

A tax saving plan you can trust

Arnold Aaron, Financial Planning Consultant shares some tax planning ideas for high earners, which not only secure your future income streams, but benefit your loved ones too.

You're an ultra high earner at the top of your career. You want to secure your family's future – your partner, your children, your future grandchildren, and the last thing you want is to leave your family with an Inheritance Tax bill on your death. The problem is you don't know what the future holds. You can make monetary gifts, but how much can you afford to gift away and to whom? You ask yourself "Won't I need the money in future, particularly if my income goes down?" "And what happens if those close to me now turn out to be the last people I want to leave my money to in the future?"

The traditional route has been to gift through a discretionary trust. Using a discretionary trust means whomever you nominate as beneficiaries can be changed at any time, for example to cater for as yet unborn children or grandchildren, or to protect from the financial consequences of divorce or partners going their separate ways. Seven years after the trust is set up the gift becomes exempt from Inheritance Tax. The bad news is on this type of trust once set up you are not allowed access to the funds yourself, and if you gift more than the nil rate band (just £325,000) you trigger off an immediate entry tax charge of 20% on the excess. This combination of factors means few high earners ever gift to discretionary trusts. As a result, on death, inheritance tax kicks in at 40% and your family lose out to the tax man who effectively becomes the biggest beneficiary of your estate.

Now, here's the good news - The Discretionary Discounted Gift Trust. This unique trust arrangement allows you to have your cake and eat it. As with any discretionary trust it gives you full discretion as to whom will benefit, but

importantly you still have access to what you've gifted in the form of a regular tax efficient income for life. This is normally 5% per annum of what you invest, though you can take a higher amount.

Depending on your age and how much income you do take, you can also gift very much more than the £325,000 limit, up to £2m or more in some cases without triggering a 20% entry tax charge – No other vehicle allows you to gift so much to a discretionary trust arrangement without a tax charge. On setting up the discounted gift trust a significant portion is immediately exempt from inheritance tax, another unrivalled benefit. And, the benefits don't stop there...as this vehicle provides you with income for life you are effectively putting away money for your own future, as well as that of those close to you.

The long term strategy is that after seven years you can set up another discounted gift trust (waiting seven years avoids the 20% tax charge) and do the same again every seven years thereafter. This will accumulate funds for your family which they will benefit from on your death, but perhaps more importantly it will give you an increasing level of income as you get older, at a time when you need it most.

In effect you are setting up a retirement fund for yourself, well in excess of what a pension fund would allow you to do, but without being bounded by complex pension rules. It means securing your future in a world where even the highest earners can go broke because they didn't plan for their future. Here are some examples of how this can work in practice.

- A footballer aged 35, on taking an income of 5% per annum can gift up to £2m to a discretionary discounted gift trust without incurring a 20% tax charge. 84% is immediately exempt from Inheritance tax and the balance exempt after seven years. He will immediately receive income of £100k per annum for life. Seven years later he can make another gift of £2m to the

same arrangement, again with no tax charge. He would then accrue a total of £200k income per annum for life from both trusts, and would have gifted a total of £4m, over which he has full control over whom will ultimately benefit.

- A senior member of management or board member of a premiership football club, aged 60, on taking an income of 7.5% per annum can gift £2.3m without triggering an entry tax charge and will receive £173k per annum for life. After seven years another £1.3m can be gifted and will provide income of £102k per annum.

£3.6m would have been gifted in total and he would be in receipt of £275k per annum from both trusts, for life. The Discretionary Discounted Gift Trust is unique in that it allows you to gift substantial sums to a discretionary trust without incurring a 20% tax entry charge. It avoids inheritance tax immediately on a significant amount and perhaps most importantly it provides you with a generous income for life. The key to this planning is to start as early as possible.

Given that this is a sophisticated tax planning mechanism one must appreciate the need for professional and experienced financial advice from an advisor specialising in this field. It is also important that the advice you receive should be in conjunction with your other advisors and I often work with clients' lawyers and accountants when advising on and setting up this vehicle.

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Get an income for life and provide for your family with a Discounted Gift Trust arranged by Arnold Aaron.

Features Include:

- A Generous and tax efficient income for life
- The ability to gift substantial sums to a discretionary trust without an entry tax charge
- Full flexibility so you decide at any time who can benefit
- An immediate and significant reduction in inheritance tax
- Recognised as legitimate tax planning by HMRC

Read more about the Discounted Gift Trust at:
www.arnoldaaron.co.uk/dgt



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