

CASE STUDY: Cash Flow Planning

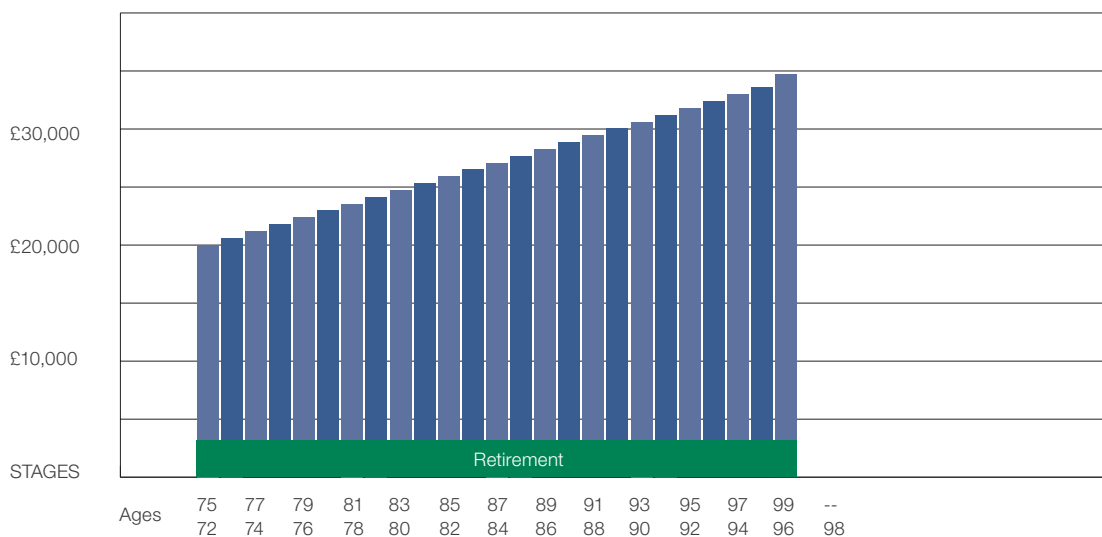
The ability to give money away to save Inheritance Tax



Introducing Mr & Mrs IH Tax

Mr & Mrs IH Tax have accrued assets of £800,000 which consists of £500,000 in a pension and £300,000 in their investment accounts. They draw a gross income of £30,000 a year and at a recent meeting, we presented their Financial Master Plan. This showed they would still have substantial funds available, even if they reached 100 years of age, should they maintain this inflation linked income level.

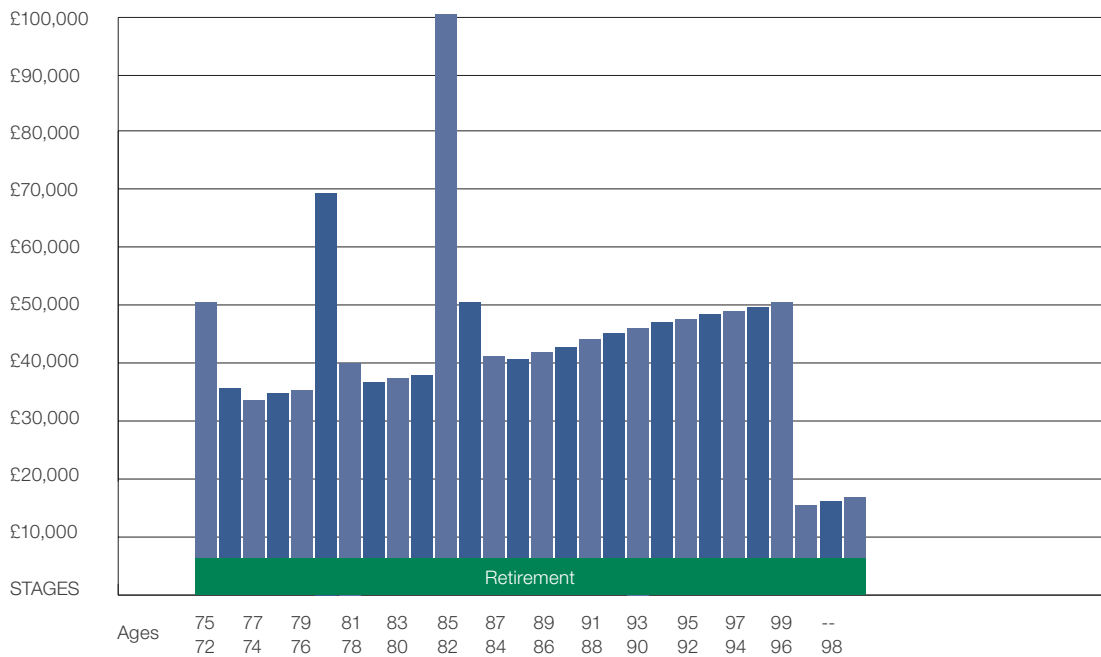
The chart below highlights this.



