



# BUCKINGHAM GATE



## TOP 7 MISTAKES FOR INHERITANCE TAX PLANNING

This communication is for general information only and is not intended to be individual advice. It represents our understanding of law and HM Revenue & Customs practice. You are recommended to seek competent professional advice before taking any action.



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# INTRODUCTION TO INHERITANCE TAX PLANNING

Buckingham Gate Chartered Financial Planners is an independent financial planning firm based in the heart of Central London.

Our mission is to empower our clients and their families to enjoy their wealth and to help them achieve true financial peace of mind.

With the most dedicated team in financial planning, we make this possible by creating simplicity out of complexity and acting as the guardian of our clients' financial wellbeing.

A lot of the work we do with clients is based around their Estate and Inheritance Tax Planning.

With years of experience advising in these fields, we have become familiar with a set of mistakes which people tend to make in their Estate Planning.

We commonly find that people are either apprehensive or cautious toward putting effective

plans into place for a number of reasons. Reasons which we feel should not be getting in the way!

In this guide, we hope to highlight some of the easy mistakes you can avoid when it comes to Inheritance Tax Planning.

We also hope this guide provides you with the confidence to start your own Estate Planning Journey, because at Buckingham Gate, we believe "The best time to begin your Estate Planning Journey was yesterday and the second-best time is today!"

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# NOT TAKING ACTION

By far the biggest mistake people make when it comes to IHT Planning is simply not taking action.

The issue with IHT and Estate Planning is that it is almost always something that ‘can wait’ until tomorrow (until it can’t of course). Talking about death and the distribution of assets can be very uncomfortable for some people and thus they avoid the conversation for as long as possible.

We all know that life is very busy nowadays and Estate Planning is definitely something that people have a tendency to put off. So often when we sit down with a client, they will tell us something like “I have been meaning to do this for the past 5 years, but I am only getting around to it now”. The problem is this; while Estate Planning is undoubtedly very important, it is usually not particularly urgent and as such, the urgent things in life tend to take priority.

The problem with this is that, at some point, Estate Planning does become urgent, but this is often in the face of a health scare or a diagnosis of a serious illness. Although we will always be on hand to help people in this situation, doing your Estate Planning in a hurry while under duress is less than ideal.

The best time to begin your Estate Planning Journey was yesterday, the second-best time is today! The unfortunate thing is that many people simply never begin. This often only comes to light once they have passed away and when we are dealing with the children (also often the executors of the estate) and they will comment

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THE BEST TIME TO BEGIN YOUR ESTATE PLANNING JOURNEY WAS YESTERDAY, THE SECOND-BEST TIME IS TODAY!

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“Dad was always talking about sorting all of this out, he just never got around to it”.

If you want to simplify things for your loved ones, reduce your IHT bill and protect your estate from social impacts such as divorce and bankruptcy, then you must take action.

Almost universally, once we have finished preparing a client’s Estate Planning framework, they report a huge sense of relief and an increase in their peace of mind.

The good news is that once your Estate Planning framework has been completed, there is often no need to think about it for many years to come. Your beautifully organised binder containing your wills, trust deeds and other estate planning documents can be filed away in a cupboard somewhere and only really needs to come out again if something changes. Which brings us nicely to...



## WAITING FOR A CHANGE

Although this is similar to point Number 1, many people go through life knowing that they need to deal with their Estate Planning, but they are just waiting until ‘something’ changes.

Perhaps they are waiting to see if we will have a general election and the government might change and then change the rules. Perhaps they want to see what legislation this year’s budget contains before taking action or maybe they have a child with a slightly rocky relationship, and they wish to see how things pan out before committing to something.

The major problem with this approach is that there will always be ‘something’ on the horizon that might change the Estate Planning landscape.

After this years budget, there will be next years budget. After one election, there will be another one (in our current volatile political environment, perhaps sooner than you might think).

The only constant in this world is change and if you use a potential change on the horizon as an excuse not to take action, you will most likely fall into mistake number one and end up taking no action at all.

The good news is that when Estate Planning legislation does change (and it will at some point), most planning solutions are very flexible and can be adjusted very easily to accommodate most changes to the law or to your circumstances.

