



# THORNTONS WEALTH

## REDUCE YOUR INHERITANCE TAX BILL

10 ways to protect your estate for your loved ones



### PASSING ON PENSION BENEFITS

*Providing for your loved ones  
after your death*

### GENERATION COVID-19

*Financial support to younger members  
as a direct result of the pandemic*

### COMBINED FINANCES

*Planning ahead for your  
financial future together*

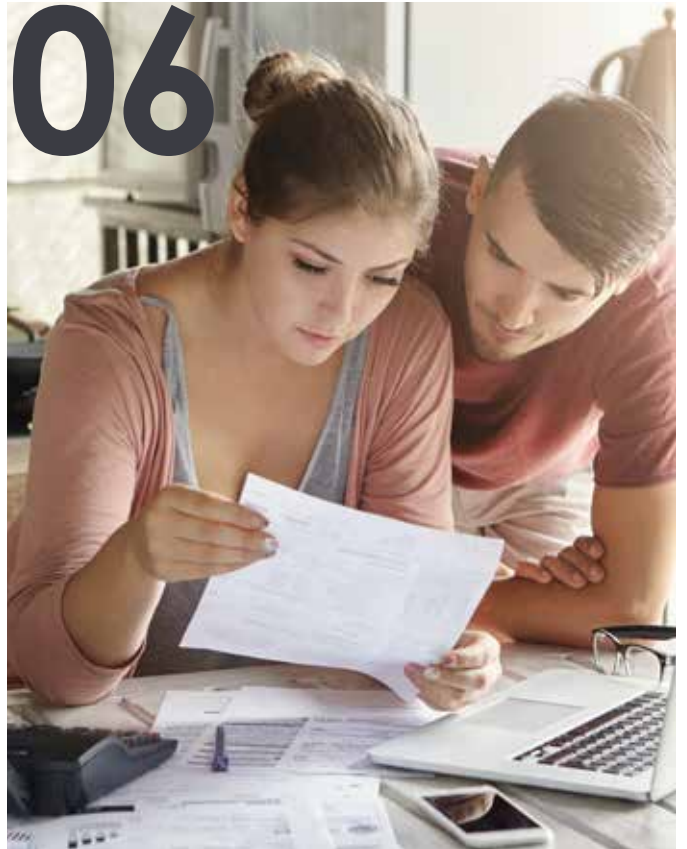
#### Thorntons Wealth

Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU

**T:** +44 (0)1382 797600 **E:** enquiries@thorntons-wealth.co.uk **W:** www.thorntons-wealth.co.uk

Thorntons Wealth is a trading name of Thorntons Investment Management Limited (SC438886) and Matheson Financial Consulting Ltd (SC241755). Both companies are registered in Scotland and the registered address is Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU. They are authorised and regulated by the Financial Conduct Authority.





