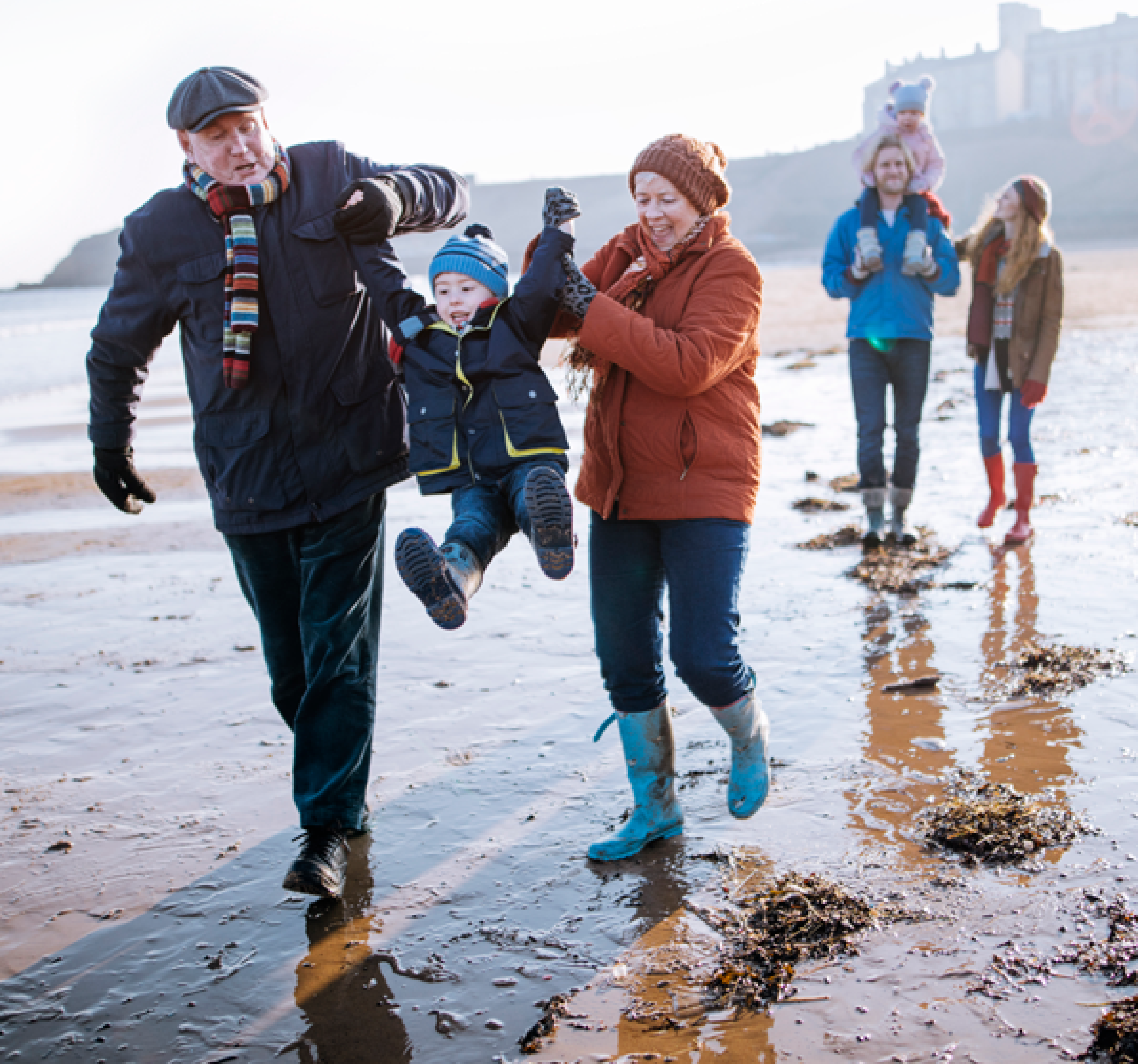
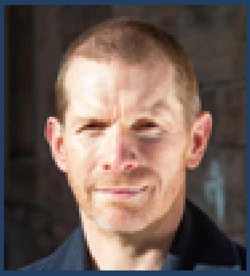
Guide to inheritance

