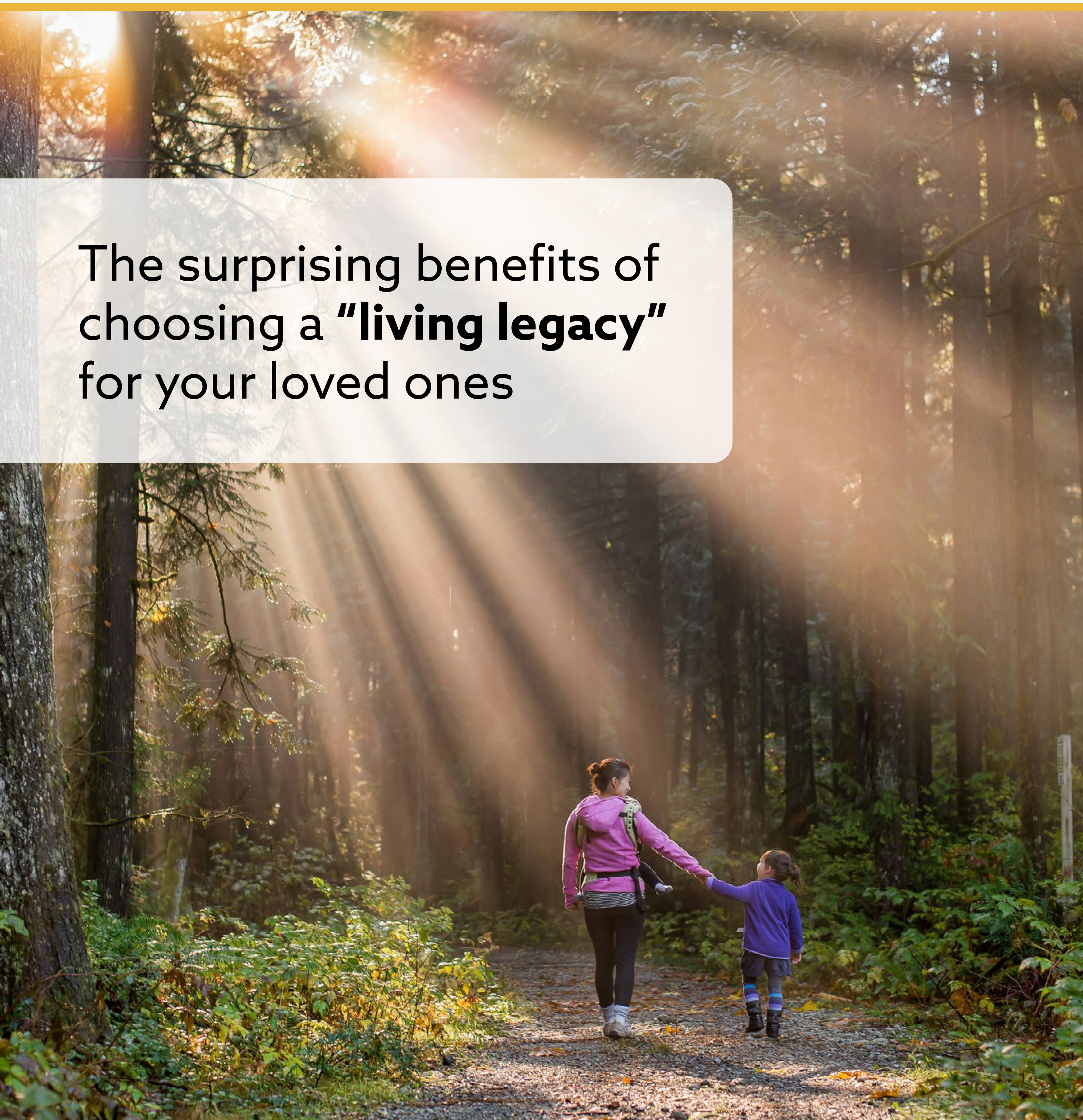
November 2024

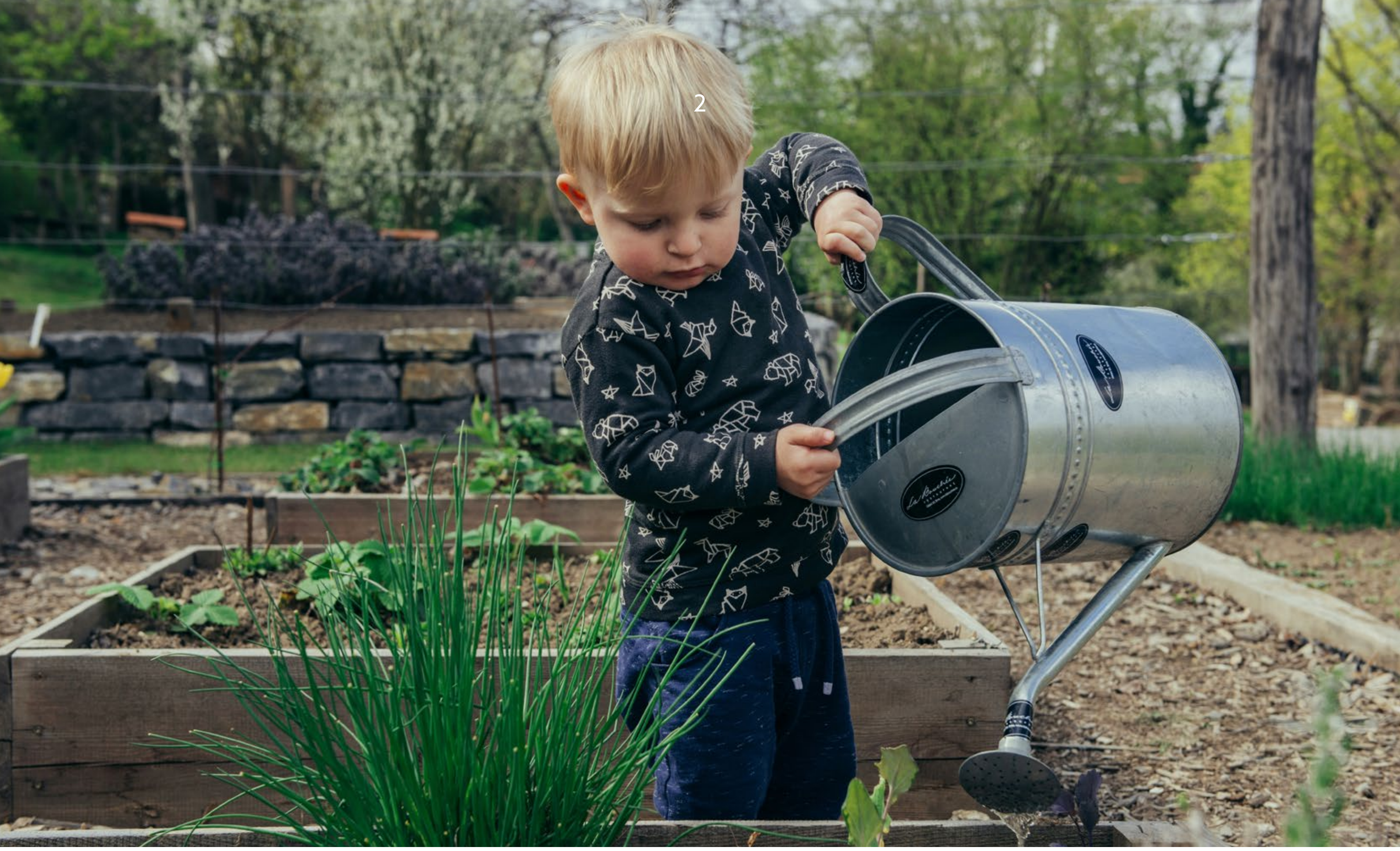
RPG | Chartered Financial Planners



The surprising benefits of choosing a **"living legacy"** for your loved ones

01745 582 933

info@rpgcfp.co.uk



Leaving wealth behind for your loved ones may be a priority when developing your financial plan. After all, you'll likely want to see your family thrive and an inheritance could help them achieve important goals in life.

Bestowing an inheritance can also give you peace of mind as you know those close to you will be financially secure after you're gone.

Traditionally, you would transfer wealth to your loved ones when you passed away, leaving instructions in your will about how your family should divide your estate.

However, in recent years, more people have chosen a "living legacy" – passing wealth to their loved ones while they're still alive – instead.

Leaving a living legacy for your family could have several key benefits.

This guide will explore some of those advantages, as well as the potential downsides.

The number of families choosing a "living legacy" is rising

According to research reported by *IFA Magazine* in April 2024, there has been a 48% increase in families leaving a living legacy in the past decade.

Additionally, three-quarters of 40-year-olds have already received some form of inheritance from their parents. The most common uses for this wealth are:

- Purchasing a home
- Starting a business
- Contributing to savings and investments.

You may be able to reduce the Inheritance Tax your family pays

It's very important to consider the tax implications of passing wealth between generations. This is because a large Inheritance Tax (IHT) bill could significantly reduce the amount of wealth that your loved ones inherit from your estate.