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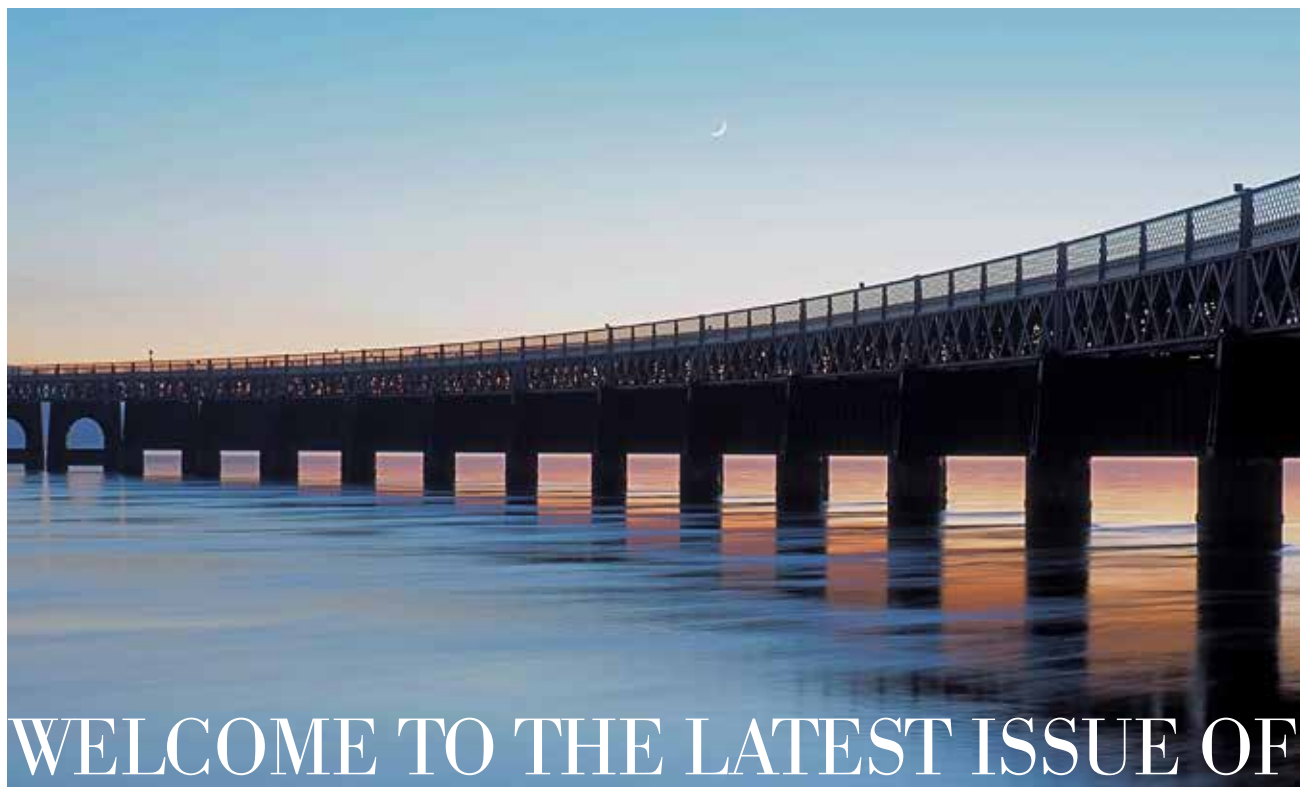
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# WELCOME TO THE LATEST ISSUE OF THORNTONS WEALTH MAGAZINE.

If you've spent a lifetime saving for retirement, you'd probably like any remaining money to go to a loved one after your death. But whether pension benefits are payable to a beneficiary, and how they'll receive them, is dependent on the type of pension you've chosen and how you've accessed it in your retirement. On page 04 we look at how since April 2015 it has been easier to safeguard your pension for your heirs, but it's important to make sure you're keeping up with the changes.

Even those who believe they have moderate wealth levels may still need to take action to minimise Inheritance Tax, particularly if they own property and have savings and investments. Are you worried your family could be left with an Inheritance Tax bill after you're gone? Read the full article on page 06.

Some couples may prefer to keep their finances separate, while others share everything. Whichever method you've chosen, when it comes to retirement saving, it's worth planning together to ensure you've made the most of all the allowances and benefits offered to couples. Turn to page 08.

What would life be like if you were diagnosed with a serious illness? Things could change very suddenly. In the event of being unable to work due to a critical illness, on page 10 we look at how by having a financial cushion in place this would alleviate some of the stress of the situation.

The coronavirus (COVID-19) pandemic has led to more people supporting younger family members financially. On page 12 new research shows that 5.5 million older family members expect to provide additional financial support to younger members as a direct result of the pandemic. ■

Very best regards,

**Thorntons Wealth**

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# PASSING ON PENSION BENEFITS

Providing for your loved ones after your death

**IF YOU'VE SPENT A LIFETIME SAVING FOR RETIREMENT, YOU'D PROBABLY LIKE ANY REMAINING MONEY TO GO TO A LOVED ONE AFTER YOUR DEATH.** BUT WHETHER PENSION BENEFITS ARE PAYABLE TO A BENEFICIARY, AND HOW THEY'LL RECEIVE THEM, IS DEPENDENT ON THE TYPE OF PENSION YOU'VE CHOSEN AND HOW YOU'VE ACCESSED IT IN YOUR RETIREMENT.

**T**hanks to changes in the way that pensions are taxed, more of your fund can survive your death and provide an income or nest egg for your loved ones to enjoy, long after you are gone. Since April 2015 it has been easier to safeguard your pension for your heirs, but it's important to make sure you're keeping up with the changes.

