WALLIS WEALTH

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WALLIS WEALTH LIMITED

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Is it better to gift a property or leave it in your will?

Before passing away, Maggie gifted her house worth more than £700,000 to her son Bruce but still remained living there, paying a token amount of rent. Nine years later, following Maggie's death, Bruce was surprised to be landed with an inheritance tax bill for the property.

What did Maggie do wrong?

Maggie knew if she died within seven years of gifting Bruce her house that he may well end up paying inheritance tax on it. She also knew enough to pay Bruce rent after gifting him the property. However, the amount she paid was well below the market rate and this is where she fell foul of inheritance tax laws. By only paying a token amount of rent, the house remained part of Maggie's estate and Bruce was hit with a hefty inheritance tax bill.

How to decide whether to gift a property or leave it in your will?

There are no easy answers to this. There are a lot of complicated tax rules to consider and the best approach will depend on your individual circumstances. Whatever the situation, it's an important decision and one best made as a family. We've looked at the pros and cons of both to give you an idea of the kind of things you'll need to consider.

Leaving a property in your will

The first thing to do is find out the residence nil rate band (RNRB) allowance for the property in question. If, like Maggie, you're leaving your main home to a child or grandchild, they'll benefit from an extra £175,000 tax-free allowance on top of the standard £325,000. This means you could leave an estate worth up to £500,000 and there'll be no inheritance tax to pay. And if you and your spouse are leaving a joint estate, that doubles to £1m.

Maggie's husband Bill died in 2019 and the executors of the estate can also claim Bill's residence Nil Rate Band. This means that the £675,000 can be claimed as an amount where no inheritance tax is applied, meaning this £675,000 remains inheritance tax free.

The benefits of leaving a property in your will are that you'll retain control of it, it isn't generally at risk from anyone else's divorce, death, or bankruptcy and, currently, there's no capital gains tax to pay for the beneficiary.

Working with a professional financial planner, it would have been possible for Bill to leave 'assets to the value of the Nil Rate Band' and have what is called a 'Will Trust' written into the will. As this is a specialist area, it is important to discuss with a professional and consider the options.

Gifting a property

If, as in Maggie's case, the property is worth more than the RNRB, you may want to consider passing full ownership to a child. You then need to move out or, as Bruce found out to his cost, pay rent at the going market rate.

There are many reasons people choose to gift a property: to minimise inheritance tax; to provide financial help to loved ones sooner rather than later; or to avoid care home fees. If you're considering it for the latter reason, you should be aware that anti-avoidance rules are designed to stop people doing this.

If you gift a property, you'll lose control of it. But once the transfer of ownership takes place, so begins the seven year countdown for removing the property from inheritance tax liability.

Right sizing

Another option for improving your quality of life into old age and helping the kids out at the same time is right sizing. In other words, selling the family home and buying somewhere that is easier to manage and better suits your needs as you get older. This option generally releases equity, which can be used to give loved ones a financial boost while you're still alive. Alternatively, you could investigate a lifetime mortgage as an option for releasing money to gift away now.

Insuring against inheritance tax

Another possibility Maggie could have considered is taking out whole of life insurance. This would have provided a tax-free lump sum on death to cover Bruce's inheritance tax bill. Writing the policy into trust would have ensured any payout wasn't included as part of Maggie's estate.

However, policies can be expensive and HMRC would have treated the premiums as a lifetime gift if Maggie paid them herself. Bearing this in mind and considering Bruce would have been the person to benefit from the insurance cover, it would have made sense for him to pay the premiums if he was keen to go down this road.

Key takeaways:

- When deciding whether to gift a property or leave it in your will, you need to focus on what you're trying to achieve.
- The benefits of leaving a property in your will are that you'll retain control it for the rest of your life, it isn't generally at risk from anyone else's divorce, death or bankruptcy and, currently, there's no capital gains tax to pay for the person who inherits it.
- Gifting a property can be used to minimise inheritance tax and allow you to provide financial support to loved ones before your death.
- Right sizing may improve your quality of life and release equity.
- It's possible to insure against inheritance tax but it can be expensive so it may be more appropriate for beneficiaries to pay the premiums.
- Professional advice can help you and your loved ones understand the various implications of the different options and allow you to make informed decisions.