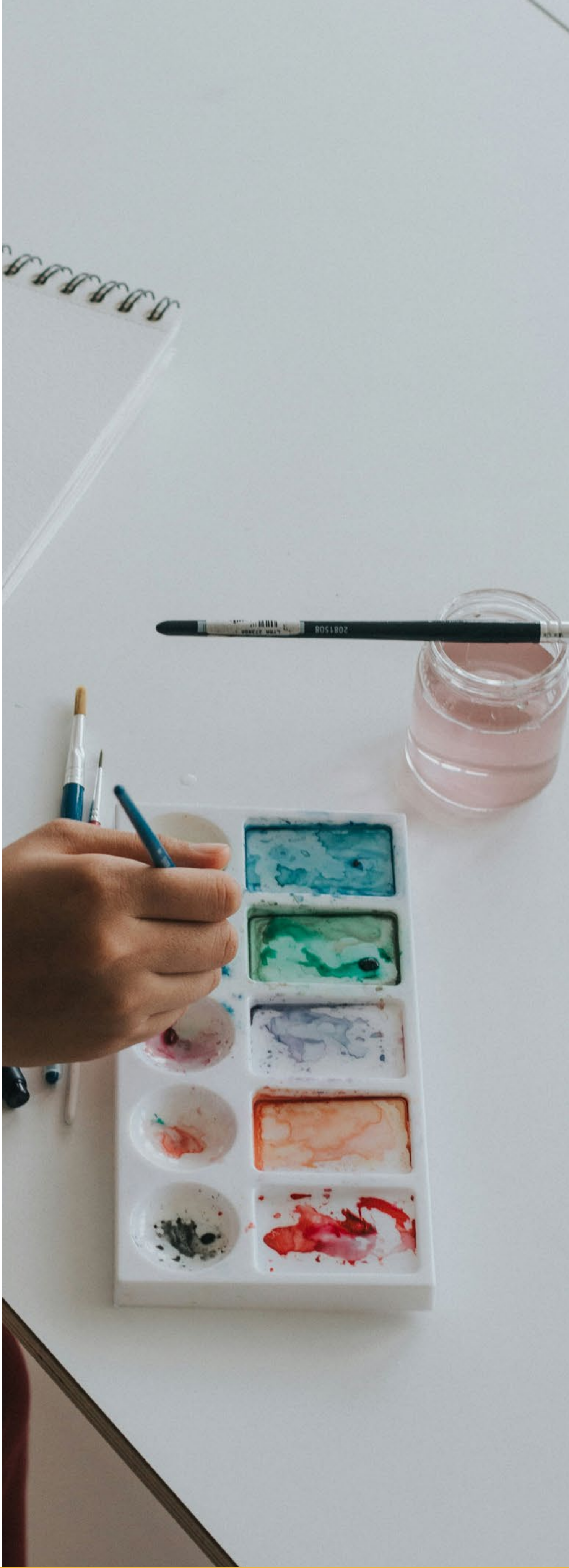
Unfortunately, this is becoming a bigger issue for many families as the IHT "nil-rate bands" – the amount you can pass on without triggering an additional tax charge – remain frozen at their current level until at least 2028.

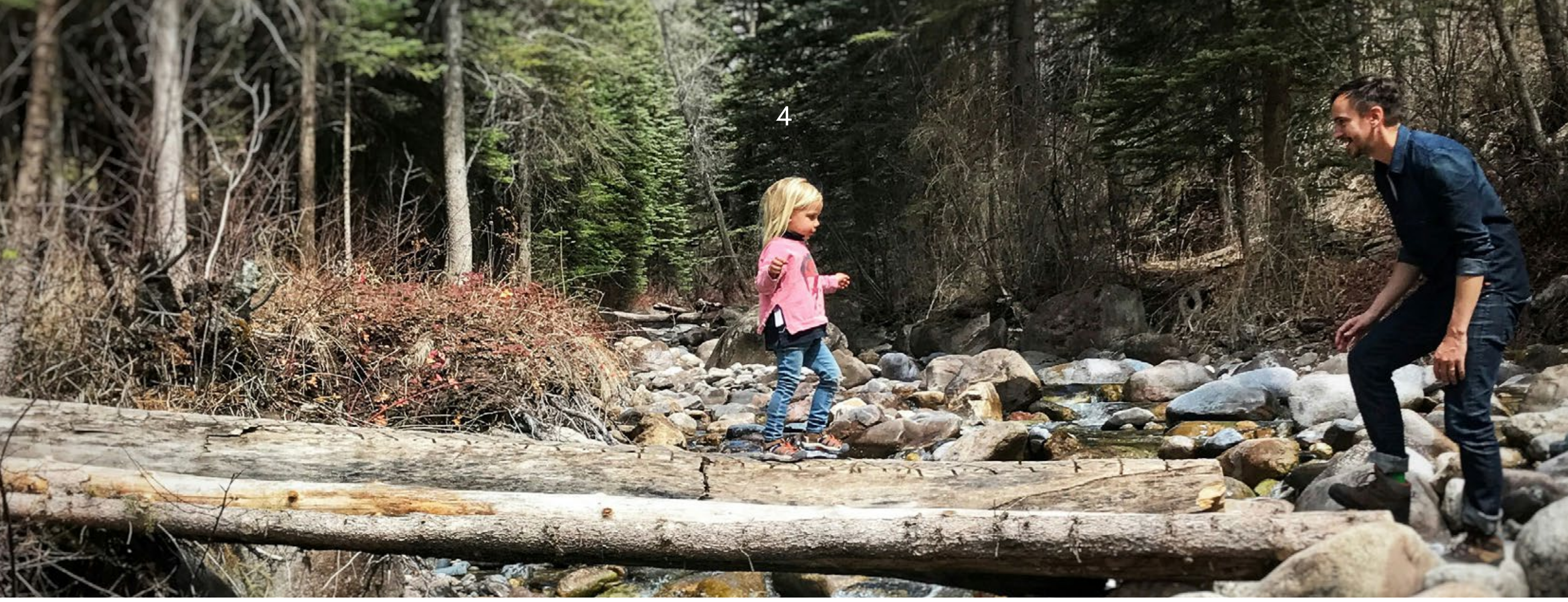
In the 2024/25 tax year, the key IHT thresholds are:

