Monthly Benefit	Waiting Period	Benefit Period	Premium	Frequency
ABC PHI	Keith	Keith	£1,500	180 Days	Age 65	£65	Monthly

Long-Term Care Insurance-Individual

Name	Insured	Daily Benefit	Daily Home Care	Waiting Period	Benefit Period	Premium	Frequency
IABC LTC Policy	Keith	£355	£0	90 Days	Lifetime	£65	Monthly

Essential Living Expenses

Description	Amount	Frequency	Percent Continuing after First Death	Percent Continuing after First Disability	Percent Continuing after First Retirement
Joint General Living Expenses	£3,750	Monthly	100%	70%	70%
Keith's Final Expenses	£5,000	Monthly	100%	100%	100%
Kathryn's Final Expenses	£5,000	Monthly	100%	100%	100%
Annual Holiday	£3,500	Annual	70%	100%	0%
Retirement Living Expenses	£3,500	Monthly	50%	70%	100%

Specific Need Expenses

Description	Amount	Frequency
Wedding	£15,000	Monthly

Education Expenses

Description	Amount	Frequency	Percent of Estimated Aid
University	£9,500	Annual	0%
University	£9,500	Annual	0%
Public School	£15,000	Annual	0%

Debt

Liability Name	Owner	Current Balance	Balance As Of	Interest Rate
Loan for Family Home	Keith, Kathryn	£93,000	06 Jun., 2006	5.200%

Your Facts (Continued)

Future Purchase

Description	Future Owners	Anticipated Cost	Inflation	Start
Golf Timeshare	Keith	£25,000	3.000%	Starting on Jan 01, 2015
Italian Villa	Keith, Kathryn	£165,000	3.000%	Starting when Keith retires

Distribute Income to Specific Assets

Description	From	To	Amount	Apply Inflation
University ISA Contributions	GLC Development Board	University Funding ISA	£100	no
Already started and ending when Jack turns 22.				
School Funding ISA	Kathryn's Part Time Editor Work	School Funding ISA	£120	no
Already started and ending when Julie turns 23.				
Final Salary to Deposit	Final Salary	Deposit Account	100%	n/a
Already started and ending after the illustration.				

Pay Expenses

Description	From	To	Amount	Apply Inflation
Additional Loan Repayment	XYZ Investment Trust	Loan for Family Home	£250	yes
Already started and ending after 12 years.				

Reposition Assets

Description	From	To	Frequency	Amount	Apply Inflation
ABC Bond	ABC Bond	Deposit Account	Monthly	100%	n/a
Starting when the first client retires and ending after a one time occurrence.					
ABC Term	ABC Term	Deposit Account	Monthly	100%	n/a
Already started and ending after the illustration.					
Mortgage Protection	Mortgage Protection Policy	Deposit Account	Monthly	100%	n/a
Already started and ending after the illustration.					
ACME Bond	ACME Bond	Deposit Account	n/a	n/a	n/a
Starting when both clients retire.					
Sell Buy to Let	Buy to Let	Deposit Account	n/a	n/a	n/a
Starting when Keith retires.					

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Financial Statements

What is your financial situation today? If everything goes as planned, what will it be like in a few years?

Estimated balance sheets and other financial reports are included in this section.

Your Current Situation—Balance Sheet View

	Keith	Kathryn	Joint	Total
Assets				
Liquid Assets				
Current Account			£2,670	£2,670
Kathryn Bank Account		£1,200		£1,200
Deposit Account			£12,900	£12,900
BRITISH AIRWAYS PLC			£5,150	£5,150
Other Investment	£26,420			£26,420
University Funding ISA	£52,100			£52,100
School Funding ISA	£23,560			£23,560
National Savings		£4,908		£4,908
ABC Investment Trust	£36,429			£36,429
XYZ Investment Trust	£49,279			£49,279
Unit Trust / OEICs			£43,560	£43,560
ABC Bond			£14,320	£14,320
ACME Bond			£51,320	£51,320
Retirement Plans				
Kathryn PPP		£900		£900
GLC Dev. Money Purchase	£7,800			£7,800
Fixed Assets				
Government Bonds	£6,260			£6,260
Buy to Let	£350,000			£350,000
Residence				
Family Home			£545,000	£545,000
Total Assets Today	**£551,848**	**£7,008**	**£674,920**	**£1,233,776**

Liabilities

	Keith	Kathryn	Joint	Total
Mortgages				
Loan for Family Home			£93,000	£93,000
Total Liabilities Today			**£93,000**	**£93,000**

Net Worth

Your Assets	£1,233,776
Less Your Liabilities	£93,000
Total Net Worth Today	**£1,140,776**