Our advice to clients is always the same – we must act now based on what we know today and then, when and if things change, we can adjust the planning accordingly.

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# TAKING AN 'ALL OR NOTHING' APPROACH

You would be amazed how many people seem to adopt an 'all or nothing' approach to their Estate Planning, especially when it comes to their IHT liability.

There are many people with a large IHT bill hanging over their head that seem to take the view that "I either want to get rid of the whole liability, or I'm not going to do anything at all".

Now of course, this is counter-intuitive, but it is a sentiment we see frequently. Surely though, if we can reduce a £200,000 liability down to £100,000 or an £800,000 liability down to £200,000, those would be very worthwhile savings indeed.

We have a little saying in our practice which goes "The only way to have no problem is to have no assets".

What this means is that very often it is possible to deal with most of an IHT problem, but not the whole thing. If the individual involved wants to retain access and control over some assets, then chances are that there will be some element of residual IHT liability that can't be eliminated (you can always insure the liability or use investments to reduce it

further, but that is a subject for another guide). The same goes for the other main threats to family wealth, divorces and re-marriages. In most cases, it is possible to provide protection for a substantial portion of the estate, but not the whole thing.

As such, if you wish to retain access to and control over some level of assets (which, let's face it, you probably do), then you have to accept that it might be possible to reduce your IHT bill by 80%, but not by 100%. Please don't let that be a reason not to take advantage of the valuable savings and protections that are available.

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# MISSING OUT ON EXEMPTIONS

So many people do not make full use of the IHT exemptions that exist.

There are three main exemptions that go un-claimed year after year by millions of people. I think the reason for this is perhaps that in isolation the exemptions can seem modest.

But, over time, the impact compounds and the overall saving to the estate can be very significant indeed.

As a starter, we have the £3,000 annual exemption. If you just made use of this exemption each year, you would save £1,200 per annum in IHT.

If you are in a married couple or civil partnership, you have a combined annual exemption of £6,000 a year or £2,400 in IHT savings.

Now, if you think about a single year, this might not sound like too much, especially in the context of a multi-million pound estate, however, it is the compound effect that we are interested in.

Let's imagine, a married couple both used their combined £6,000 exemption each year for 20 years. That's £120,000 out of the estate and a £48,000 reduction in the IHT liability. If we also then factor in a reasonable rate of growth on the funds gifted away, the impact becomes even more profound.

The other main exemptions that people miss out on are the £250 'small gifts' exemption and the 'gifts from regular income' exemption.

While the full extent of these exemptions is covered in another guide, broadly speaking the £250 small gift exemption allows you to make gifts of £250 each year to multiple people, so long as they are not the same people who receive part of the £3,000 annual exempt gift. A lot of our clients give £3,000 to the children and then £250 to each of the grandchildren each year for example.

Finally, the gifts out of regular income exemption is probably the most under-utilised and under-appreciated exemption of all, yet it is potentially worth the most.

For more information on exemptions, please see our guide 'Top 6 Easy Wins for Inheritance Tax Planning'.

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## BEING BLINKERED

Many people take a blinkered approach to Estate and Inheritance Tax Planning, preferring to focus on only one type of solution and ignoring the rest. This will rarely deliver the most effective outcome.

Given the range and diversity of different Estate and Inheritance Tax Planning options, it really pays to consider a broad range of solutions and use a variety of the tools available.

This 'blinkered' approach often manifests itself in one of two ways - some people are very focused on trusts and gifting and don't consider the many investment solutions that exist to mitigate against IHT. Others are focused almost entirely on investment solutions and don't have a trust and gifting strategy in place.

While each of these things is no doubt valuable, combining IHT efficient investments with a trust and gifting strategy can compound and speed up the results, giving a much more effective outcome.

This is just one example where combining different solutions and using them together can deliver an enhanced outcome that would not be achievable using these solutions on their own.

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# NOT TAKING THE LONG VIEW

Sometimes it can be tempting to pass something over because the results are not immediate.

The 7-year rule for gifting is a common example in relation to IHT Planning. Many people fail to make gifts under the 7-year rule because they either don't think that they will live that long or they just feel it is an incredibly long time.

Evidence suggests that people under-estimate their life expectancy and under-estimate how quickly time passes. Think about something you were doing 7 years ago - it probably doesn't seem that long ago does it?