- A £325,000 nil-rate band
- An additional £175,000 "residence nil-rate band" when passing your main home to a direct descendant such as a child or grandchild.

Meanwhile, if house prices increase and you continue building savings and investments, the value of your estate might grow. As a result, more of your wealth could exceed the nil-rate bands, meaning that your family pays more IHT.

Fortunately, gifting wealth during your lifetime could help you mitigate a large IHT bill. This is because money that you give to loved ones may fall outside of your estate and won't be considered when calculating IHT.





The "seven-year rule" could help you mitigate Inheritance Tax

The first £3,000 you gift each tax year immediately falls outside of your estate for IHT purposes. This is known as your "gifting annual exemption".

You can also:

- Gift £5,000 to a child or £2,500 to a grandchild for a wedding
- Make unlimited "small gifts" of £250 to as many people as you like, provided you haven't used any other gifting exemptions on them
- Give unlimited "gifts from income" provided they meet certain criteria.

Any further gifts – known as "potentially exempt transfers" (PETs) – may be exempt from IHT, but only if they follow the "seven-year rule".

This rule states that any PETs fall outside your estate provided you live for seven years after making them. If you don't survive for the full seven years, your family may pay some IHT on the gift when you pass away. The amount they pay depends on how long you lived for after transferring the wealth.

One of the key benefits of leaving a living legacy earlier in life is that you may be more likely to survive for at least seven years after gifting the wealth.

Yet, if you wait until you are much older, or transfer wealth after you're gone, your family could be more likely to pay IHT on it.

You could take advantage of the various gifting rules to pass a living legacy to your family while also reducing the IHT they pay on your estate when you're gone. However, IHT rules can be complex so you may want to seek professional guidance to ensure that you can pass as much wealth to your family as possible.

The "gifts from income" rule

You can make unlimited "gifts from income", which fall outside your estate. However, these gifts must:

- Be regular
- Be paid from your income
- Not cause you to make sacrifices to your lifestyle.

Your children might benefit more from an inheritance earlier in life

Gifting wealth and mitigating a large IHT bill could benefit your loved ones after you pass away. Another reason to leave a living legacy is that your children might benefit from an inheritance now more than they would in later life.

If you wait until you pass away, your children might be in their 50s or 60s before they receive any assets you bequeath to them. At this stage of life, they could have well-established careers and likely will have reached many key financial milestones such as buying a home already.

Conversely, when they're younger, your children may find it difficult to purchase their first home if they are struggling to save the necessary deposit.