Balance Sheet

Values at End of Year

	2009	2010	2011	2012	2013
Assets					
Liquid Assets					
Current Account	£1,000	£1,000	£1,000	£1,000	£1,000
Kathryn Bank Account	£1,221	£1,227	£1,233	£1,240	£0
Deposit Account	£13,108	£11,571	£7,975	£4,119	£0
BRITISH AIRWAYS PLC	£6,031	£6,290	£6,561	£6,843	£7,137
Other Investment	£32,496	£34,475	£36,576	£38,804	£41,168
University Funding ISA	£59,914	£48,498	£35,398	£20,450	£3,478
School Funding ISA	£29,903	£33,228	£36,757	£40,505	£44,483
National Savings	£6,018	£6,379	£6,762	£7,168	£7,598
ABC Investment Trust	£43,899	£46,302	£48,836	£51,509	£54,329
XYZ Investment Trust	£57,482	£57,517	£57,554	£57,594	£57,635
Unit Trust / OEICs	£53,310	£56,477	£59,832	£63,387	£65,559
ABC Bond	£16,240	£16,834	£17,450	£18,089	£18,751
ACME Bond	£59,681	£62,311	£65,056	£67,923	£70,916
Retirement Plans					
Kathryn PPP	£1,941	£3,614	£5,411	£7,339	£9,406
GLC Dev. Money Purchase	£13,360	£21,014	£29,077	£37,568	£46,512
Fixed Assets					
Government Bonds	£23,050	£28,541	£35,829	£0	£0
Buy to Let	£400,257	£420,270	£441,283	£463,347	£486,515
Residence					
Family Home	£604,403	£622,535	£641,211	£660,448	£680,261
Totals	£1,423,313	£1,478,085	£1,533,802	£1,547,332	£1,594,748
Liabilities					
Mortgages					
Loan for Family Home	£80,244	£73,554	£66,509	£59,088	£51,272
Totals	£80,244	£73,554	£66,509	£59,088	£51,272
Net Worth	**£1,343,069**	**£1,404,530**	**£1,467,293**	**£1,488,244**	**£1,543,476**

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Estate Planning

You worked a lifetime to accumulate your wealth. Proper estate planning can help ensure that your wealth goes to your desired heirs in your desired manner.

Once estate planning was thought to be only a concern for the rich. Not any more. Rising property prices have pushed huge numbers of homeowners within the clutches of the taxman. Everyone now needs estate planning. Designing a good estate plan means defining what should happen to the property you've worked a lifetime to accumulate. Estate planning can help you develop a firm strategy for the proper transfer of your wealth. By minimising the costs associated with transferring wealth, you can increase the amount passed on to your heirs.

The Orderly Transfer of Your Estate

Estate planning is not just for the wealthy–everyone needs a well thought-out plan.

Your Plan and the Importance of Your Will

Successful long-term financial planning requires the writing of a will for each spouse. If no will exists, the deceased is deemed to die intestate and the estate is distributed in accordance with the laws of intestacy. So if you have a will, YOU make the decisions about what happens to your money and belongings after you die; if you don't, the court makes the decisions. There will be delays and every possibility of family disputes.

The role of the executor
Leaving a will allows a person's estate to be distributed in accordance with their wishes. It allows the appointment of an executor who will take control of the estate, pay any debts, expenses, any inheritance taxes and then distribute the balance to the beneficiaries.

Transferring assets
Simple back-to-back or mirror wills usually leave the estate of each spouse to the other, such that when the second spouse dies, the estate passes to some third party or parties, often children or grandchildren. It is this last transfer of assets than can give rise to a tax liability, if the nil-rate band is exceeded.

Joint and Common Ownership
If you and your spouse or civil partner own your home as 'joint tenants' then the surviving spouse or civil partner automatically inherits all of the property. If you are 'tenants in common' you each own a proportion (normally half) of the property and can pass that half on as you want. This can be done by wording the wills in such a way as to make provision, on the first death, for assets up to the value of the nil-rate band, to be passed at that time to the proposed eventual beneficiaries on the second death.

Gifting your home to your children
If you want to give your home away to your children while you're still alive, you might want to bear in mind that:

- Gifts to your children—unlike gifts to your spouse or civil partner—are not exempt from inheritance tax unless you live for seven years after making them.
- If you keep living there without paying a full market rent (on which your children pay tax) it's not an 'outright gift' but a 'gift with reservation' so it's still treated as part of your estate, and so liable for inheritance tax.
- From 6 April 2005 onwards you may be liable to pay an income tax charge on the 'benefit' you get from having free or low-cost use of property you formerly owned (or provided the funds to purchase). Income tax is charged on the rental income that the new owner of the gifted property receives.
- Once you have given away your home to your children then they own it and it becomes part of their assets; so if they are bankrupted or divorced, your home may have to be sold to pay creditors or to fund part of a divorce settlement.
- If your children sell your home, and it is not their main home, they will have to pay capital gains tax on any increase in its value.