The way that you decide to take your pension will affect what you can do with it when you pass away. And while it's not always easy to talk about, the way you eventually pass on your pension has the biggest impact on other people, so it could help if you talk to your spouse, partner, children or other people close to you when you're deciding how you take your pension savings.

## PENSION DEATH BENEFITS

If you have not yet accessed your pension, or you have made withdrawals from your pension but left some money invested, it can usually be passed to a beneficiary after your death. The specifics, for example, in what form they will receive these death

benefits and whether they will pay tax, will depend on your individual circumstances (such as your age) and the scheme rules.

You should always obtain professional financial advice to assess your specific situation. But if your pension scheme allows you to choose a beneficiary, ensure you have named the person you intend to leave your money to.

## ANNUITY DEATH BENEFITS

If you have used your pension savings already to purchase an annuity, this can only be passed on to a beneficiary in certain cases, which must be established when the annuity is purchased. A typical lifetime annuity only provides a guaranteed income for the lifetime of the annuity holder, regardless of how long this is.

For your annuity income to go to a loved one after your death you must choose either an annuity with a guarantee period (which provides an income for a set period, whether you are still living or not) or a joint life annuity (which provides an income for life for whichever partner lives longest).

## STATE PENSION INHERITANCE

In certain circumstances, your partner can continue to receive your State Pension after your death. For example, if you're a man born before 1951 or a woman born before 1953, and you're receiving the Additional State Pension, this can be inherited by your partner (husband, wife or registered civil partner) after your death if they have reached the State Pension age. ■

## PROVIDING AN INCOME OR NEST EGG FOR YOUR LOVED ONES TO ENJOY

You've worked and saved throughout your life so that your pension will provide you with enough to live on in retirement. Now, thanks to changes in the way that pensions are taxed, more of your fund can survive your death and provide an income or nest egg for your loved ones to enjoy, long after you are gone. Contact Thorntons Wealth on 01382 797600 or email [enquiries@thorntons-wealth.co.uk](mailto:enquiries@thorntons-wealth.co.uk) for more information.



# REDUCE YOUR INHERITANCE TAX BILL

10 ways to protect your estate for your loved ones

**EVEN THOSE WHO BELIEVE THEY HAVE MODERATE WEALTH LEVELS MAY STILL NEED TO TAKE ACTION TO MINIMISE INHERITANCE TAX,** PARTICULARLY IF THEY OWN PROPERTY AND HAVE SAVINGS AND INVESTMENTS.

Inheritance Tax is payable in the UK on death, and sometimes when you give away certain assets during your lifetime. It can be a great concern for individuals with

wealth exceeding the current £325,000 nil-rate band (2020/21 tax year).

Naturally, you'll want to pass on as much as possible to your loved ones, rather than

paying 40% to HM Revenue & Customs (HMRC). Are you worried your family could be left with an Inheritance Tax bill after you're gone?

## HERE ARE 10 TIPS TO PAY LESS OR AVOID INHERITANCE TAX:

### 1. Potentially exempt transfers

One of the better-known ways to pass on wealth free from Inheritance Tax is to gift it more than seven years before your death. Of course, there is a degree of unpredictability in the outcome. If you were to die within seven years of making the gift, Inheritance Tax may be charged, though the rate will be reduced if more than three years have passed.

### 2. Personal gifts

Gifts up to a certain value can be made free from Inheritance Tax, even in the last years of your life. Your allowance includes: large gifts totalling no more than £3,000; unlimited small gifts of up to £250; and wedding gifts of up to £5,000 for your children, £2,500 for your grandchildren, or £1,000 for others

Gifts made within your regular pattern of income and normal expenditure (for example, quarterly payments towards a grandchild's school fees from your annual income) can usually be made free from Inheritance Tax, although you may need to document this pattern for three or more years.

### 3. Charitable gifts

Gifts to registered charities can be made entirely free from Inheritance Tax, which can help you to reduce the size of your estate to within the Inheritance Tax threshold.

Additionally, if at least 10% of your total estate is gifted to charity, it will reduce the rate of Inheritance Tax payable on your remaining estate (above the nil-rate band) from 40% to 36%.

### 4. Insurance

It is possible to take out a life insurance policy written in an appropriate trust that can provide a lump sum on your death to be used to pay the resulting Inheritance Tax bill. If this policy is within a trust, the lump sum paid out will not count towards your estate.

