Money Management financial planner awards 2009

Case study 6

Inheritance tax planner of the year

BACKGROUND

Peter and Mary Parker are both aged 38. Mary has become extremely concerned about the potential inheritance tax liability that their children will incur when she dies. Their daughters are aged 14, 12 and 11. Mary's father, Donald, died in a car accident in March 2003. Donald had left everything to his wife apart from £100,000, which he gifted to Mary and £1,000 to each of Mary's children. Traditionally, he gave each of the children £1,000 every Christmas since their birth.

Mary used her money to repay a lump sum on the mortgage, take the children to Disneyworld and put the balance in a joint savings account.

Mary is employed as an accountant earning £60,000 pa. She joined her present company in 1998 taking up their offer of a group personal pension plan. She is entitled to four times salary as death in service and is a member of the group income protection plan. The couple have no other protection policies. Mary has become quite nervous over the security of her job given the current economic conditions.

Following Peter's redundancy four years ago, he decided to stay at home with the girls. He earns on average £5,000 pa as a freelance writer. They have an interest only mortgage of £255,000 on a house worth £450,000. Their mortgage is on a tracker rate set at 1.5% above base until October 2009. It is due to be repaid in October 2019. They have no other debts.

Their annual expenditure is £38,000 pa excluding Mary's pension contributions. Although relatively inexperienced investors, they know that they need to secure their future and are happy to invest up to 50% of their capital into equities.

They have the following assets:

- £5,000 in a joint savings account currently earning 0.5% pa.
- Mary transferred £7,000 from the joint account at the start of the last two tax years into a stocks and shares UK Equity ISA currently valued at £10,000.
- Mary's pension fund is currently valued at £72,000, invested 60% UK Equities and 40% European. She has recently increased her contributions to 7.5% pm and her employer pays 5%. Retirement age is 60.
- Peter has an old money purchase plan valued at £60,000 with a retirement age of 65. Contributions stopped March 2000.
- National Savings five year fixed interest certificates of £15,000 bought by Mary in June 2007.

PROBLEM

Mary's mother, Katy, died in April 2009 leaving her home valued at £725,000 and £75,000 in cash. Mary inherits everything bar £10,000 left to each of the three grandchildren. Given the downturn in the property market, Mary decided to sell the house to a cash buyer for £648,000 - the net sale proceeds of £640,000 have been lodged with her solicitor pending instructions. Her mother had made no other gifts in her lifetime.

Mary is very worried about the inheritance tax bill she now faces plus the potential bill that her children will have especially if she and Peter died prematurely. She also doesn't want them to access their inheritance until they are at least 18 years old.

ADVICE

Your report should give Mary an estimate of the tax due on her mother's estate. You should also advise her and Peter on how best to invest the inheritance bearing in mind their attitude to risk and their wish to mitigate their daughters' potential liability. You should also, in bullet format if necessary, address any other areas you deem to be important to this couple.

£500
First prize

£200
Runner up

Your answers should be no more than 2,500 words. Please ensure that you state the number of words used for each case study entry.

Full rules see p3