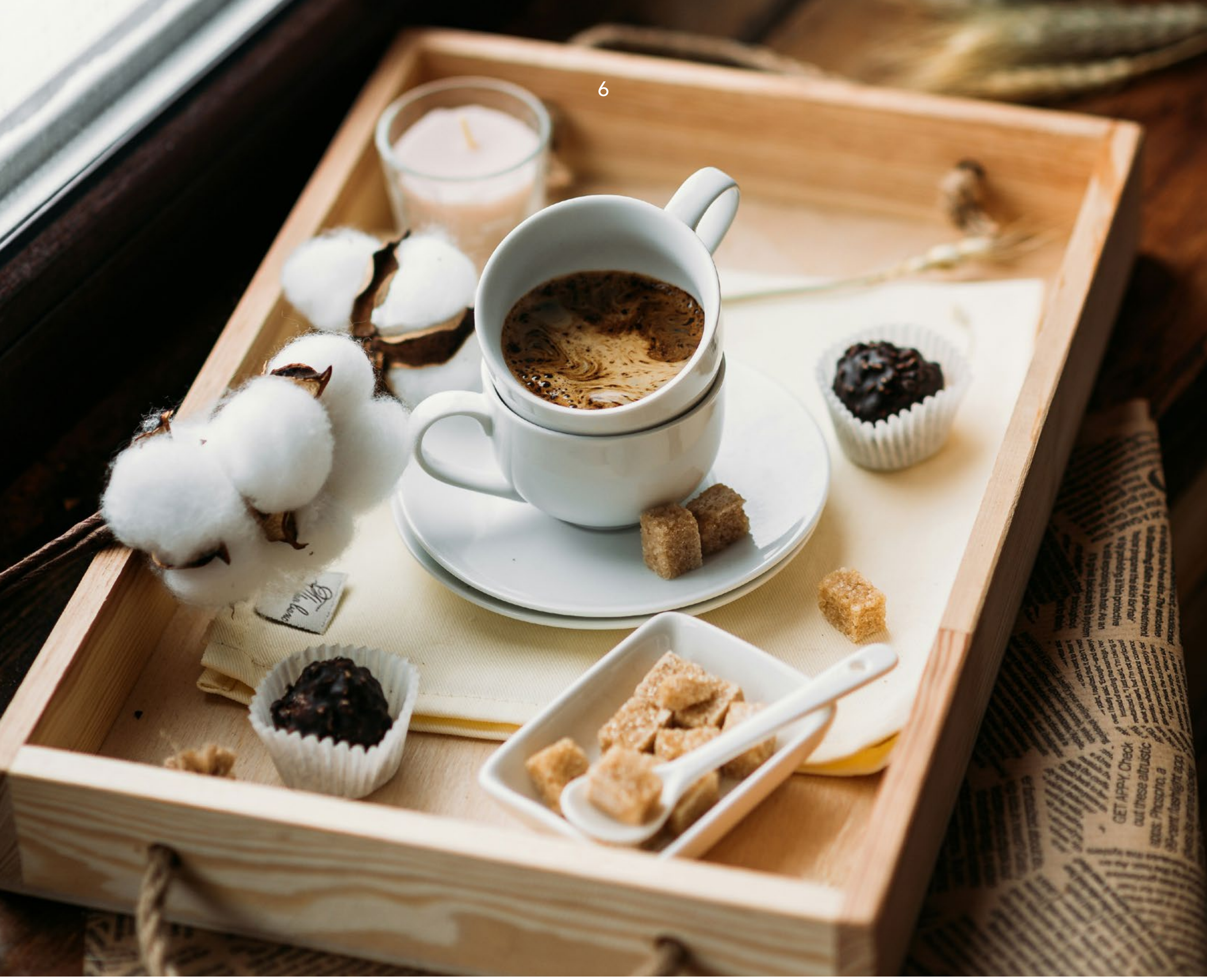
Additionally, they may also struggle to afford to meet other milestones, such as getting married or starting a family. These goals can be especially hard to achieve as your children or grandchildren's earnings may be lower when they're younger and at the beginning of their careers.

According to the Office for National Statistics (ONS), between April 2022 and March 2023, 36% of recent first-time buyers relied on a gift from family or friends to purchase their home.

They may be struggling to meet their financial obligations during the cost of living crisis too.

As such, your loved ones might benefit more from receiving an inheritance now as it could make it easier for them to achieve important life goals. Passing wealth to them earlier in life could also give them more opportunities to start building their savings for the future.

Depending on their goals, you could gift them a lump sum to use as a house deposit or to pay for a wedding. Alternatively, you might make smaller, regular payments to contribute to savings or cover monthly expenses.



