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Inheritance Tax Planning:
Reducing IHT & Supporting Family Gifting for Tim and Mandie Sawyer

Background
Luke gives his clients the confidence to make plans to protect their financial future, reduce their inheritance tax liability and increase the legacy to their family. Luke worked with Tim and Mandie to help them understand their overall financial position, as this forms the foundation of any effective planning. This involved summarising all of their existing assets, income, expenditure and objectives. This top-down review provided clarity and allowed Tim and Mandie to consider estate planning strategies with greater confidence.

Tim had worked for many years at a large blue-chip company, while Mandie had been a teacher. Over time, they had prudently accumulated savings across a range of investments, pensions and cash. Now in their 70s, they had repaid their mortgage and were supplementing their state pensions and Mandie's Teachers' Pension with regular ISA withdrawals to support their lifestyle in retirement.

The Issue
Although Tim and Mandie were comfortable financially, they had growing concerns about the size of their estate and the potential impact of inheritance tax. They were particularly keen to ensure that any planning undertaken would not compromise their ability to maintain their standard of living throughout retirement. A key concern was whether they could afford to reduce their estate while still feeling secure about their future income and capital needs.

Rising house prices had meant they no longer qualified for the full Residence Nil Rate Band. As a result, part of their estate would be subject to an effective inheritance tax charge of 60%. Based on their current circumstances, their overall inheritance tax liability was calculated to be around £600,000, and they were concerned this figure would continue to increase over time.

What Was Considered
To assess the position in detail, Luke prepared a personalised cashflow plan projecting Tim and Mandie's long-term income and expenditure throughout retirement. This analysis confirmed their concern that, without action, their inheritance tax liability was likely to rise further. The cashflow modelling tested a range of scenarios, including increased care costs and lower-than-expected investment returns, to assess the sustainability of their capital under different conditions.

While Tim and Mandie had always felt broadly comfortable in retirement, there had been a lingering doubt about whether their savings would truly last. This uncertainty had made them reluctant to commit to any significant

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inheritance tax planning strategies. The cashflow plan, however, demonstrated that even under a 'worst-case scenario', they were projected to retain more than sufficient capital to support their needs throughout retirement.

This analysis provided reassurance and allowed Tim and Mandie to consider gifting and longer-term planning with greater confidence. They expressed relief at having clarity around their position and felt able to explore ways of supporting their family during their lifetime.

What Was Recommended

Having taken the time to fully understand Tim and Mandie's financial position, Luke recommended a series of actions designed to reduce their inheritance tax liability while maintaining financial security. Luke advised that they draw part of their pension tax-free cash and gift this to their children to assist with a property purchase, in anticipation of the inheritance tax rule changes expected from April 2027.

Using the cashflow plan, Luke also identified a portion of their cash and investments that they could afford to gift without impacting their lifestyle. This amount was settled into a trust for the long-term benefit of their grandchildren, with distributions to be made upon future milestones. In addition, a Whole of Life policy was arranged, structured in trust and payable on second death. The sum assured is intended to provide beneficiaries with a lump sum to assist in meeting any remaining inheritance tax liability.

Luke also recommended making use of their annual gifting allowances of £3,000 each. These amounts were gifted into pension plans for their grandchildren, benefiting from tax relief and falling outside the seven-year rule for inheritance tax purposes.

Outcome

Assuming Tim and Mandie live for at least seven years from the date of the advice, the recommended changes are projected to reduce their inheritance tax liability by over £175,000. In addition, the Whole of Life insurance policy is expected to provide a lump sum to help cover the remaining inheritance tax liability, offering further reassurance to Tim and Mandie and their family.

Luke agreed to review Tim and Mandie's financial planning on an annual basis to ensure that the strategies remain effective and can be adjusted promptly in response to any changes in legislation or personal circumstances.

As our clients typically demand the utmost confidentiality, some of the information in this case study has been changed.

To find out more about how we could help you please contact us

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