As Financial Planners, we confirmed that there would be a substantial Inheritance Tax liability if the Financial Plan continued on its current course. We discussed ways in which this could be reduced, and one suggestion was to give some of their money to children and grandchildren. This would reduce their assets as well as their potential Inheritance Tax liability on their estate.

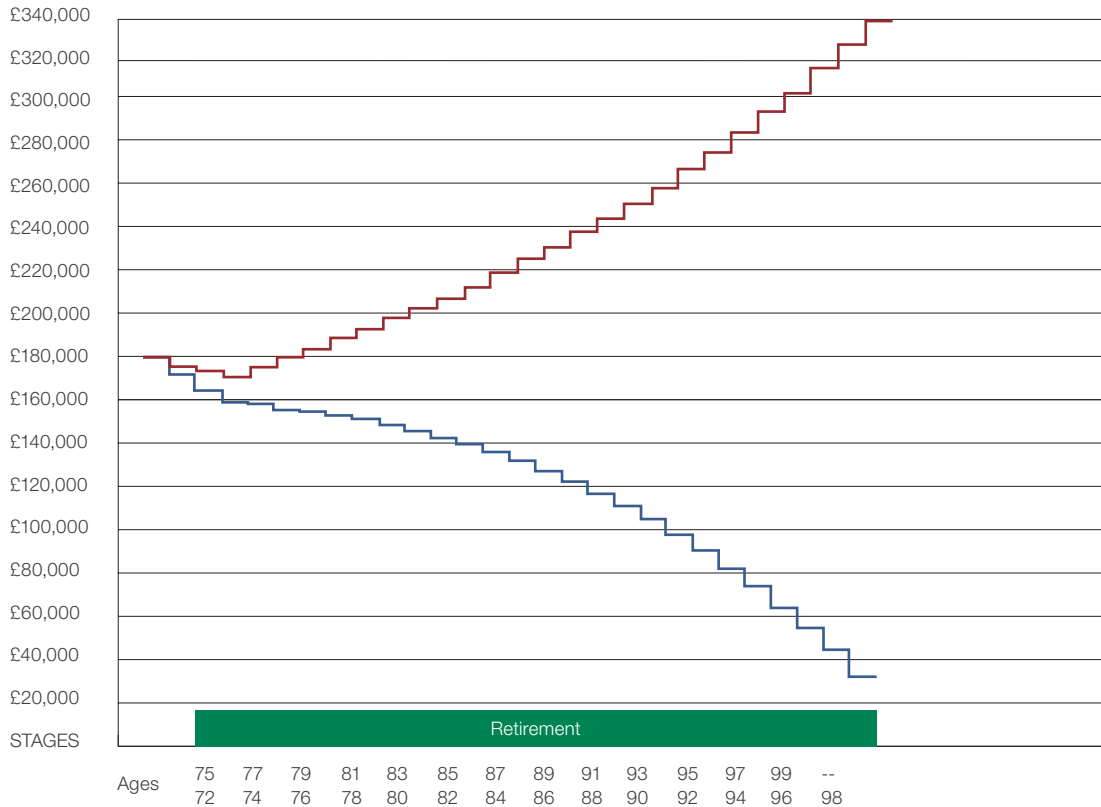
The children would welcome additional capital, they have school fees to pay and potential university costs. We discussed some numbers to be gifted away and produced a 'WHAT IF' scenario. This assumed gifts of £20,000 immediately, another £30,000 in five years' time and a further £50,000, five years after that.

The chart below shows the revised position with these amounts removed from their assets.



Allowing for the gifts, there will still be sufficient assets for them to maintain their desired income and £100,000 had been removed from their estate, thereby potentially saving Inheritance Tax in the future. Mr & Mrs Tax left the meeting comfortable that they could gift some of their money to their children and grandchildren and not only be able to fulfil their expenditure needs, but also to reduce their Inheritance Tax bill as well.

The chart below shows the potential Inheritance Tax before and after the Gifts.



The purpose of creating a Financial Master Plan is to enable you to plan what you want to do, when you want to do it. In the case of Mr and Mrs Tax, they wanted to know if they could afford to gift money to their children and grandchildren and we were happy to confirm that they could.

What would you like to know?

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