

ADVICE.

You've worked hard all your life and want to stay in control of your assets. Backed by our knowledge and expertise, your financial adviser can help you to protect your estate from inheritance tax, leaving a lasting legacy for those that matter to you.



Legal &
General

A photograph of two men embracing. The man on the left is wearing a straw hat, sunglasses, and a blue and white plaid shirt. The man on the right is wearing a light pink shirt and has his back to the camera. The background is slightly blurred, showing what appears to be an outdoor setting with a building in the distance.

HELPING YOU UNDERSTAND INHERITANCE TAX.

Taking sound financial advice can help you understand how inheritance tax could impact your estate and the steps you could take to mitigate it.

THEY SAY NOTHING'S CERTAIN IN LIFE EXCEPT DEATH AND TAXES.

True enough, but spending a little time now to put our affairs in order could save an enormous amount of time, money and stress for those we leave behind.

WHAT IS INHERITANCE TAX (IHT)?

IHT is a tax which your loved ones or personal representatives may have to pay on your estate when you die.*

IHT could seriously affect your loved ones finances. They may have to pay some, or all of the IHT before the estate is released. This could mean that they'd need to raise money or even take out a loan to pay the IHT, which could cause financial difficulties as well as additional stress.

HOW DO YOU WORK OUT IHT?

Each year the government sets an inheritance tax threshold, this is called the nil rate band. The nil rate band is a limit up to which your assets are free from IHT. For the tax year 2010/2011, the nil rate band is £325,000. This was frozen at this level for four years within the 2010 budget.

If your spouse or registered civil partner dies, their unused nil rate band could be transferred to you (as the surviving spouse/registered civil partner). This could increase the nil rate band from £325,000 up to £650,000.

When you die, your family or personal representative will have to pay inheritance tax at 40% on the value of your estate above your nil rate band (unless an exemption applies).

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During the 2009/2010 tax year, the government received just under £2.4 billion through the payment of IHT. With the right estate and IHT planning, this money could have been passed on to family, friends, or even to charity, rather than to the government.

* There are some other occasions where IHT may be payable such as when chargeable lifetime transfers are made, but your financial adviser will be able to help explain these to you.

CALCULATING IHT – AN EXAMPLE

This is an example of how IHT is calculated

ASSETS

House	£650,000
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Personal effects	£45,000
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Car	£15,000
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Cash/Savings	£25,000
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Shares	£35,000
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Total value	£770,000
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ALLOWABLE DEDUCTIONS

Funeral Expenses	£2,500
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Total deductions	£2,500
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Net value of Estate	£767,500
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Less Nil Rate Band	£325,000
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Less unused Nil Rate Band from deceased husband*	£325,000
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Total liable to IHT	£117,500
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IHT PAYABLE (£117,500 x 40%)	£47,000
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CALCULATE YOUR IHT

Use the guide below to help estimate your IHT

ASSETS

House	£
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Personal effects	£
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Car	£
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Cash/Savings	£
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Shares	£
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Total value	£
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ALLOWABLE DEDUCTIONS

Funeral Expenses	£
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Total deductions	£
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Net value of Estate (Total value – Total deductions)	£
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Less Nil Rate Band	£325,000
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Less unused Nil Rate Band from deceased spouse/ registered civil partner	£
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Total liable to IHT (Net value – nil rate bands)	£
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IHT PAYABLE (Total IHT liability x 40%)	£
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*Uplifted to level applicable at second death. 100% of husband's nil rate band was unused following death as all of his estate passed to his spouse.

WHOLE OF LIFE PROTECTION MAY BE A POSSIBLE SOLUTION TO YOUR ESTATE'S IHT LIABILITY.

JOHN AND JUDY'S STORY

John and Judy had been married for many years and each had estates which, when valued together, were worth £800,000 in 2007. Judy and John were both UK domiciled.

John died in May 2007 having made no lifetime transfers, so all of his assets passed across to Judy. As the transfer of assets were between spouses, they were exempt from IHT.

Judy died in May 2010 with an estate valued at £1.1 million, again having made no lifetime transfers.

Because of transferable nil rate bands, Judy's executors can now claim an increase to Judy's nil rate band (the nil rate band is £325,000 for the 2010/2011 tax year). Since John hadn't used any of his nil rate band the increase would be 100%. Judy's estate therefore has a total nil rate band of £650,000.

When this is applied to the value of her estate of £1.1 million, the liability to IHT reduces significantly.

WITHOUT NIL RATE BAND TRANSFER

£1,100,000 – £325,000 = £775,000

40% of £775,000 = £310,000

WITH NIL RATE BAND TRANSFER

£1,100,000 – £650,000 = £450,000

40% of £450,000 = £180,000

In this example IHT will still be due, however, the amount has been considerably reduced by claiming the transferable nil rate band. The story above is a realistic example highlighting the potential benefits of claiming the transferable nil rate band.

SOME POINTS TO CONSIDER:

- Couples who have children from previous relationships may wish to make provision for those children through their Wills.
- Couples who may need nursing care in the future, may wish to consider alternative forms of estate planning.
- Although it's now possible for the nil rate band to be transferred, it cannot be used by the surviving spouse or registered civil partner during their lifetime.
- For couples whose combined estates do not exceed two nil rate bands when the second of them dies, one solution may be to use the transferable nil rate band for their IHT planning.

MAKING A WILL.

The first and most important step in estate and IHT planning is to make a valid Will.

Making a valid Will should help ensure your estate is shared out how you would wish. If you should die without a Will, your estate will be divided according to the rules of intestacy, which may not be how you intended. Your legal adviser can explain the details if you don't already have a Will.

HOW YOU CAN LESSEN THE EFFECTS OF IHT?

Once your Will is in place, and assuming there is an IHT liability, there are two things you can do:

Take steps to reduce IHT

It makes sense to arrange your finances so that as little as possible is subject to IHT. There are various exemptions and reliefs available as well as a number of estate planning options, all of which can help to reduce your estate's IHT liability.

Careful consideration needs to be given to each individual's circumstances.

We suggest you take financial and legal advice about the most tax efficient way of structuring your finances to best suit your circumstances and requirements.

Take steps to meet IHT

Not everybody is in a position to re-arrange their affairs so as to mitigate all of a potential IHT liability. There are many people who simply can't avoid leaving an IHT liability.

A Whole of Life Protection Plan could be one way to help meet this liability.

A WHOLE OF LIFE PROTECTION PLAN.

Our Whole of Life Protection Plan, written in Trust, could be a possible solution to eliminate or reduce your estate's IHT liability.

It could pay out a lump sum to your beneficiaries when you die. This money can be used to help pay your estate's IHT to the tax man. If there is no IHT, your beneficiaries are free to spend or save the money as they choose.

When you take out the policy, you will select the amount of cover you require. For example, if you think your IHT liability is likely to be £100,000 then you could apply for cover for this amount. Once you've selected a suitable amount of cover, your premium will be guaranteed for the lifetime

of the policy*. So no matter what happens in your life, you'll never have to worry about the premiums increasing.

Our plan offers you†:

- Added peace of mind
- Competitive prices
- Guaranteed premiums.

For information on writing your plan in trust please speak to your financial adviser.

WHAT SHOULD I DO NEXT?

None of us like to think about our own death, yet careful estate planning is one of the most thoughtful things we can do for our loved ones. Get financial advice today and find out more about estate and IHT planning. One phone call could help make all the difference to your family and friends, and mean extra peace of mind for you.

*The premium will increase if the level of cover is increased by exercising a guaranteed insurability option or the cover is indexed.

†Your financial adviser will be able to discuss the policy benefits and limitations with you.



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