

Leaving your financial legacy

Planning your inheritance to transfer wealth to the next generation

Passing wealth to the next generation is a goal for many. Recent research shows that nearly half of us (47%) intend to leave a financial legacy, with a significant number planning to transfer assets directly to their children^[1]. However, navigating the complexities of Inheritance Tax (IHT) can be daunting, leaving many uncertain about how to pass on their wealth in the most tax-efficient manner.

This desire for effective intergenerational wealth transfer occurs amid significant changes in the UK tax landscape. Recent budget adjustments, such as making certain pensions liable for IHT and capping some types of tax relief, have prompted individuals to review their estate planning. With tax thresholds currently frozen and potential future changes, more people are understandably concerned about their financial future and are seeking professional advice to safeguard their legacy.

MODERN APPROACH TO ESTATE PLANNING

When planning how to organise your estate, various tools are available. One often overlooked but effective option is onshore investment bonds. These financial products provide a simple way to grow your savings within a tax-efficient wrapper. When incorporated into a broader financial plan, these bonds can play a crucial role in reducing potential IHT liabilities and enabling a smoother, more organised transfer of wealth to your loved ones.

A key advantage of onshore bonds is their flexibility. They can be transferred to family members, such as children or grandchildren, through a Bare Trust without incurring an immediate tax charge. Once transferred, the new owner is considered to have owned the bond from the beginning. This allows them to utilise valuable features like full top-slicing relief and any unused 5% tax-deferred allowances on future withdrawals, which can lead to significant tax savings.

A PRACTICAL WAY TO MANAGE TRUST ASSETS

Onshore bonds are also highly effective as trustee investments. For a trust, the bond is a non-income-producing asset, which simplifies administration and lowers the trust's ongoing tax exposure. Trustees can still access funds when necessary by using the 5% tax-deferred withdrawal allowance. This structure offers a practical way to manage trust assets while waiting for beneficiaries to reach maturity.

Later, the trustees can assign all or part of the bond to a beneficiary. This is especially useful if the bond is organised as a series of individual policies or 'clusters', allowing for partial assignments. Such a transfer is generally tax-efficient, often resulting in lower tax for the beneficiary compared to a direct cash distribution from the trust. Despite these clear benefits, a surprising 67% of people report knowing very little about how bonds can be used for inheritance planning.

BRIDGING THE KNOWLEDGE GAP

This lack of awareness highlights the importance of exploring all available financial planning options. As more people focus on securing their family's financial future, understanding the tools that can help you achieve your goals becomes essential. Onshore bonds offer a compelling combination of tax efficiency, investment growth potential and flexibility. They can be a valuable element of your strategy as you prepare for later life and aim to leave a lasting financial legacy.

As rules on inheritance and taxation evolve, staying informed is crucial. Knowing how various financial products operate can greatly influence the amount of your hard-earned wealth that is transferred to your family. ■

IS IT THE RIGHT MOMENT TO REVISIT YOUR ESTATE PLANNING APPROACH?

If you want to learn more about how investment bonds and other estate planning strategies could benefit you and your family, please contact us to discuss your options.

Source data:

[1] Data used from a survey of 4,000 nationally representative UK adults conducted for LV= by Opinium in March 2025.

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