Insurance can also be taken out when making large financial gifts to cover the

Inheritance Tax bill if you were to die within the following seven years (for example, before they are excluded from your estate). This is called a 'term assurance' policy.

### 5. Pensions

Typically, though with some exceptions, pensions are excluded from the calculation of your estate and can be passed on free from Inheritance Tax. It is important to name a beneficiary to whom you wish to pass on your pension benefits.

It is also possible to make payments in your lifetime into another person's pension, which will protect this money from Inheritance Tax. For example, you can set up a Junior Self-Invested Personal Pension for a grandchild under the age of 18 and pay in up to £2,880 a year. But they will not usually have access to this money until they reach age 55.

### 6. Discretionary trusts

A discretionary trust can help you to reduce your Inheritance Tax liability by holding money in the name of your beneficiaries while you retain control. You can use your nil-rate band to pay in up to £325,000, which will be excluded from your estate after seven years. Funds above the nil-rate band may attract a lifetime tax charge.

### 7. Loan trusts

If you would like to protect your money in a trust but need to know you can withdraw it if you need it, it's possible to loan money to a trust. You will always have the option to withdraw the original capital you loaned, but any growth on that capital will be protected within the trust from Inheritance Tax.

### 8. Discounted gift trusts

If you would like to earmark some wealth to be passed to a beneficiary or beneficiaries on your death, but you want any income generated to be paid to you in your lifetime, you can do this through a discounted gift

trust. This will exclude the contents of the trust from your estate for Inheritance Tax purposes but still provide you with regular payments from it.

### 9. Business Relief

Business assets can usually be passed on either in your lifetime or after your death with Inheritance Tax relief of up to 100%. A business, interest in business or shares in an unlisted company will usually qualify for 100% Business Relief. Land, buildings and machinery related to the business will usually qualify for 50% Business Relief, as will shares controlling more than 50% of the voting rights of a listed company.

### 10. Agricultural Relief

If you own agricultural property (land or pasture used to grow crops or rear animals as part of a working farm), this can usually be passed on in your lifetime or after your death free from Inheritance Tax. ■

### TIME TO PLAN YOUR ESTATE?

Inheritance Tax planning can be a complicated process, especially as rules and legislation seem to change every year. But with the right forward planning, it is possible to significantly reduce or even eliminate a potential Inheritance Tax liability. To identify the best ways to protect your assets for future generations, don't delay. Contact Thorntons Wealth on 01382 797600 or email [enquiries@thorntons-wealth.co.uk](mailto:enquiries@thorntons-wealth.co.uk) to discuss your options.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAXATION AND TRUST ADVICE AND WILL WRITING. TRUSTS ARE A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING.

# COMBINED FINANCES

Planning ahead for your financial future together

**SOME COUPLES MAY PREFER TO KEEP THEIR FINANCES SEPARATE, WHILE OTHERS SHARE EVERYTHING.**

**W**hichever method you've chosen, when it comes to retirement saving, it's worth planning together to ensure you've made the most of all the allowances and benefits offered to couples.

Your golden years may ultimately be the best of your relationship if you understand each other's future goals, needs and expectations.

## SET YOUR BUDGET

The first step of planning for retirement is to look at how much money you'll need to cover your outgoings. Start by analysing your current spending, and then identify where your spending might increase and decrease over the years.

If you have different perspectives on how extravagant your lifestyle will be, it's best to discuss this openly and early on as you'll need to come to an agreement. One

of you might be underestimating how much you'll need or overestimating what you can realistically afford.

Remember to plan for different circumstances. Hopefully, you'll enjoy a decades-long retirement together, but your finances might look very different if one of you were to fall ill or die. It might be unpleasant to discuss but is essential to plan for.

## ASSESS YOUR FINANCES

Next, look at the income you'll both have from the State Pension and any private pensions. Set aside some time to trace pensions from previous workplaces that you might have forgotten about or not known an employer was paying into, as many people find extra cash that way.

Make sure you understand all of your options for withdrawing your pensions, as the amount you get back from your pension

depends, in part, on which option you choose. Consider, for example, whether you want to take a tax-free lump sum of up to 25% of your pension savings at the start of your retirement, and how best you could use that.