The Orderly Transfer of Your Estate (Continued)

Downsizing to a smaller property

If you decide to downsize to a smaller property and give away the proceeds of the sale of the larger property, these gifts may qualify as:

- 'Potentially exempt transfers' (PETs) so they wouldn't be taxable unless you die within seven years. Even if death occurs within seven years there may be a reduction in the amount of inheritance tax payable due to taper relief.
- Part of your annual exemption in portions each year. For example, if you give away £10,000, £3,000 will be exempt under your annual exemption and £7,000 will be a PET. Unless you have unused £3,000 from a previous year which can be carried forward (£6,000 total per person).

Trusts

You may decide to use a trust to pass assets to beneficiaries, particularly those who aren't immediately able to look after their own affairs. If you do use a trust to give something away this removes it from your estate, provided you don't use it or get any benefit from it. But bear in mind that gifts into a trust may be liable to IHT. Trusts are complicated and it's best to seek specialist professional advice.

Equity release

A commercial equity release scheme is a method of using the value of your home to raise money. This is like having a mortgage on your property but, instead of making monthly repayments, you repay the money when your house is sold. You can use these schemes to:

- Buy an annuity to give yourself a regular income for life
- Release cash to invest or spend as you want
- Before using a commercial equity release scheme you need to get proper advice because there are risks.
- The interest rate is fixed at the time you release the money—if the value of your home falls or doesn't grow by enough you could end up with no equity in your home
- If you change your mind after taking out the loan you could face substantial penalties

Deed of Variation

A deed of variation allows the beneficiaries of a will to change its contents after the death of the individual concerned. The deed of variation must be effected within two years of the death of the individual and although extremely useful it would be unwise to rely upon it as part of an individual's estate planning. It may be that the effectiveness is reduced by the government in the future. All the beneficiaries of the will must be in agreement. If minors are involved this is further complicated as they cannot themselves consent to the changes and an application must be made to the courts for consent to be obtained on their behalf. The deed itself must contain a statement that variation has an effect for inheritance tax as if the deceased had made the changes prior to death. The statement must be signed by all parties and where there is an additional tax liability must be signed by the personal representatives. The only instance where they can refuse is if there are insufficient assets available to pay the tax.

Gift Inter Vivos Insurance

This type of policy is designed to provide cover against inheritance tax if an individual makes a potentially exempt transfer (a gift) of assets out of their estate. If such a gift is made then the individual has to survive for seven years for it to be outside of the estate for inheritance tax purposes. If you should die in the meantime then there is a tax to pay over the period according to the percentage level dictated by legislation, which is on a decreasing basis between the date of death and the seventh year. This insurance will pay a sum assured which reduces in line with the reduction in inheritance tax liability. The insurance is only for seven years and typically the policy will have no surrender value after this period.

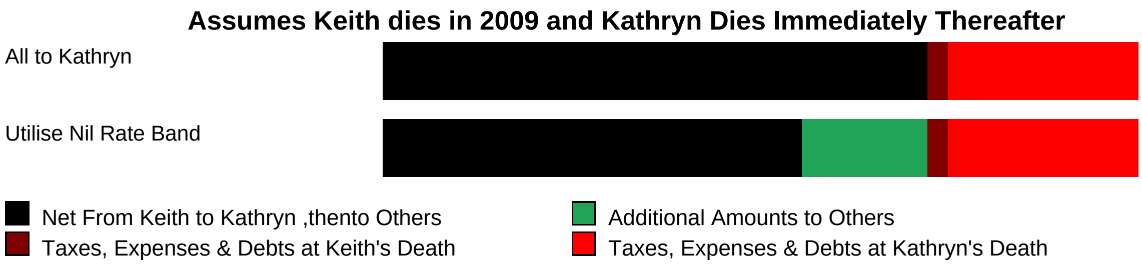
The Orderly Transfer of Your Estate (Continued)

Whole of Life Insurance

If inheritance tax is unavoidable, one option is to arrange life insurance to cover the expected tax liability. A whole of life policy written in trust and payable at second death could be the most suitable life insurance option. These types of policy are not restricted to a specific period of coverage (or term) so the benefits are available irrespective of when death occurs. It is important these policies are written in a suitable trust to ensure the insurance benefits are paid directly to the beneficiaries and are not considered as assets of the deceased estate.