However that long-term view is what creates the best outcomes in terms of Inheritance Tax savings and protection of family assets. Estate Planning is an on-going process, which is best re-visited periodically to ensure you achieve the best result.

With this said, it is never too late to begin your Estate Planning Journey. Something is always better

than nothing and we have recently saved a 96-year-old client over £360,000 in Inheritance Tax. Not bad when he approached us thinking he was 'too old for anything to be done'.

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**INHERITANCE TAX AND ESTATE PLANNING IS ARGUABLY THE LONGEST-TERM FORM OF FINANCIAL PLANNING. IT REQUIRES US TO TAKE A VIEW OVER NOT JUST THE NEXT COUPLE OF YEARS, BUT OVER THE REST OF OUR LIVES.**


# NOT SPENDING ENOUGH

We often meet people who are accumulating money faster than they are spending it. Sometimes because of fear over affording future care fees, sometimes simply because they don't know what to spend it on.

There is nothing inherently wrong with this (there is no sense spending or wasting money just for the sake of it), however, if your wealth is continuously increasing, your Inheritance Tax will also be continuously increasing as well.

Very often people over-estimate how much money they will need to support them for the rest of their lives.

Once you know 'your number', if there are excess funds above this figure, you have some incredible choices to make. You could decide to spend more on your own lifestyle, give more money to your children or grandchildren or help charities or other causes that are close to your heart.



**AS PART OF OUR WORK WITH CLIENTS WE TELL THEM 'THEIR NUMBER'. THIS IS THE AMOUNT OF MONEY YOU NEED TO MAINTAIN YOUR DESIRED STANDARD OF LIVING (FOR THE REST OF YOUR LIFE) AND HAVE ENOUGH CONTINGENCY FUND TO COPE WITH ANY CARE NEEDS OR OTHER EMERGENCIES THAT MIGHT COME YOUR WAY.**



# FREE INHERITANCE TAX PLANNING SEMINARS

Buckingham Gate Chartered Financial Planners hold regular Inheritance Tax Planning seminars in Central London. The seminars are **FREE** to attend, but places are limited.

If you would like to reserve places please email us at **events@buckinghamgate.co.uk** or call us on **020 3478 2160**

## THE SEMINARS WILL COVER:

- How to update your will to save thousands in inheritance tax.
- Ways to reduce the inheritance tax liability on your estate.
- How to protect your assets for your loved ones.



## BOOK YOUR DISCOVERY MEETING

Buckingham Gate Chartered Financial Planners offer a 1-1 discovery meeting with a chartered financial planner. If you would like to see how we can add value to your personal situation, please get in touch by emailing **contact@buckinghamgate.co.uk** or calling **0203 478 2160**.



BUCKINGHAM GATE PROVIDED EXPERT INFORMATION AND RECOMMENDATIONS ON HOW TO BEST MANAGE MY ESTATE WITH TRUST SETUP, WILL & EFFECTIVE PLANNING FOR IHT. VERY IMPRESSED WITH THEIR KNOWLEDGE AND THE SIMPLE ENGLISH USED TO EXPLAIN HOW TO EFFECTIVELY PUT PLANS IN PLACE TO GIVE ME PEACE OF MIND.





This case study has been taken from the book Efficient Estate Planning, written by estate planning expert Matthew Smith. You can purchase a Kindle edition or paperback copy from Amazon.

Inheritance tax used to be the preserve of only the wealthiest in society, but with rising property and asset prices more ordinary people have been pulled into its grasp.

In Efficient Estate Planning, Matthew Smith will guide you through easy strategies to reduce your inheritance tax bill immediately, thereby maximising the value and impact of your legacy and simplifying the process for your family of dealing with your estate. The book is suitable for inheritance tax beginners and experts alike.



A BRILLIANT BOOK - SHORT AND SIMPLE TO UNDERSTAND. ANYONE CONSIDERING DOING SOMETHING ABOUT THEIR ESTATE PLANNING MUST PURCHASE THIS. AN EXCELLENT OVERVIEW OF THE OFTEN COMPLICATED AREA OF TRUSTS USING CURRENT TAX EXEMPTIONS & ALLOWANCES.

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