If you have any debts or savings you haven't mentioned to your partner, it would be wise to open up about these now.

## TOP UP YOUR SAVINGS

If your existing pension savings won't provide the income you think you'll need, look at ways to address the shortfall. Could you make some lifestyle changes now to save more for later?

If one or both of you have less than 35 years on your National Insurance record, you can make voluntary contributions to receive more State Pension.

It's worth obtaining professional financial advice about using both of your pension allowances, and whose pension it is more

sensible to contribute to. You both have an 'annual allowance', which is £40,000 in the 2020/21 tax year, or 100% of your income if you earn less than £40,000.

This means with the current annual allowance limit, someone paying Income Tax at the standard rate of 20% would receive a maximum sum of £8,000 of pension tax relief towards their pension pot. If you pay tax at the higher rate of 40% you would receive up to £16,000 of tax relief, while those in the additional rate band of 45% would currently receive £18,000 of tax relief.

#### **NEED HELP WITH YOUR RETIREMENT PLAN?**

It's important to carry out any financial planning exercise together, holistically, as a couple. If you don't fully understand your options or want to boost your pension savings, speak to Thorntons Wealth on 01382 797600 or email [enquiries@thorntons-wealth.co.uk](mailto:enquiries@thorntons-wealth.co.uk) to discuss your circumstances.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENT (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX ADVICE.



# LIFESTYLE PRESERVATION

Protection for you and your loved ones

**WHAT WOULD LIFE BE LIKE IF YOU WERE DIAGNOSED WITH A SERIOUS ILLNESS?** THINGS COULD CHANGE VERY SUDDENLY. YOU'D GET YOUR FAMILY TOGETHER AND TELL THEM WHAT WAS GOING ON. BEFORE LONG, YOU'D START SPENDING TIME IN HOSPITAL FOR TREATMENT. YOU MAY ALSO NEED TO TAKE SOME TIME OFF. MANAGING THEIR FINANCES.

It's hard to know what the financial impact of all this would be for you and the people who depend on you. A critical illness can affect anyone at any age and can turn your life upside down. In the event of being unable to work due to a critical illness, having a financial cushion in place would alleviate some of the stress of the situation.

## Financial impact

Some people may use their savings to supplement their loss of income, others may rely on an employment benefit package, while others may find that critical illness cover is their best option. Critical illness cover can help minimise the financial impact on you and your family if you become critically ill.

For example, if you needed to give up work to recover, or if you passed away

during the length of the policy, the money could be used to help fund the mortgage or rent, everyday bills, or even simple things like the weekly food shop – giving you and/or your family some peace of mind when you need it most.

## Tax-free lump sum

After surviving a specified critical illness, you may not be able to return to work straight away (or ever), or may need home modifications or private therapeutic care. It is sad to contemplate a situation where you survive from a serious illness but then endure financial hardship. Preparing for the worst is not something we want to think about when feeling fit and healthy, but you never know what life is going to throw at you next.

Critical illness cover, either on its own or as part of a life insurance policy, is designed to pay you a tax-free lump sum on the diagnosis of certain specified life-threatening or debilitating (but not necessarily fatal) conditions, such as a heart attack, stroke, certain types/stages of cancer and multiple sclerosis.

## Emotional stress

A more comprehensive policy will cover many more serious conditions, including loss of sight, permanent loss of hearing, and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs. But not all conditions are necessarily covered, which is why you should always obtain professional financial advice to consider your options.





If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide the much-needed financial support at a time of emotional stress.

#### **Family's finances**

The good news is that medical advances mean more people than ever are surviving conditions. Critical Illness Cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from your illness, or you can use it for any other purpose.

What would life be like if you were diagnosed with a serious illness? Things could change very suddenly. Being diagnosed with a critical illness is a life-

changing moment. It'll disrupt your home and work life, and could put a strain on your family's finances. ■

#### **LIFE-CHANGING COVER, FOR LIFE-CHANGING EVENTS**

Almost everyone knows someone who has been affected by a life-changing condition such as cancer, stroke, heart disease or a serious accident. To review your situation or consider your options, please contact Thorntons Wealth on 01382 797600 or email [enquiries@thorntons-wealth.co.uk](mailto:enquiries@thorntons-wealth.co.uk) – we look forward to hearing from you.