Comparison of Transfer Costs

This illustration shows the possible transfer costs if Keith dies at age 49 and Kathryn dies immediately thereafter. The illustration assumes that the total estate is worth £1,698,313 at that time, including life insurance death proceeds.



All To Kathryn[1]

This example assumes that Keith leaves everything to Kathryn using a simple ‘back-to-back’ or ‘Mirror Will’ arrangement. This strategy results in a low transfer cost at the death of Keith but can lead to a large transfer cost at the subsequent death of Kathryn. At Kathryn's death, Kathryn's estate will receive an increase in the Nil Band Amount equal to Keith's portion which may help reduce total transfer costs.

Utilise Nil Rate Band[2]

This example assumes Keith is able, through the use of a will and other legally acceptable strategies, to leave an amount to others representing the level of the current inheritance tax nil rate band. At Keith's death this strategy allows this proportion of Keith's estate to be transferred to recipients other than Kathryn completely exempt of inheritance tax charges. If any nil band amount remains, Kathryn's estate will be able to increase the nil band amount proportional to that amount not used by Keith's estate.

The example above illustrates death in the same year. Depending on the sizes of the relative estates and the years elapsed between deaths, either of the above strategies could be employed. The “All to Kathryn” strategy would leverage future increases in the nil band rate as unused portions from the first-to-die would be applied at the higher nil band rate at second death in a later year. “Utilize Nil Rate Band” may be a better approach when it is desirable to bequest an asset to the heirs which may rapidly appreciate in the years after death, allowing a larger portion of the total estate to pass to the heirs tax-free.

You should consult your tax adviser before implementing any inheritance tax planning.

[1] Property and other assets passes through the use of a will or other legally binding arrangement.
[2] Where jointly held Property is transferred, pre-death ownership must be held as a ‘Tenants-in-Common’ arrangement in conjunction with the appropriate will provision.

Comparison of Transfer Costs (Continued)

This table shows the possible transfer costs if Keith dies at age 49 and Kathryn dies immediately thereafter. The table assumes that the total estate is worth £1,698,313 at that time, including life insurance death proceeds.

Keith Dies in 1	All to Kathryn	Utilise Nil Rate Band
Gross Estate	£1,312,246	£1,312,246
less Liabilities	40,122	40,122
Net Estate	1,272,124	1,272,124
Final Expenses[1]	5,000	5,000
Adjusted Gross Estate	1,267,124	1,267,124
Amount to Kathryn	1,267,124	942,124
Amount to Heirs	325,000	
IHT Exemption Used	0	325,000
Taxable Estate	£0	£0
Inheritance Tax Due	£0	£0
Net to Heirs at Keith's death	**£0**	**£325,000**
Kathryn Dies in 2009		
Gross Estate		
Kathryn's Estate	£386,067	£386,067
Inherited from Keith	1,267,124	942,124
less Liabilities	40,122	40,122
Net Estate	1,613,069	1,288,069
Final Expenses	5,000	5,000
Adjusted Gross Estate	1,608,069	1,283,069
IHT Exemption Used	650,000	325,000
Taxable Estate	£958,069	£958,069
Inheritance Tax Due	£383,228	£383,228
Net to Heirs at Kathryn's death	**£1,224,842**	**£899,842**
Summary		
Total Estates and Insurance	£1,698,313	£1,698,313
Total Taxes and Expenses and Liabilities	£473,471	£473,471
Total to Heirs and Others	**£1,224,842**	**£1,224,842**

[1] Final Expenses include burial and other related costs along with estimated probate charges where appropriate.

Estate Planning and Inheritance Tax

The transfer of an estate to a spouse is exempt from inheritance tax. However, if the estate passes to anyone other than the spouse (i.e. children, grandchildren or any other individual) the assets may be liable to inheritance tax.

To calculate an individual's estate for the purposes of inheritance tax, first add up the value of the following:

- Everything owned in his or her name
- The share of anything jointly owned
- Gifts from which he or she keeps back some benefit, for example a house still lived in and maintained, although given to someone else
- Assets held in trust from which he or she receives some personal benefit, for example an income

From this amount you can deduct the following

- Any outstanding mortgages or other loans
- Unpaid bills
- Funeral expenses

If the resulting figure exceeds the current inheritance tax nil-rate band (also known as the inheritance tax threshold), the excess will attract inheritance tax at a rate of 40%.