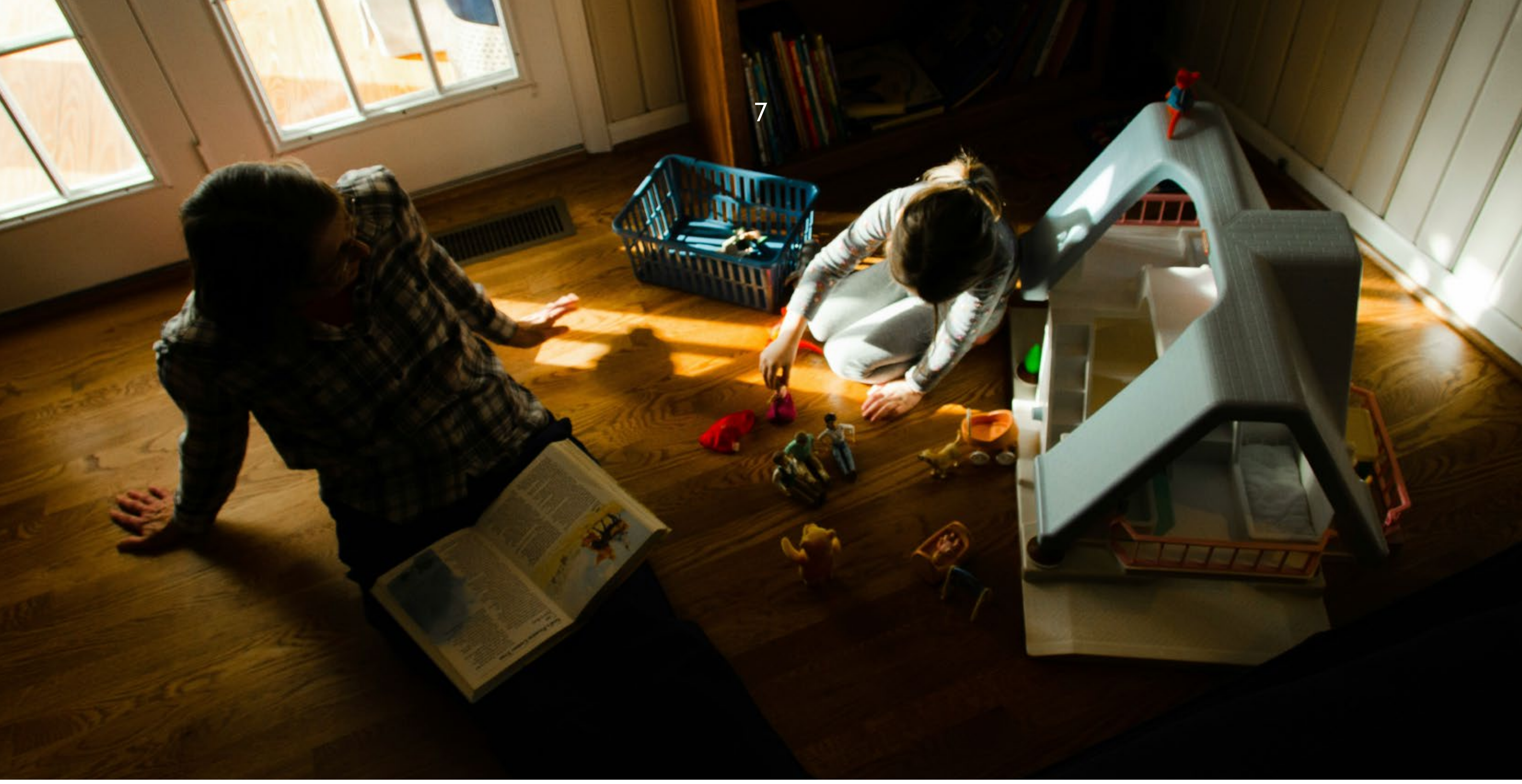
You could share important milestones with your family

Creating a financial plan and building wealth is all about achieving your personal goals. Increasing your savings for the future means that you can achieve your dream lifestyle and dedicate time to the people and experiences that you value.

Yet, if you wait until you pass away before you transfer wealth to your loved ones, you might not get the chance to share some important experiences with your family. This is because your children might be relying on an inheritance to pay for a wedding or start a family of their own.

According to Euronews, 59% of 18- to 35-year-olds in the UK said that they would consider delaying or deciding not to have children because of financial concerns.

By giving them a living legacy now, you could help them reach these milestones earlier in life, while you're still here to enjoy seeing them benefit from your wealth.



You can offer valuable support about how to spend an inheritance

While an inheritance may give your loved ones more opportunities, it could also create challenges if they're not sure how to manage the wealth they inherit. Without the right guidance, they could make simple mistakes that mean they don't get the most out of the inheritance you leave for them.

Fortunately, if you leave a living legacy, you're around to support your family and provide useful guidance about how best to make the most of the bequest.

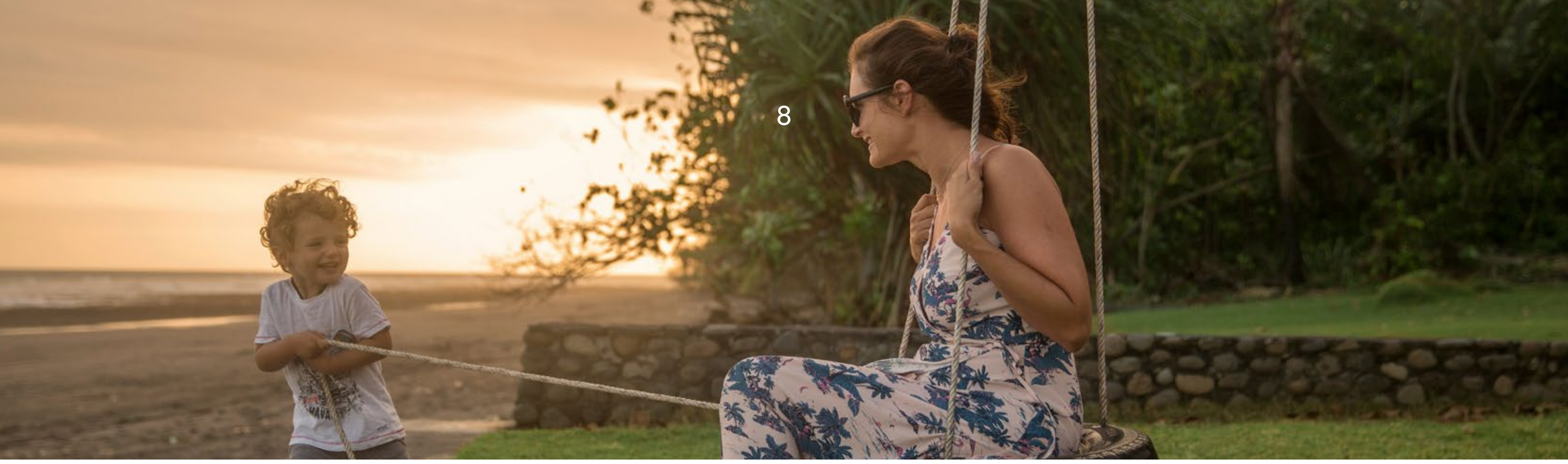
For example, your children might need help navigating the purchase of their first home. You might also be able to provide guidance about different ways to save or invest for the future, so they can grow their wealth.

