Wealth structuring: future proof your family's financial planning

The way in which long term savings and investment assets are structured can make a significant difference to the long term outcome for customers. When we talk about 'structuring', the impact of tax and ownership is an important consideration both on an ongoing basis and also in connection with the passing of wealth between generations.

Ownership

Every individual has their own personal capital and income tax allowances which they should look to use each year where practicable. Individuals also have their own set of income tax allowances starting at a nil rate of income tax through to basic rate and higher. Right from the outset it is important to set the right structure for the ownership of these asset so that you make the most of the allowances available.

Ongoing taxation

Investment returns can be subject to income tax or Capital Gains Tax (CGT), different allowances and tax rates applying to each. There are also certain tax privileged investment structures which provide returns free of ongoing taxes, such as Individual Savings Accounts (ISAs). The availability of tax allowances and certain investment structures will depend upon circumstances including tax residency. It is therefore important to note that there is no magic answer here and whilst one approach might work effectively for one client, a completely different approach might better suit another client's objectives.

> "How can I tax efficiently pass my wealth to my children and future generations?"

Estate planning

A common question which clients ask is 'how can I tax efficiently pass my wealth to my children and future generations'. Again there are a number of key considerations here. From a tax perspective, inheritance tax is the key consideration and there are certain types of investment structure which can be helpful; notably pension arrangements. Pension funds provide a very effective way in which to pass money down to future generations as they do not form part of a client's estate. As such, the funds are not subject to inheritance tax, and if structured appropriately can be retained within pension funds down the generations. An inherited pension fund continues to grow free from income tax and CGT, and importantly can be accessed at any age making them helpful in addressing objectives such as 'helping the grandchildren onto the property ladder' or 'school/university fees'.

One final aspect which can often be overlooked is that CGT does not arise on death therefore when considering the appropriateness of different investment structures, careful planning is essential not just at the start of your retirement or life event but throughout and highlights the need for regular meetings with all trusted advisers to make sure that you and your family's financial plan is future proofed.

Christine Ross, a client director at Handelsbanken Wealth Management, notes "All too often, the basic steps to manage tax effectively is overlooked. For example an annual ISA of £20k (the 2019/20 tax year allowance) in isolation may not seem that important, but we have clients with ISA portfolios into which they have regularly saved over many years that now amount to many £100ks. These can produce a significant and flexible annual tax-free income alongside pension arrangements as part of their retirement plan".

The value of investments and any income from them can fall and you may get back less than you invested.

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