Exempt Gifts: This is a list of gifts made within the last seven years that are not included in your estate for inheritance tax purposes:

- Wedding gifts of up to £5,000 to each of your children (including step-children and adopted children) or the person that your child is marrying
- Wedding gifts up to £2,500 to each grandchild or the person that your grandchild is marrying
- Wedding gifts of up to £1,000 to anyone else
- Payments for the maintenance of your spouse, ex-spouse, dependent relatives and, usually, your children who are under 18 or in full-time education
- Other gifts up to a value of £3,000 in any one tax year, plus any unused balance of £3,000 from the previous tax year (The tax year starts on 6 April in one year and ends on 5 April in the following year.)
- Outright gifts in any tax year up to a total of £250 each to any number of people, but only if the total of all gifts made by you to the recipient in the same tax year does not exceed £250.
- All outright gifts and bequests to UK registered charities are completely free of inheritance tax.
- Seven years after the date of any gift, the gift becomes an exempt transfer.

A gift with a reservation of benefit cannot be exempt, even after seven years. A ‘reservation of benefit’ means the person getting the gift does so with conditions or restrictions attached, or the person making the gift keeps back some benefit for themselves.

If IHT is chargeable on a gift, it is payable by the person who received the gift.

Estate Planning and Inheritance Tax (Continued)

Taper relief: If the gift was made more than three years before death, taper relief can be applied using the following scale:

Number of years between the gift and death	Tax charged reduced by
0—3	No relief
3—4	20%
4—5	40%
5—6	60%
6—7	80%

Any bills outstanding at your death, including your funeral expenses are exempt from IHT.

Any IHT is due six months after the end of the month in which the death occurred. Interest is charged if payment is late.

Any loans, mortgages and other debts should be deducted from the assets when working out the value of the estate.

Trusts

Trusts offer a means of holding and managing money or property for people who may not be ready or able to manage it for themselves. Used in conjunction with a will, they can also help ensure that your assets are passed on in accordance with your wishes after you die.

What is a Trust?

A trust is an obligation binding a person called a trustee to deal with property in a particular way for the benefit of one or more 'beneficiaries'.

Settlor
The settlor creates the trust and puts property into it at the start, often adding more later. The settlor says in the trust deed how the trust's property and income should be used.

Trustee
Trustees are the 'legal owners' of the trust property and must deal with it in the way set out in the trust deed. They also deal with the trust administration. There can be one or more trustees.

Beneficiary
This is anyone who benefits from the trust. The trust deed may name the beneficiaries individually or define a class of beneficiary, such as the settlor's family.

Trust Property
This is the property (or 'capital') that is put into the trust by the settlor. It can be anything, including:

- land or property
- shares
- money
- antiques or other valuable possessions

The Main Types of Private UK Trusts

Bare trust
In a bare trust the property is held in the trustee's name—but the beneficiary can take both the income and trust property whenever they want. You might, for example, use this type of trust to pass gifts to children while you're still alive.

Interest in possession trust
With an interest in possession trust the beneficiaries have a legal right to all the trust's income (after tax and expenses), but not to the property. You can, for example, set up an interest in possession trust in your will. You might then leave the income from the trust property to your partner for life and the trust property itself to your children when your partner dies. The tax treatment of this type of trust has recently changed. Any transfers above the inheritance tax Nil-Rate Band now attract an immediate tax charge of 20%. This is called a Chargeable Lifetime Transfer (CLT). In addition, transfers above the nil rate band also attract a periodic tax charge of 6% every 10 years and an exit tax charge.

Discretionary trust
With a discretionary trust the trustees decide how much income or capital, if any, to pay to each of the beneficiaries—but none has an automatic right to either. A discretionary trust is a way you can pass on property while you're still alive and still keep some control over it through the terms of the trust deed. As with interest in possession trusts, transfers over the nil-rate band attract an immediate tax charge, a periodic charge and an exit charge.

Trusts (Continued)

Accumulation and maintenance trust
An accumulation and maintenance trust is used to provide money to look after grandchildren when they're young. Any income that isn't spent is added to the trust property, all of which later passes to the grandchildren. In England and Wales the beneficiaries become entitled to the trust property between ages 18 and 25. At that point the trust turns into an 'income in possession' trust. In Scotland, the trust usually ends when the beneficiaries reach 16.

Mixed trust
A mixed trust may come about when one beneficiary of an accumulation and maintenance trust reaches 18 and others are still minors. Part of the trust then becomes an interest in possession trust.

Discounted Gift Scheme

Sometimes referred to as 'Discounted Gift Trusts' or 'Discounted Gift Bonds' or even 'Discounted Gift Plans'—it is a method of avoiding inheritance tax which:

- Immediately reduces the value of your estate for inheritance tax purposes, even if you die within seven years.
- If you survive for seven years after taking one out it reduces your estate even further for inheritance tax purposes.
- Provides a method of taking funds from the plan, but keeping them held in trust and outside of your estate.
- Allows any remaining fund in the event of your death to be passed to your beneficiaries.
- It is suitable for single people and couples.