SOME TYPES OF CANCER ARE NOT INCLUDED AND YOU NEED TO HAVE PERMANENT SYMPTOMS TO MAKE A CLAIM FOR SOME ILLNESSES.

THIS IS NOT A SAVINGS OR INVESTMENT PRODUCT AND HAS NO CASH VALUE UNLESS A VALID CLAIM IS MADE.

# GENERATION COVID-19

## Financial support to younger members as a direct result of the pandemic

### THE CORONAVIRUS (COVID-19) PANDEMIC HAS LED TO MORE PEOPLE SUPPORTING YOUNGER FAMILY MEMBERS FINANCIALLY.

NEW RESEARCH SHOWS THAT 5.5 MILLION OLDER FAMILY MEMBERS EXPECT TO PROVIDE ADDITIONAL FINANCIAL SUPPORT TO YOUNGER MEMBERS AS A DIRECT RESULT OF THE PANDEMIC<sup>[1]</sup>.

**O**f these, 15% estimate they will provide an additional sum of £353 in financial aid. The most common reasons given for the payments were to help cover household bills, rent payments, allowing them to move back to the family home or paying off debts. This equates to £1.9 billion being given to younger family members needing financial support.

#### REGULAR GIFTS

This COVID-19 specific support comes in addition to regular ongoing financial support provided by older family members. Over a third (39%) of young adults, around 3.3 million people, receive regular financial support from their older family members and depend on it to cover their monthly outgoings.

Older family members provide on average £113 a month, collectively giving £372 million to loved ones each month in the form of regular gifts. While the majority (31%) say they use monthly gifts to save for 'big ticket' items like a housing deposit, over a quarter use it to pay for everyday essentials (29%) and a similar number to pay their bills (27%).

#### FINANCIAL AID

Despite the significant sums handed out, 80% of older family members who gift money feel it is only natural to provide support to their younger relatives and are more than happy to

do so. Of the 50% of adults who have received financial aid from a family member, many have sought further support during this year.

16% have utilised the government furlough scheme, 15% moved back to their family home to live rent free and 13% have taken out a one-off loan. The trend of younger family members moving back home is becoming more common, with the most recent data from the Office for National Statistics (ONS) showing that over the last two decades, there has been a 46% increase in the number of young people aged 20-34 living with their parents, up to 3.5 million from 2.4m<sup>[2]</sup>.

#### GIFT MONEY

While the majority (62%) of those who give away money do so knowing they can afford to maintain their current lifestyle, the research suggests that selfless relatives are occasionally making changes to their own finances to meet the expense. Over a third (38%) of those who gift money to family members have made sacrifices in order to do so. While many (31%) reported cutting back on some day-to-day spending in order to gift money, a fifth (21%) admitted they struggled to pay some bills having helped out a loved one.

Most parents and grandparents will gladly help out when they can, but people are often making personal compromises to provide this

support. Giving money to a family member has the potential to be a special experience, but the key is not to lose sight of your longer-term plan.

#### PROPERTY WEALTH

There is a risk that people could be underestimating what they need to fund a comfortable retirement, and therefore it's important to gift sensibly. Utilising property wealth, by either downsizing or using equity release, can often be helpful here as it allows the opportunity to give a living inheritance without touching your income.

These decisions aren't easy, and the tax rules mean gifting money can be complicated. When gifting, HM Revenue & Customs stipulates you must be able to maintain your current standard of living from your remaining income to take advantage of tax exemptions and there are tax implications for anything gifted over the £3,000 annual allowance. ■

#### 'BANK OF MUM AND DAD' OPEN FOR FINANCIAL SUPPORT

Younger generations, who stand to be impacted most by the crisis, may need to call on you – the 'Bank of Mum and Dad' – for financial support. If this is the case you need to evaluate how any cash calls could impact your own retirement plans. To discuss any concerns that you may have, please contact Thorntons Wealth on 01382 797600 or email [enquiries@thorntons-wealth.co.uk](mailto:enquiries@thorntons-wealth.co.uk) for more information.

#### Source data:

[1] *Opinium Research ran a series of online interviews among a nationally representative panel of 4,001 UK adults between the 25 September and 3 October 2020*

[2] <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/datasets/youngadultsivingwiththeirparents>