The what, why, and how of inheritance, written by financial journalist **Jeff Salway**



Contents



Jeff Salway

Financial journalist and mental health counsellor

Jeff Salway is a freelance financial journalist with almost 20 years' experience. He has worked across the trade and consumer press for several years, and was Personal Finance Editor at The Scotsman/Scotland on Sunday.

What is inheritance?

There's a good reason the subject of inheritance attracts a lot of attention – and it's not just because of the tax. For many of us, being able to leave something behind for our loved ones when we die is of enormous importance. But what do we actually mean when we talk about inheritance?

An inheritance is the property, money and other assets that an individual might receive when someone else dies. It usually occurs when a child gets what's been left behind by a parent. However, it can also refer to things being inherited by grandchildren, husbands, wives, partners, other family members, and even friends.

The assets left behind at death are often referred to as the **'estate'**. It's everything you own once any outstanding debts have been cleared and bills and taxes paid.

Your estate might include the following:

- **Cash** – Including bank and building society accounts
- **Savings** – Such as cash ISAs
- **Investments** – Such as stocks and shares ISAs
- **Property**
- **Pensions**
- **Valuable objects** – Such as jewellery
- **Your business**
- **Sentimental items** – Such as heirlooms, letters and photos

Why do we leave inheritances?

Passing on an inheritance to our children, other family members and even friends and charities is for some people a priority and an important motivation. It's often a very emotional driver.

An expression of love

Knowing that our efforts will leave our family financially stable when we eventually pass provides invaluable peace of mind, especially in our later years. Being able to leave a decent nest egg can be a matter of pride and an expression of love.

You might look at passing on an inheritance as a way of showing your loved ones how important they were to you. This can be especially relevant if you want to leave something for friends or more distant family members that you feel fond of.

For some people, leaving their children or grandchildren with something of value is a big part of being a good parent or grandparent. This means they may make significant sacrifices during their life to ensure their kids get a decent inheritance, or perhaps plan their long-term finances around a goal of passing down as much as they can.

"A way of showing your loved ones how important they were to you"