How Does It Work

The Discounted Gift Scheme combines an investment bond and a trust[1] to reduce the value of your estate that qualifies for inheritance tax. It works as follows:

- You invest an amount in a bond.
- You select the amount of income you require for the rest of your life from the amount invested in the bond.
- The amount of any discount is the ‘capitalised’ or ‘total added up’ value of the ‘income’ you select. It is based on various factors worked out by the scheme provider including prevailing interest rates and your life expectancy. This ‘capitalised’ amount is sometimes known as the Settlor’s Fund.
- The balance of the investment (the bond value less the ‘capitalised’ amount) is held for your chosen beneficiaries. This amount is sometimes known as the Beneficiaries Fund.
- The Beneficiaries Fund element of the bond falls under the rules of a Potentially Exempt Transfer for the purposes of your estate and therefore your inheritance tax liability. This means, provided you survive for seven years, the Beneficiaries' Fund will fall outside your estate. If you should die before seven years have passed, the amount of the Beneficiaries' Fund that falls within your estate is calculated on a sliding scale (known as a taper relief).
- You normally retain complete freedom to vary the beneficiaries, the amounts they will receive and when they will benefit.
- The plan does not constitute a gift with reservation of benefit as the ‘Settlor’s Fund’ is not gifted to anyone, instead it is retained by you to provide the ‘income’ selected.
- Also, if the growth in the bond is greater than the level of withdrawals, then the bond will grow in value and this growth will not form part of your estate.
- To avoid further taxation, the maximum level of investment cannot exceed an amount where once the Settlors Fund has been deducted, the balance (the Beneficiaries' Fund) exceeds the current inheritance tax nil-rate band. In order to minimise taxation, the appropriate level of investment in a Discounted Gift Scheme will therefore normally be governed by the age and health of the investor.

[1] In order to qualify as a Potentially Exempt Transfer, the gift amount needs to be deposited in a Bare Trust with adult beneficiaries. Using any other trust arrangement will qualify the gift as a chargeable lifetime transfer.

Discounted Gift Scheme (Continued)

An example

Mr. Peterson aged 65, invests £100,000 in a Discounted Gift Trust. He is in good health. He wants to take withdrawals from the plan of £5,000 per year.

The provider of the scheme calculates the Settlor's Fund in Mr. Peterson's case as £66,530. This is based on his age, health and level of withdrawals from the plan. The £66,530 immediately falls outside Mr. Peterson's estate and is therefore not liable to inheritance tax.

The balance of the initial investment of £33,470 (£100,000 less the Settlor's Fund of £66,530) becomes a Potentially Exempt Transfer. Provided Mr. Peterson survives for seven years, the £33,470 will also fall outside his estate and will also not be liable to inheritance tax.

	No Discounted Gift Scheme	Death within 7 years of the start of the Discounted Gift Scheme	Death after 7 years of start of the Discounted Gift Scheme
Original Investment	£100,000	£100,000 £66,530 discount £33,470 (PET)	£100,000
Amount potentially liable to inheritance tax	£100,000	£33,470	£0
Maximum amount of inheritance tax	£40,000	£13,388	£0

Gift and Loan Scheme

Gift and Loan Schemes, which are also known as Loan Schemes, are a popular way of reducing your inheritance tax liability without losing access to the capital. They are generally suitable for people who want to retain access to their capital but do not want their estate to increase in value any further.

What are the benefits?

- There is no limit on the amount that can be invested. Further funds can be added at any time.
- A regular income may be provided without immediate liability to either income tax or capital gains tax (assuming income withdrawals do not exceed the cumulative annual allowance).
- All investment growth is outside your estate and therefore not liable to inheritance tax.
- You retain the ability to recall the funds (the loan) at any time.
- You retain the freedom to vary beneficiaries, the amounts they will receive and when they will benefit.

How Does It Work

- From the amount you wish to invest, you make a small investment sum into an investment bond using your annual gift exemption. This investment is used to establish the trust and because the annual gift exemption was used, the trust falls outside your estate for the purposes of inheritance tax.
- You then appoint additional trustees.
- You then make them an interest free loan, repayable on demand, to the trust of the remaining amount you wish to invest. This element of the scheme is a loan and not a gift and as such it remains an asset in your estate until it is repaid.
- The trustees of the trust then use this loan to purchase a second investment bond.
- Investment bonds permit you to withdraw up to 5% of the original investment every year as a tax deferred payment. If an income is required, the trustees use this tax deferred allowance to provide repayments to the loan.
- The balance of the loan is treated as part of your estate in the event of death but growth from the second investment bond falls outside your estate for the purposes of inheritance tax.
- If you survive for 20 years after making the loan and your trustees withdraw the maximum tax deferred amount for repayments, the entire loan would have been repaid (20 times 5% equals 100% of the loan). However, the cumulative growth on the loan over those 20 years would remain outside of your estate for the purposes of inheritance tax.