Giving them this support means that your loved ones can get the most out of the wealth you pass down. Additionally, it allows you more control over how your money is spent. As a result, you can ensure that the inheritance enriches your family's lives in the way that you'd hoped.

5 financial topics your loved ones may need support with

- Managing debt
- Mortgages and purchasing their first home
- Different types of savings accounts such as ISAs, and the tax benefits of each
- Pension contributions
- Investing their wealth.

To achieve this, you may benefit from involving all generations in a discussion with a professional about your living legacy. We can consider your aims, as well as the priorities of your loved ones, and suggest the most effective ways to transfer wealth so the entire family can achieve their goals.



You could help your children start their own retirement planning journey

Building wealth for retirement is likely an important part of your financial plan.

You may know from experience that it's much easier to achieve your financial goals if you start saving earlier in life. Leaving a living legacy might be a good opportunity to help your own children or grandchildren get a head start on their retirement planning journey.

For example, you might gift them a cash lump sum, which they could save, invest or pay into their pensions. Alternatively, you could make regular contributions to their pensions on their behalf.

When you pay into somebody else's pension, the contributions are treated as if that person made them. As a result, they still benefit from tax relief on the contributions at their marginal rate. So, a £100 contribution only "costs" £80 for a basic-rate taxpayer as the other £20 comes from tax relief.

If they're a higher- or additional-rate taxpayer, they could benefit from an extra 20% or 25% tax relief, which they can claim through self-assessment.

Building pension savings earlier in life may be beneficial for your children because the wealth is invested and has more time to potentially grow. If they receive an inheritance after you pass away, they could still contribute the funds to their pension, but they might not see anywhere near as much growth as they would if you paid in earlier in their life.

As a result, giving a living legacy could make a significant difference to the amount they have in their pensions when they eventually retire.

Saving in a pension from 22

- Monthly contributions of £100
- Annual growth of 5%
- Retiring at 65.

Total paid in: **£51,600**

Total pension pot at 65: **£175,500**

Saving in a pension from 40

- Monthly contributions of £200
- Annual growth of 5%
- Retiring at 65.

Total paid in: **£60,000**

Total pension pot at 65: **£117,000**

Source: Legal & General

It's important to note that, in most cases, your children won't be able to access wealth in their pensions until they are 57. As such, they may not be able to use their inheritance to reach milestones such as going to university, buying their first home, or getting married.

That's why you might want to discuss estate planning with your children and determine what kind of living legacy would benefit them most at their current stage of life.