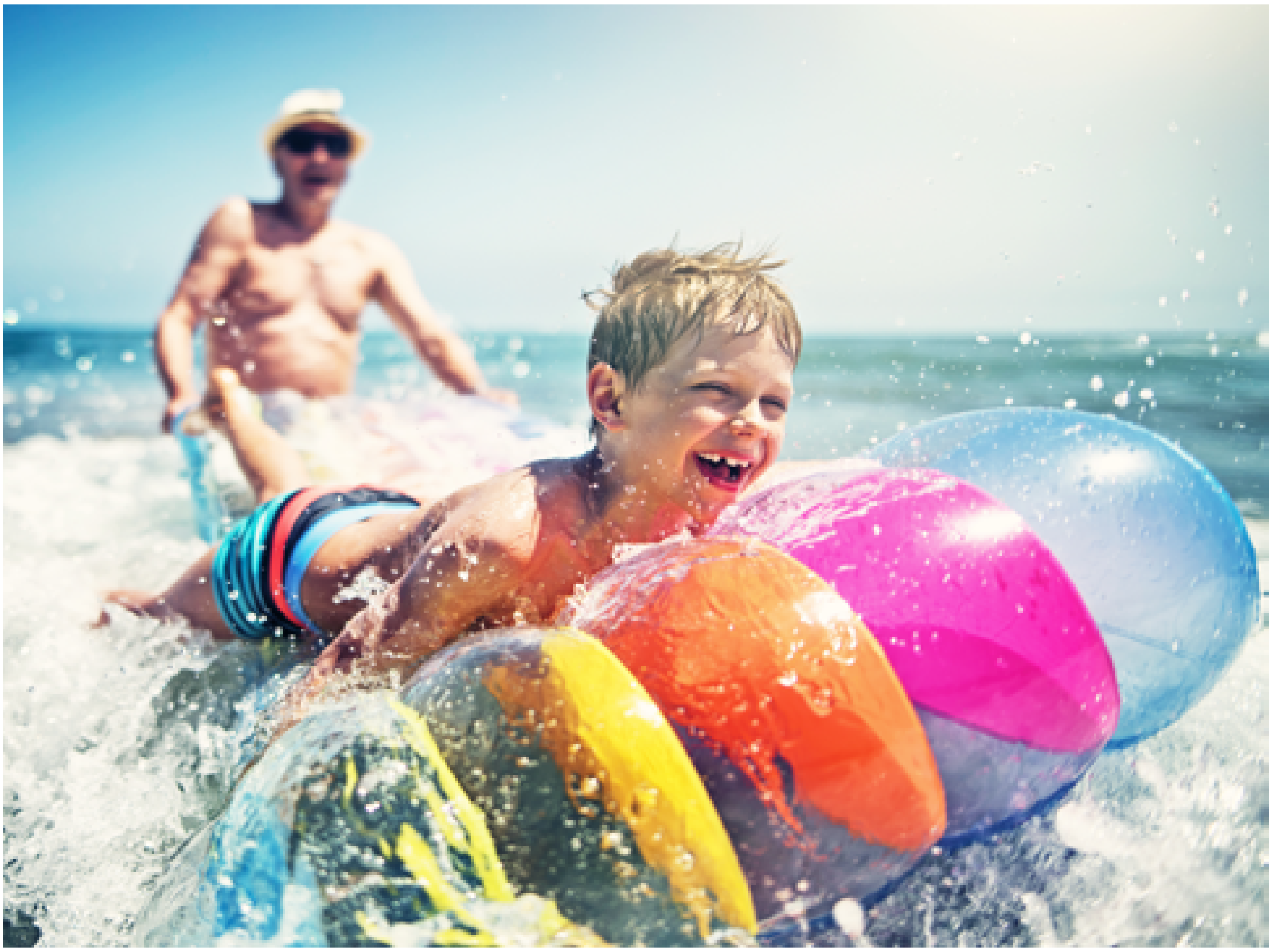
There are practical reasons too

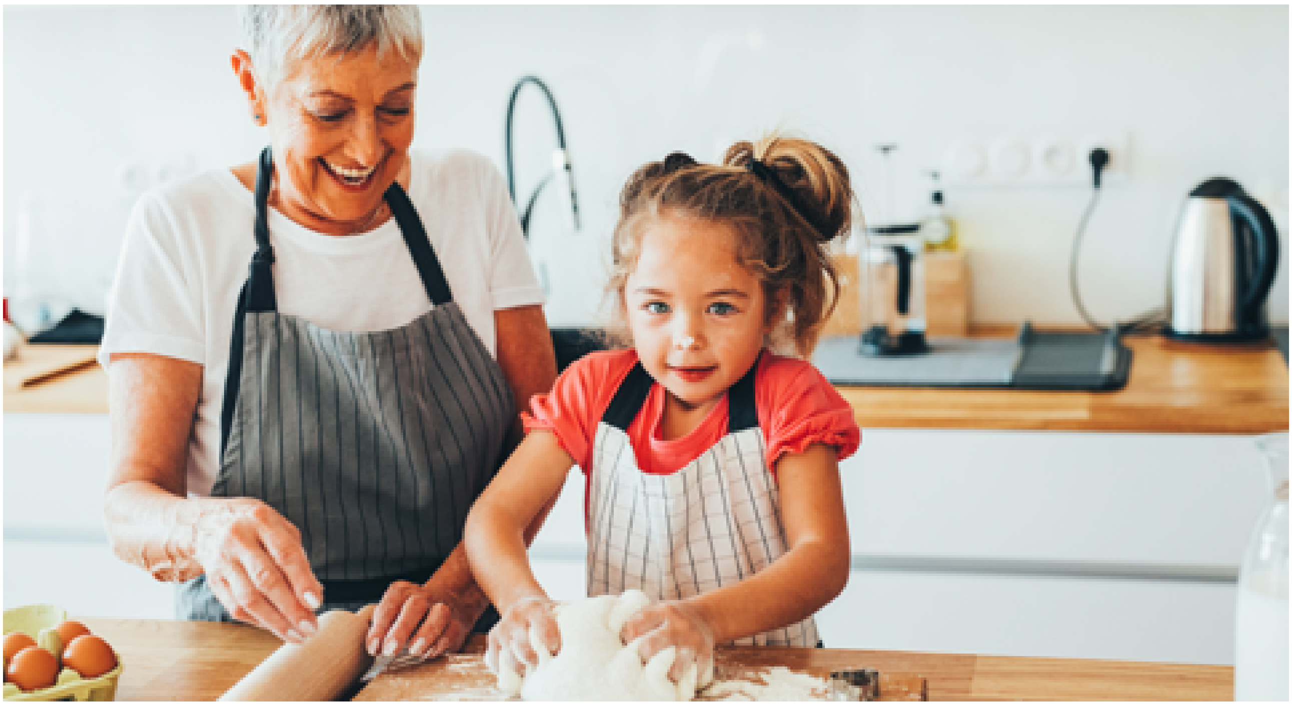
An inheritance is the most straightforward way to distribute what we leave behind after death while ensuring those left behind are looked after (especially if the person who dies is the main earner in the family).

Similarly, it's a way of helping your children or grandchildren move on in their own lives. It might be a way of allowing them to clear debts, buy a home or a car, pay for a holiday, fund their education or cover the cost of a wedding, for example.

Knowing you can still have that impact even after death can give life more meaning and be a source of great comfort.

"Ensuring those left behind are looked after"





How does inheritance work?

On the face of it, leaving an inheritance is straightforward. It's about leaving your children, grandchildren and others a sum of money and potentially other assets held in your name when you pass on. They inherit what you leave behind. It's a simple idea.

In reality, it can be more complicated than that. There are some legal factors to think about, and a few financial things to bear in mind too, as we'll see.

The practical considerations

Deciding who should receive whatever you pass on when you die isn't always easy. It will depend largely on your circumstances, such as whether or not you're married/in a civil partnership and whether or not you have children and grandchildren.

The size of your family makes a difference, as does the age of any children you have and what your relationship with your family is like.

If you have a big family, the task of deciding what to leave for different people can be particularly challenging. Being able to talk about it with your partner and/or your family can help make the process much easier.

There are several ways of looking at it. For example:

You can split it evenly between your beneficiaries

You can give more to those that would most benefit from it

You let them decide
At the risk of causing conflict, however.

You skip a generation and leave everything to your grandchildren
This is becoming more popular as we live for longer – millennials will inherit at an estimated average age of 61, when they are approaching their own retirement years.

You can leave some or all of it to charity
This can also reduce your inheritance tax bill.

The legal considerations

The big question here is how to make sure your children and other beneficiaries receive the inheritance you want them to get. This is why making a will is highly recommended.

