

IHT planning with income

How Jonathan and Rebecca reduced their inheritance tax liability and supplemented their retirement income.

The Clients

Jonathan and Rebecca are in their late sixties and have an estate worth £1,300,000, comprised of their home (recently valued at £450,000) and a combination of cash and investments. Their financial adviser felt it was important to discuss their future plans and how to provide for their two children. She advised them that they have a potential inheritance tax liability of £120,000 once their combined allowances have been deducted.

Although Jonathan and Rebecca would like to reduce the IHT bill for their children, they are apprehensive about giving their money away at this stage in their lives. They currently require regular income in lieu of their limited pension funds and they are worried they may need to fund care in the future.

Their financial adviser recommended a flexible solution that protects their capital from IHT, whilst providing a regular income and allowing them to retain ownership and control of their money so that they can access it in the future if they need to.

Our Solution

The Stellar Income Inheritance Tax Service seeks to provide a regular income, but it also allows the couple to keep control of their capital which should qualify for 100% relief from IHT after two years. The Stellar Income Inheritance Tax Service is designed to generate a natural yield – and this in turn should create a regular and reliable income stream of 4.5% per annum before tax, which is distributed twice a year. This is a target only and is not guaranteed.

Key Features



IHT Relief

Investments should qualify for 100% IHT relief after two years.



Control

Clients retain ownership of their capital so they keep control.



Target Return

Target income of 4.5% per annum.

The difference, illustrated in the table below, means that Jonathan and Rebecca's children should receive an inheritance of £291,000 (even with no net investment growth) compared to £180,000 without the value of IHT planning. In addition, Jonathan and Rebecca should receive £13,095 per annum in annual dividends. The Stellar Income Inheritance Tax Service Income provides a flexible solution that should qualify for IHT exemption and generate an income.

Results After Two Years

	Estate without IHT planning	Stellar Income IHT Service
Estate value	£1,300,000	£1,300,000
Less combined nil-rate band	(£1,000,000)	(£1,000,000)
Taxable estate/gross investment value	£300,000	£300,000
1.5% initial fee	-	(£4,500)
1.5% dealing fee	-	(£4,500)
Net investment in the Stellar Income IHT Service	-	£291,000
Dividends received over two years	-	£26,190
Inheritance tax at 40%	(£120,000)	-
Value of inheritance left to beneficiaries	£180,000	£291,000

stellar-am.com

Important Information

Stellar Asset Management Limited does not offer investment or tax advice or make recommendations regarding investments. Capital is at risk. Investments in unquoted companies are less liquid and are higher risk. The rates of tax, tax benefits and tax allowances described are based on current legislation and HMRC practice. They are not guaranteed, are subject to change and depend on personal circumstances. This document is dated 10th September 2020 and is exempt from section 21 of the Financial Services and Markets Act 2000 and is not required to be and has not been approved for the purposes of the section because it is only being communicated to selected Investment Professionals (as defined under article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005). If this document is forwarded to any other person, you must ensure that you have taken responsibility for the document under the financial promotions rules and identified yourself as the issuer. Stellar Asset Management Limited of Kendal House, 1 Conduit Street, London W1S 2XA is authorised and regulated by the Financial Conduct Authority.