The importance of professional advice

As you can see, estate planning is far from straightforward so it makes sense to work with a financial adviser who can look into different scenarios and help you and your loved ones make informed decisions.

Get in touch

If you'd like help to create a financial plan to structure your assets to be more tax-efficient before your death, we can help. Please get in touch to arrange a time to chat.

The benefits of starting a pension early

It's never too early to start saving for retirement. In fact, the sooner you start saving, the more time for your money to grow.

Starting a pension early is one of the best things you can do for your financial future. By taking advantage of the benefits of early retirement savings, you can ensure that you have a secure financial future and enjoy your retirement years to the fullest.

More time to save

One of the most significant benefits of starting a pension early is the additional time you have to save money. The longer your money is invested, the more time for it to grow, which can help you accumulate a larger retirement fund. Starting early also means that you can take advantage of compound interest, which is interest earned on both the principal and the accumulated interest. Over time, compound interest can significantly increase the value of your pension fund.

Lower monthly contributions

Starting a pension early can also help you keep your monthly contributions lower. Because you have more time to save, you can spread your contributions over a longer period. This can make it easier to budget for your retirement savings and ensure that you are putting away enough money to reach your retirement goals.

Employer contributions

If you are enrolled in a workplace pension scheme many employers offer to match employee pension contributions, (up to a certain percentage). This 'free money' can help you save even more for retirement.

Tax benefits

The government offers tax relief on pension contributions, which means you can put more money into your pension each month. For example, if you're a taxpayer, you can get up to 60% tax relief on your contributions.