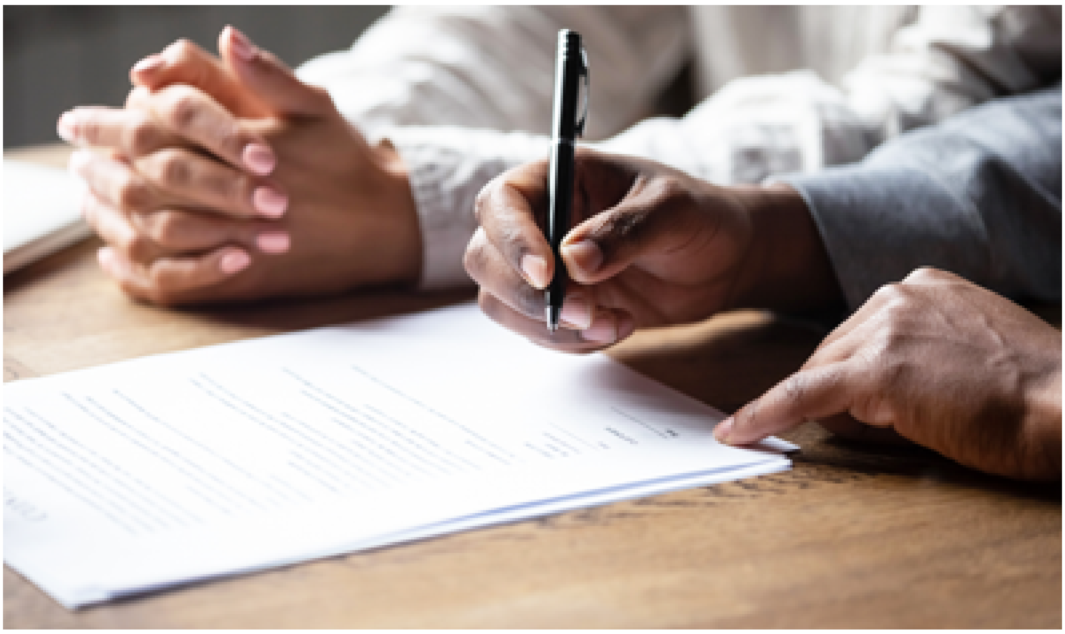
A will makes things much easier for the surviving family members when an individual passes away. By putting a will in place, you can set out who should receive what, reducing the risk of confusion and arguments after your death.

When someone dies without a will – known as dying 'intestate' – it can be much harder to deal with the money and other assets that the deceased leaves behind. But while 84% of UK adults intend to leave an inheritance, just 54% have drawn up a will, according to research.

The MoneyHelper website offers useful information on what to do when a will is in place and when there is not.

While
84%
of UK adults intend to leave an inheritance...

...just
54%
have drawn up a will according to research



The financial considerations

There are two parts to this. The first is about saving, investing and planning in order to be able to leave an inheritance. We'll come to that in the next section.

The other is the tax part. When we leave an inheritance, we want to be absolutely sure that our family and other beneficiaries get as much of it as possible. There is a chance they will have to pay tax on some of the inheritance. Only a small minority of estates actually pay inheritance tax (IHT). But the size of the tax charged when IHT does apply takes a big chunk out of the amount left for the family.

Here are the basic facts:

Tax-free inheritance

Anything you pass on to your spouse or civil partner when you die is usually **tax free**.

Tax-free threshold £325,000

The first £325,000 of your estate is tax free, but anything above that level is charged inheritance tax at **40%**.

Tax-free threshold £500,000

If your home is included in your estate, the tax-free threshold increases to £500,000 (provided you're passing it to a child or grandchild and the value of your total estate is below £2 million).

