

## Inter-Generational Tax Planning

If someone leaves you money or assets then it will increase the size of your estate. Which could mean that your estate could end up paying more tax unless you have spent it before you die.

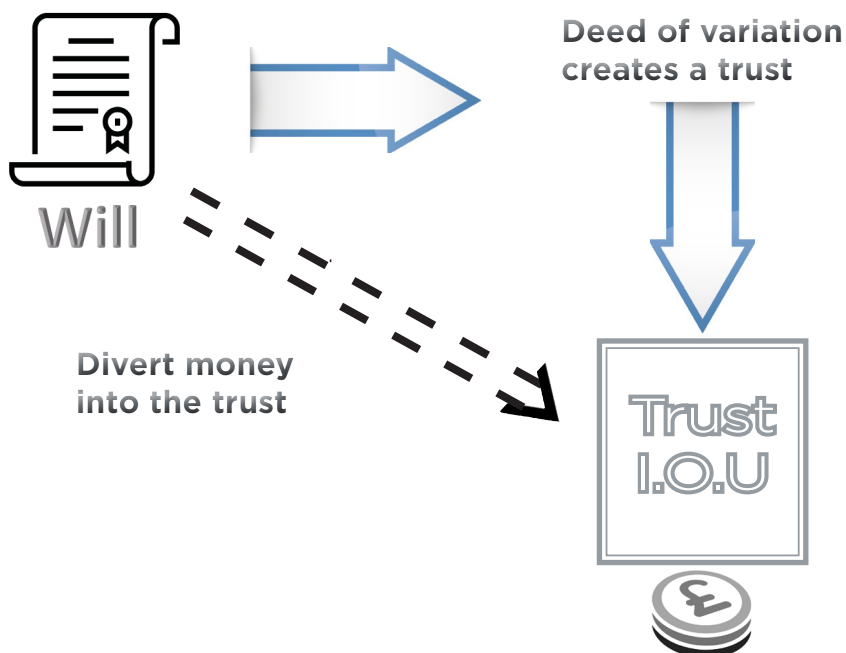


You could pass assets down to your children, however, there is no guarantee that you could get it back if you needed it.

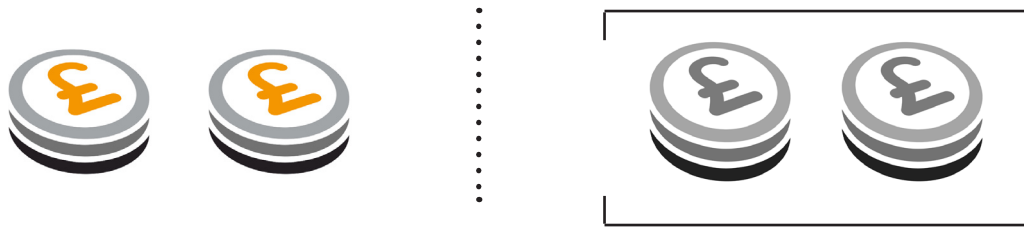


So, how do you keep control of the money without being taxed on it?

One method would be to vary the Will as follows:



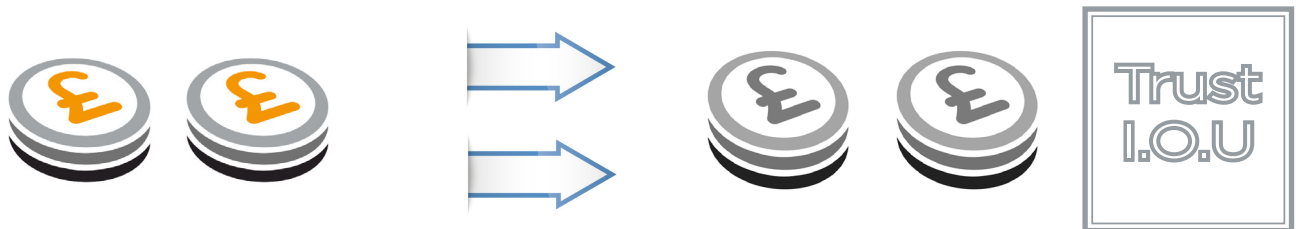
This way the money can sit outside your estate and is not part of it.



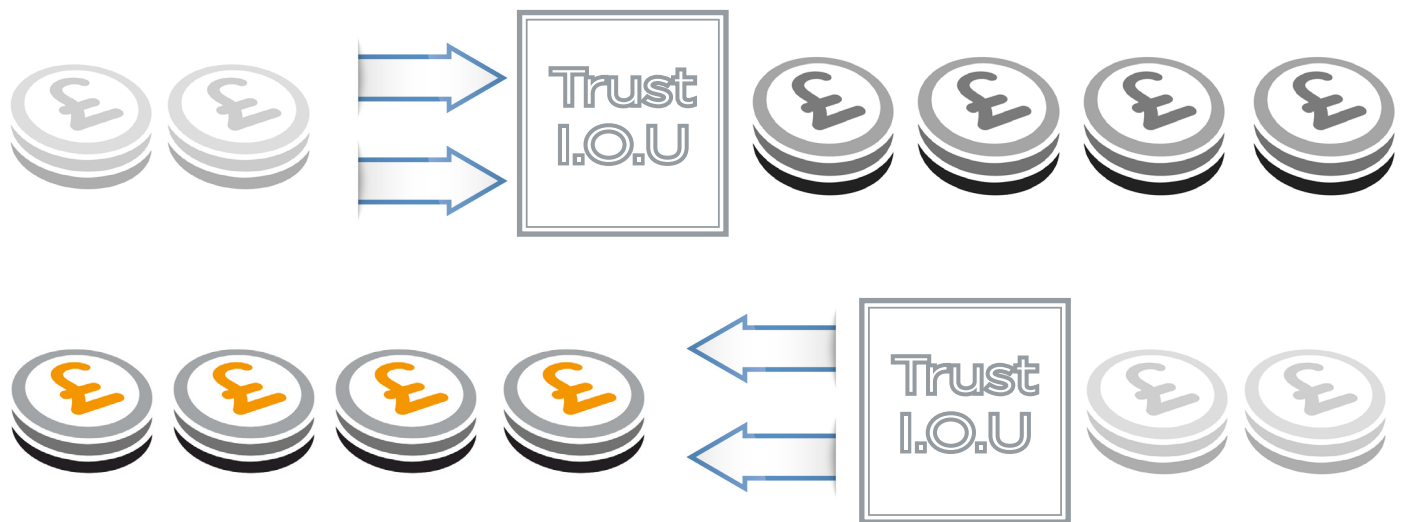
...income can be paid to you if you need it or the trustees can lend the money to you.