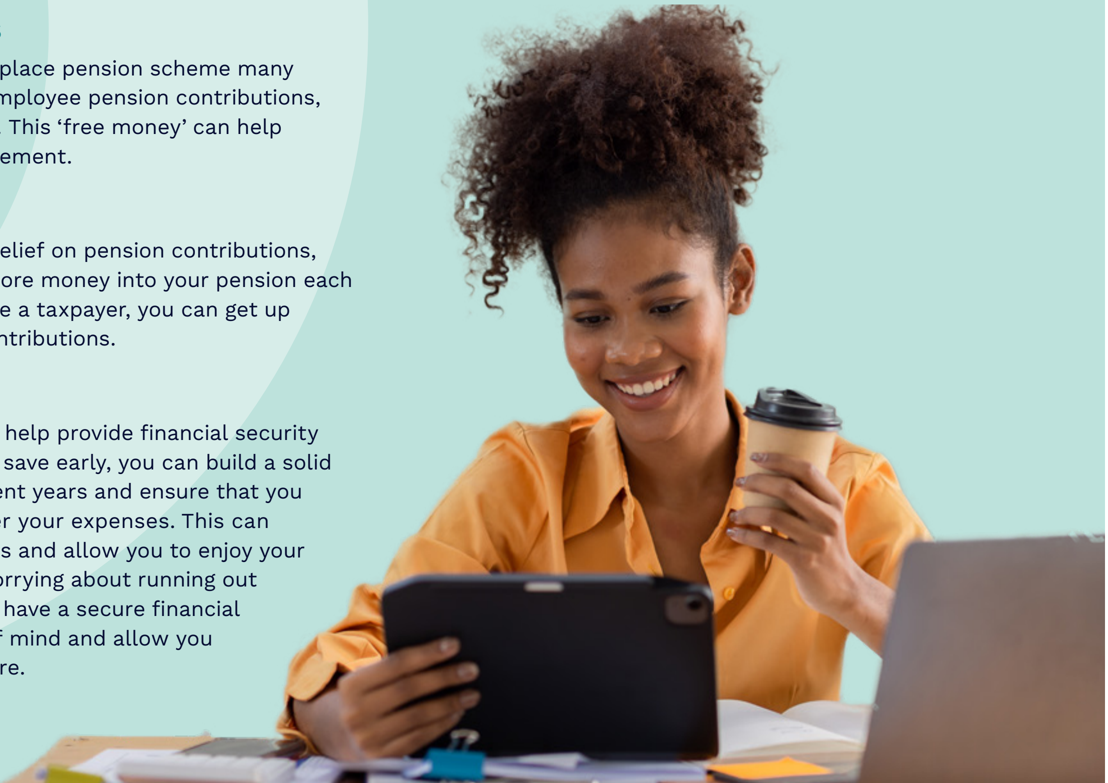
Financial security

Starting a pension early can help provide financial security in retirement. By starting to save early, you can build a solid foundation for your retirement years and ensure that you have enough money to cover your expenses. This can help alleviate financial stress and allow you to enjoy your retirement years without worrying about running out of money. Knowing that you have a secure financial future can give you peace of mind and allow you to enjoy your retirement more.

Tips for starting a pension early:

- **Set up a regular contribution**
  The best way to make sure you're saving for retirement is to set up a regular contribution. This could be a fixed amount each month or a percentage of your salary.
- **Increase your contributions as you earn more**
  As your income increases, you can increase your pension contributions to make sure you're on track for a comfortable retirement.
- **Take advantage of tax relief**
  The government offers tax relief on pension contributions, which means you can put more money into your pension each month.
- **Consider employer contributions**
  Many employers offer to match employee pension contributions, which is free money that can help you save even more for retirement.

By giving yourself more time to save, keeping your contributions manageable, taking advantage of tax benefits, and providing financial security in retirement, you can set yourself up for a comfortable and fulfilling retirement. So, if you haven't started saving for retirement yet, now is the time to start!



The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Get savvy against financial scammers

Retired teachers Paul and Mary are devoted parents and grandparents to their three children and eight grandchildren.

As their family started to grow, they decided they wanted to begin saving for their grandchildren's future. Disappointed with the returns from their savings accounts, they decided to look into other investment opportunities. After comparing a number of companies online, they settled on one and made a £30,000 bank transfer. Within just a few months, their initial investment had grown sizably.

Soon afterwards, their eldest grandchild passed his driving test. They decided they'd like to buy him a car, so they made a withdrawal. Being able to do this so easily cemented their trust in the investment company. Over the next year, they made several more deposits.

Paul and Mary then agreed they'd like to help one of their children with a deposit for a house. However, when they tried to withdraw most of their original investment, they couldn't access their money or get through to the company by phone, email or any other means. It was at this point, they realised they'd been scammed.

On top of wiping out most of their life savings, the scam took a toll on the couple's mental health. They both suffer from feelings of embarrassment and guilt, and Paul has developed severe depression.

Anyone can fall victim to a financial scam

Although Paul and Mary feel foolish, financial scams can be extremely sophisticated and trick the savviest of us. We're used to hearing stories about elderly and vulnerable people being conned but recent research by Lloyds Bank found 18 to 24 years olds are most likely to fall victim to investment scams, making up approximately 25% of all cases. And, in fact, victims aged under 45 account for 70% of all reported investment scams.

Types of financial scam

Financial scams take many forms including high-return investment opportunities, like the one Paul and Mary fell for, pensions transfers and health insurance supplements. Criminals use phishing (emails) or smishing (texts) to impersonate trusted organisations and trick people into giving away their personal information or money.

Top tips to avoid being scammed

1. **Follow the advice of UK Finance's Take Five to Stop Fraud campaign**
   - **Stop:** Take time to stop and think before parting with money or personal information.
   - **Challenge:** It's OK to refuse or ignore requests that make you feel uncomfortable. Only criminals will try to rush or panic you.
   - **Protect:** Tell your bank immediately if you think you've fallen for a scam and report it to Action Fraud.
2. **Great deals don't come looking for you**
   Scammers often advertise on social media and the internet. They may also send 'deals' by email, phone, or direct message.
3. **Make sure it's genuine**
   As in Paul and Mary's case, scammers can easily set up fake companies, profiles and websites. Don't underestimate the lengths a fraudster will go to in order to convince you they're genuine. Before parting with any money, it's a good idea to seek professional advice. You can also use the FCA website to check the details of financial services companies.
4. **Protect your payments**
   Consider your payment method. It's very hard to get money back if you pay by bank transfer. Paying by card offers the greatest protection.