You may need to consider the potential downsides of a living legacy

A living legacy could make estate planning more complicated

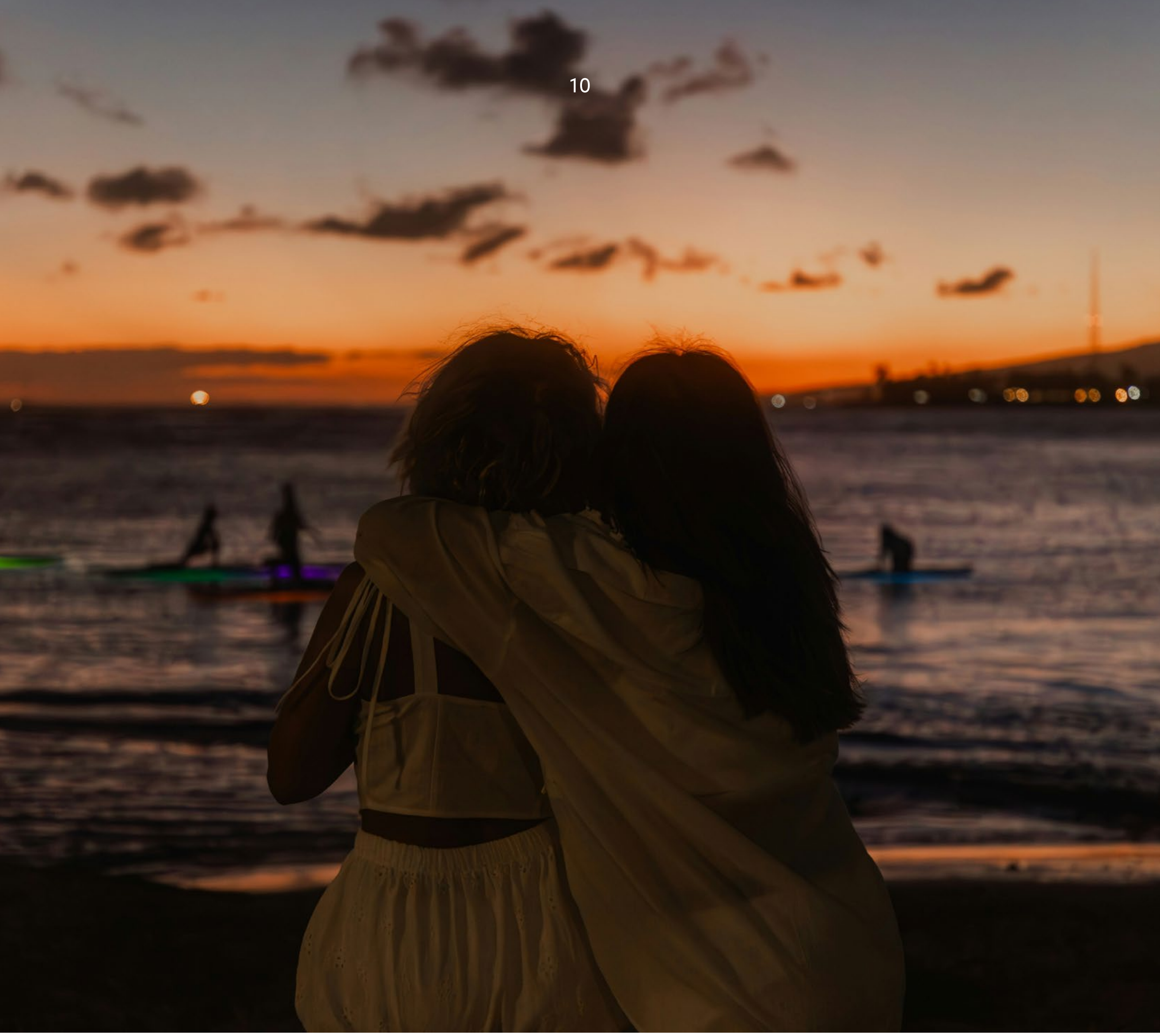
Passing wealth to your family throughout your life could make estate planning more complicated for several reasons.

Firstly, it may be more difficult to ensure that everybody receives a fair share. For example, you might have one child who has purchased their own home already, and another who hasn't. You may gift the second child a lump sum for a house deposit, but will you give the first child the same amount now or leave more to them in your will?

If you're giving regular gifts from income or making pension contributions on behalf of certain family members but not others, it could be even more challenging to calculate precisely how much each person has received.

Additionally, when you pass away, the executor of your will must calculate how much IHT is due. This means they'll need to provide evidence of any gifts and show that you survived for at least seven years after giving them. They'll also need to prove that any gifts from income met the necessary criteria to make them exempt from IHT.

It's crucial that you keep detailed records of any wealth you pass to your loved ones, to make this process as easy as possible for the executor of your will.



Gifting too much could affect your ability to achieve your own financial goals

A living legacy could help you reduce the IHT that your family pays on your estate. Plus, you could help your loved ones reach important milestones in life, and you'll be there to share in the benefits of their inheritance.

However, it's important that you don't forget about your own financial needs.

If you gift more than you can afford, you might face difficulties if you later find that you need the funds you have passed on. Unfortunately, this could mean that you have to make sacrifices to your lifestyle in retirement. You might also struggle to pay for certain expenses such as later-life care costs.

That's why it's important to carefully consider your own financial goals before you leave a living legacy. We can help you calculate what you're likely to need to fund your dream lifestyle in retirement, and how much you may need for long-term care.

That way, you can gift wealth to your loved ones with confidence, knowing that you can still achieve your own financial goals.

If you want to discuss ways to pass wealth to your loved ones while ensuring that you can meet your own financial goals, you can:

01745 582 933

info@rpgcfp.co.uk

Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

Please do not act based on anything you might read in this article. All contents are based on our understanding of HMRC legislation, which is subject to change.

The Financial Conduct Authority does not regulate estate planning, cashflow planning, tax planning, or will writing.

Remember that taper relief only applies to gifts in excess of the nil-rate band. It follows that, if no tax is payable on the transfer because it does not exceed the nil-rate band (after cumulation), there can be no relief.

Taper relief does not reduce the value transferred; it reduces the tax payable as a consequence of that transfer.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates, and tax legislation may change in subsequent Finance Acts.

The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.