CASE
STUDY

Inheritance Tax:

Reducing Inheritance Tax While Retaining Control for George and Julie Morrison

Background

George and Julie, both in their 70s, had built up a healthy mix of savings, ISAs and pensions over many years. While they felt comfortable about their own retirement income, their focus had shifted towards supporting their family and understanding how much inheritance tax their estate might face in the future. Their objective was not only to reduce inheritance tax, but also to ensure that any planning would not compromise their own financial security or ability to meet future needs.

Simon worked with George and Julie to help them understand their financial position in full and to explore options that would allow them to help their family while retaining an appropriate level of control over how and when assets might be passed on.

The Issue

George and Julie's concerns extended beyond inheritance tax alone. They were keen to support their family, but were cautious about making outright gifts that could be exposed to divorce, poor financial decision-making or loss of control over how funds were ultimately used. Retaining control over gifted assets, while still achieving meaningful inheritance tax planning, was a key consideration for them.

They also wanted reassurance that any steps taken to reduce inheritance tax would not undermine their own long-term financial security. In particular, they wanted to understand how different planning decisions might affect their ability to meet unexpected expenses or potential later-life care costs.

What Was Considered

The first step was to help George and Julie fully understand their overall financial position. Simon prepared a personalised long-term cashflow plan showing how their income, expenditure, pensions, savings and investments might evolve over time. This plan was used to test a range of scenarios, including higher future spending, varying investment returns and the long-term sustainability of their capital.

By modelling these different outcomes, George and Julie were able to see clearly that appropriate planning could be undertaken without compromising their own financial security. This analysis provided a solid foundation for considering inheritance tax planning options with greater confidence.

Once their position was clear, Simon explored ways to reduce the potential inheritance tax liability while maintaining control. A range of

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trust-based solutions were discussed, including gift trusts, loan trusts and discounted gift trusts. Simon explained how each option could work in practice, along with the advantages and limitations of each approach. A key focus throughout these discussions was ensuring that any money set aside for their family would only be distributed at appropriate times and for appropriate purposes, in line with George and Julie's wishes.

What Was Recommended

Initially, George and Julie assumed that any gifting would come from their cash savings. However, following a detailed review of their pensions and in light of forthcoming pension legislation changes expected from April 2027, Simon recommended an alternative and more tax-efficient approach.

The agreed strategy involved using tax-free cash from a pension to fund the trust. This approach preserved their readily accessible cash and emergency fund, providing reassurance and flexibility for short-term needs. It also made use of pension tax-free cash before age-related changes could apply and started the seven-year inheritance tax clock on the gifted funds.

In addition, the strategy reduced the potential exposure of pension funds to future income tax and inheritance tax for their beneficiaries. As trustees, George and Julie retained control over how the money was invested and when it could be distributed, addressing their concerns about loss of control and inappropriate use of funds. The planning is expected to reduce the estate's inheritance tax liability by over £80,000, based on current rules and assumptions.

Outcome

Crucially, George and Julie retained sufficient capital to meet their own needs, including unexpected expenses and potential later-life care costs. They gained peace of mind from knowing that they had a clear and structured plan in place, had retained control over the assets being gifted, and had taken meaningful steps to protect their family's future.

By understanding their financial position in detail and exploring a range of inheritance tax planning options, George and Julie were able to put inheritance tax into context and make informed decisions aligned with both their own needs and their family objectives.

Tax treatment depends on individual circumstances and may be subject to change.

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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