Tax-free allowance

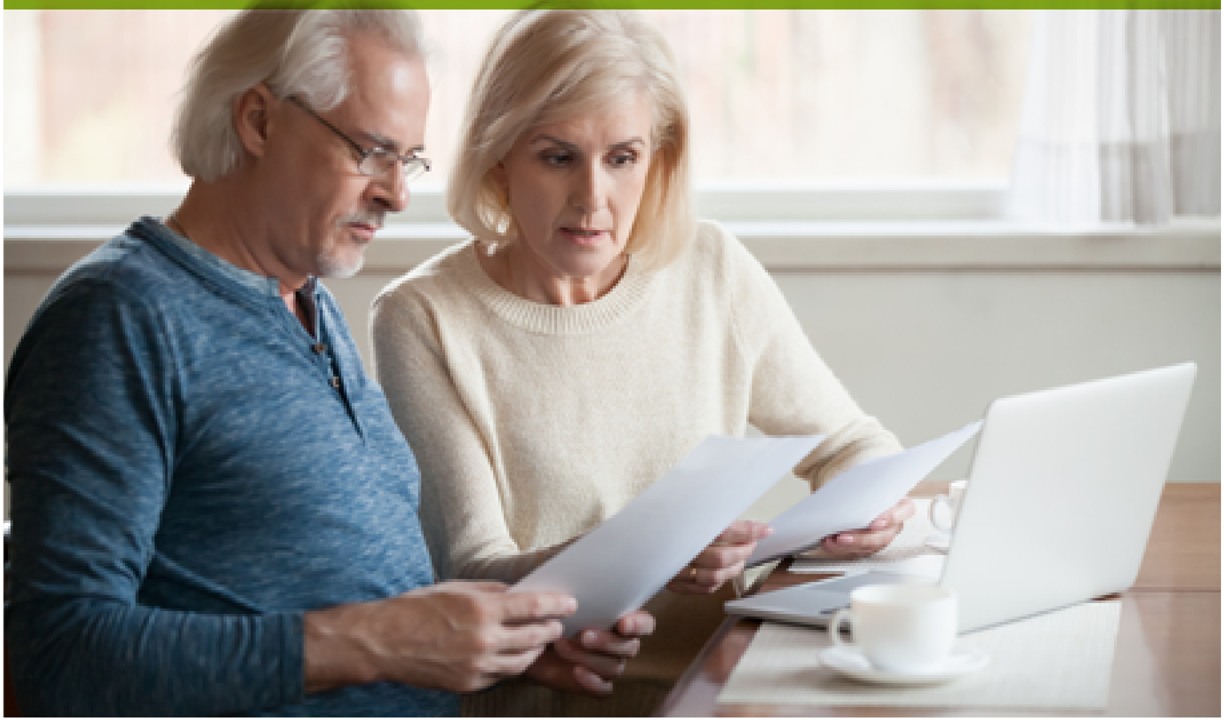
Your tax-free allowance can be passed on to your spouse or civil partner. This means that when they die, the allowances can be combined.

See the next page for how to reduce or avoid IHT.

There are several steps you can take to reduce IHT or legally avoid paying it altogether. They include:

£3,000 worth of gifts	Giving a total of £3,000 worth of gifts each tax year, without them being added to the value of your estate.
Gifts of up to **£250**	Giving smaller gifts of up to £250 to anyone who hasn't also benefited from the above £3,000 exemption, also exempt from your estate.
10%+ left to charity	Leaving more than 10% of your taxable estate (anything above the amount of £325,000) to charity. This entitles you to a reduced IHT charge of **36%**.

For more on how to do this, see SunLife's guide to giving early inheritance



Ways to give an inheritance

Most inheritances are received after the person giving them has died. They might be in the form of things you simply haven't used, or they might be assets that you've built up specifically to provide an inheritance for your family.

Giving before you die

You can begin passing on money and other assets while still alive, not least to reduce the risk of IHT, as we mentioned earlier.

Setting up a trust

You can also set up a trust. This allows you to give assets (such as savings, investments or property) to a trustee to look after them for the benefit of your beneficiaries. The added benefit is that assets kept in a trust are exempt from IHT, as long as you live for at least seven years after putting the assets into trust.

Using specialised products

Another approach is to use a product that's designed specifically for giving an inheritance.

These involve paying a regular premium in exchange for a cash nest egg that goes to your family when you die. The family (and/or whoever else you leave the money to) can use the proceeds as they like. In some cases, the money can be used to help with funeral costs.

This can be especially helpful if you already have some assets (such as property and investments) to pass on when you die but want the reassurance of having a ring-fenced sum of money that can also be left behind.

SunLife

Find out more about SunLife's Guaranteed Inheritance Plan

Life cover that guarantees to pay out to your loved ones when you die.