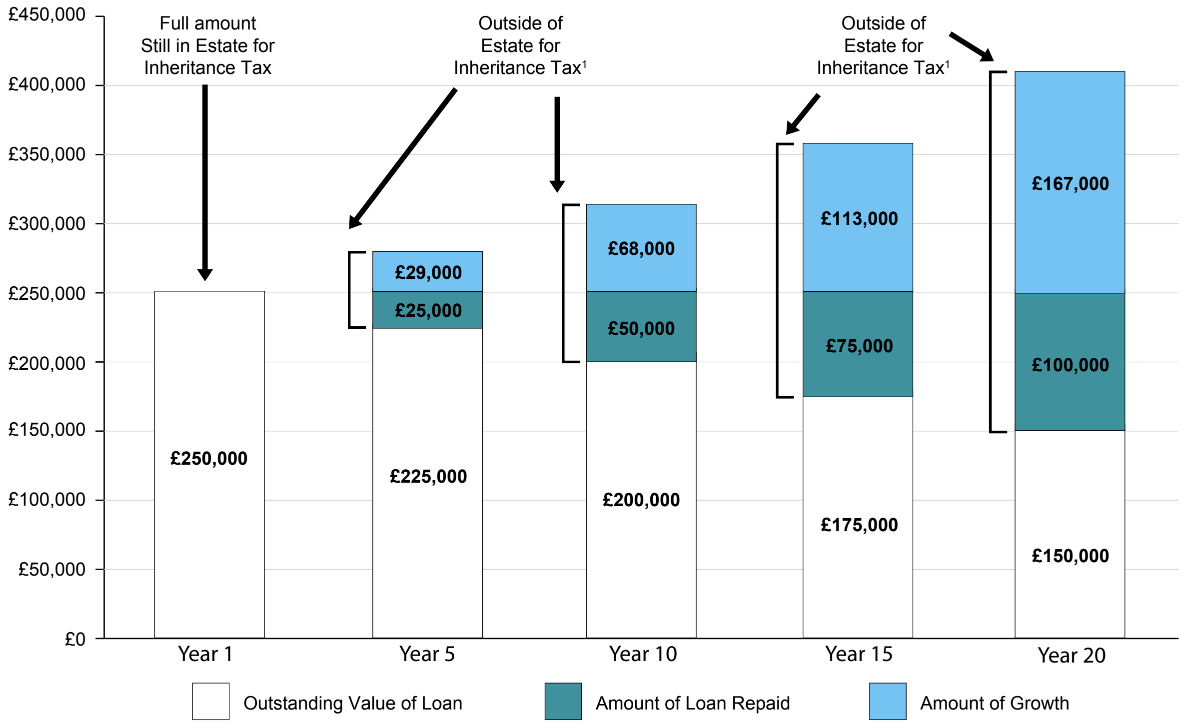
Gift and Loan Scheme (Continued)

An example

Mr. Evans has £253,000 to invest and requires £5,000 per annum from these funds to supplement his income. He has not used his annual gift exemption and therefore makes an initial investment of £3,000 into a trust. This investment falls outside his estate along with any future growth.

The balance of his investment (£250,000) is lent to the trustees who invest it in a second investment bond. The graph below shows what would happen to the loan investment assuming a 6% per annum growth rate and Mr. Evans receiving 2% of the original investment (from the tax deferred allowance) as a repayment of the loan.

How the IHT would be calculated on the above example loan investment[1]



[1] The loan payments are only considered outside the estate if they are spent. They are not automatically considered outside the estate.

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Planning Assumptions

Assumptions used for this scenario referred to as .

No one knows the future or the exact sequence of events that may occur. Your plan is built on all of the facts you have shared, but it is still necessary to make various assumptions to illustrate your financial situation. You should be sure that you understand all of the assumptions listed here and that they correctly reflect your situation and desires. Assumptions appear with the section that are applicable. The following assumptions are of a more general nature and apply throughout your plan. Also, some assumptions required additional explanations.

Keith Patterson	Age: 48	Male	Born: 23 January, 1961
Kathryn Patterson	Age: 48	Female	Born: 23 January, 1961

Keith and Kathryn are married.