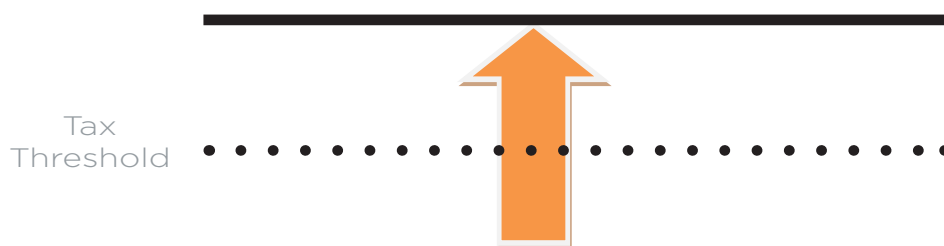
Whilst you would have use of the money, you still owe the money back to the trust.



Because you owe money back to the Trust, the effect is that your tax liability is reduced. Every time someone leaves you money you can set up a trust for it.



The effect of this is like increasing your IHT allowance.

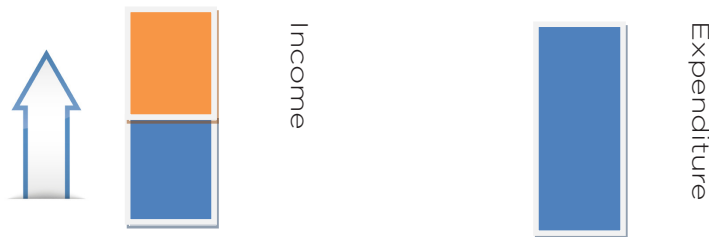


However in order for this to work the debt must be repayable on demand. Which is usually done under the following three circumstances.

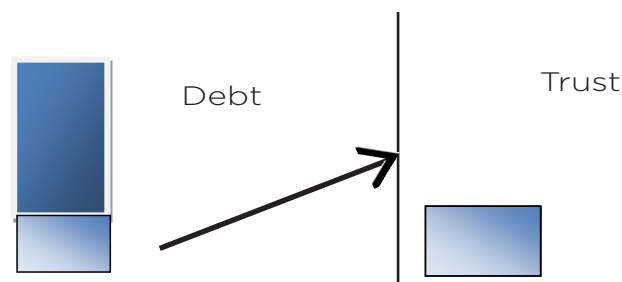
**1. Death - by repaying the loan you reduce the size of your estate**

**2. Care - If you require full time care in a home and cannot pay the cost out of your income, your capital goes down.**

Over time capital in the trust may be seriously eroded. The trustees therefore could decide to call in the debt in order to preserve the Trust.



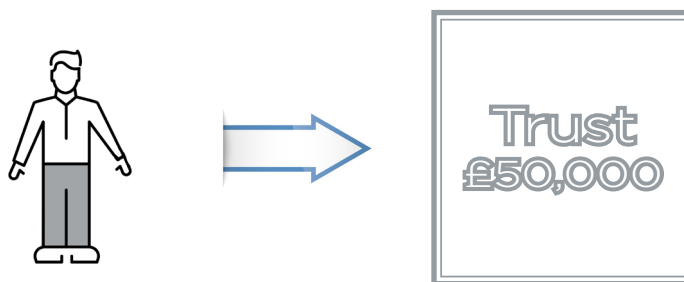
The effect is to reduce the value of your remaining capital.



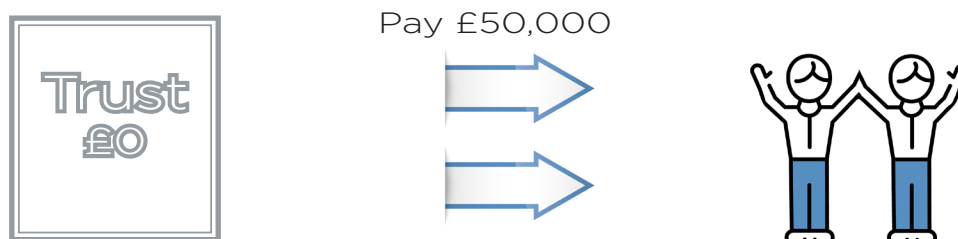
**3. You want to financially helping a child or a grand child**

Say they need £50,000 for a deposit on a house - If you make a gift, you have to survive it by 7 years for there to be no inheritance tax issue. Alternatively you could partially repay the trust.

The trust then has cash, which means the trustees could decide to give to the beneficiary.



This way the beneficiary still receives the money; your inheritance tax allowances are intact; and the tax planning had been reinforced.



Please note that this is an outline only of the strategy, there are tax issues surrounding the use of trusts.

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