State Benefits

Keith is eligible for certain State Benefits. Keith's certain State Benefits are based on levels in today's terms increased by inflation. Keith plans to take State Benefits starting at age 65.

Kathryn is eligible for certain State Benefits. Kathryn's certain State Benefits are based on levels in today's terms increased by inflation. Kathryn plans to take State Benefits starting at age 65.

Ages and Events

Ages illustrated are based on the age as of the last birthday.

Calculation Date

The starting date for the calculations in this report is 30 June, 2009. Assets that were entered with a valuation date more than one month prior to this date have their value adjusted for appreciation to approximate the value of the asset on this calculation date.

Calendar Year Processing

Each year of the illustration ends with December. The current year will calculate from the month of the Calculation Date through December of that year.

Nature of Monthly Calculations

Calculations are made each month, based on the amounts available at the start of the month. No attempt is made to determine the exact date within a month various transactions occur.

Interest Rates and Earnings

Interest and earnings are credited for $1/12^{th}$ of the annual amount requested for each month. This is for the purpose of helping to determine the applicable cash flow and does not represent a guarantee of this or any interest or earnings. All rates of return illustrated are hypothetical and are not associated with any particular investment product.

Insurance

The numbers produced by this analysis in no way guarantee the right to purchase life insurance in the amounts illustrated. If any new life insurance is illustrated, this presentation is not valid unless accompanied by a complete illustration of proposed policy values.

Final Expenses

Keith:
Final Expenses: £5,000

Kathryn:
Final Expenses: £5,000

Estate Assumptions

For the purposes of Inheritance Tax analysis, it is assumed death occurs to Keith at the end of the current year followed immediately by the death of Kathryn. Each client's estate is assessed individually at the time of death and jointly-held assets and liabilities are divided equally. The value of any assets jointly held with a third party are deemed part of the estate. Death benefits from pension plans are assumed to be held in trust and therefore not liable to Inheritance Taxation at the holder's death. However pension benefits transferred from Keith to Kathryn are considered part of the estate at Kathryn's death. Life insurance proceeds are paid to your named beneficiary and are considered part of the estate for Inheritance Tax purposes. This analysis incorporates the current Inheritance Tax Nil Rate band in its calculations.

Loans, Credit Cards, and Lines of Credit

Any form of credit illustrated is not a guarantee that such credit will be accepted by a lending institution. Different forms of credit may have a number of fees associated with various uses of the credit. Please consult the lending institution for details as well as all fees and rules for using that credit.

Restrictive Uses of Assets

Assets that are marked for restricted use will only be used to provide cash for that purpose.

Income Taxes

Income Tax Rates

Basic Income Tax Rate: 20%
Higher Income Tax Rate: 40%

Capital Gains Tax

Taxation on the gains from assets that are liable to Capital Gains Tax is deducted at the fixed rate of 18% in the year the asset is liquidated or sold. Liable gains on Investment Bonds are taxed at 20%. An individual’s Annual Exemption amount is deducted from the total gains in any given year before Capital Gains Tax is applied. The current Annual Exemption amount is increased annually by the State Benefits inflation rate. Capital Gains Tax is not applied to the following asset types: Bank Accounts, Other Bonds (Government), ISAs PEPs TESSAs, Property – Main Residence, Savings (Cash Equiv.) and Venture Capital Trusts. Entrepreneur Capital Gains Tax relief is not applied.

Assumed Retirement

Retirement is assumed to be when Keith reaches, or would have reached, age 60. Any change you indicated in the basic living expenses is applied at that time.

General Inflation Rate

A general inflation rate of 3% is used for all basic living expenses and where indicated.

Education Payments

Education costs are stated as annual amounts but are assumed to be paid in 12 monthly payments. Payments are assumed to start in August of each year unless a specific starting date is stated.

Education Inflation Rate

An education inflation rate of 6% is used for all education funding expenses. Historically, the cost of education has experienced a rate different than the general inflation rate of all goods and services. Adjustments for the education inflation rate are made in January of each year.

Costs Associated with Long-Term Care

Estimated costs of long-term care are based on the average costs for a nursing home stay in the current county of residence (Unknown), adjusted for the current level of long-term care inflation rate. Basic living expenses are further adjusted as if disabled and any salary or retirement contributions are discontinued. (Estimated costs based on SAGA Cost of Care Report 2008 from Laing and Buisson.)

Discretionary Spending

For this illustration, it has been assumed that you will spend any excess money in your cash account in excess of £1,000. In addition, it assumes that any tax refunds are spent. "Sweeps" and all other transactions are processed prior to determining the amount of discretionary spending for each month.