



**ROSE**  
Financial Planning

## **INHERITANCE – HOW ODD THE BRITISH ARE!**

It's a wide ranging subject Inheritance and Estate Planning, but I am going to try to tackle it in a slightly different way and try to get to the heart of why Brits think and act (or not as the case may be) as they do when it comes to passing assets onto children.

It's an emotive issue and, perhaps because we do not often consider ourselves as emotional as our Mediterranean brothers, for instance, and a little more reserved, we steer clear of even addressing it. I translate that into 'apathy', a strong word, which means 'an attitude or lack of interest borne from a lack of knowledge or ignorance of the consequence'. Perhaps, if people knew the consequence of inaction, a few more might do something about it!

This article is in two parts, so make sure you pick up the next edition to understand my angle on this subject.

### **Part 1**

Recent numbers from the Inland Revenue in the UK reveal how now, more than ever before, the mass middle class, a phenomenon that has developed in the last 60 years or so, is now paying an ever increasing amount of Inheritance Tax (IHT). It is no longer the 'rich' that are exposed to this tax but ordinary folk.

And, above all else, it is the surging values of property versus the relatively stagnant IHT allowance that has exposed unknowing householders. A recent analysis has revealed that the allowance of £285,000 should be in the region of £400,000 to reflect at least a little of rocketing house values. But HM Treasury (bless them!) suggest that they see no need to review the allowance in such a dramatic way. Why would they when the coffers are being filled from unsuspecting souls!

And, arguably, it is the lack of knowledge and forward planning that has driven these individuals' estates into the open arm of HM Inland Revenue!

It therefore goes without saying really (although Independent Financial Advisors such as Rose FS fight an uphill battle against apathy in this regard) that every homeowner needs a discussion around estate planning and how such exposure (to what is considered a 'voluntary' tax) can be avoided. It is

deemed voluntary because, under most circumstances and with a little aforethought, the risk can be eliminated.

And that advice is needed as much in Spain as in the UK and, in the writer's opinion, even more so!

The Spaniards have a very different view and attitude to estate planning than us Brits. Their's, like most Mediterranean countries, is based on a much longer tradition of handing family homes down and, importantly, holding the property for long term succession. They also plan to bring their children into ownership early, often when the parents are still alive, and that is reflected through the inheritance laws in Spain. In the UK you could not easily do that you see!

And this fundamental difference is a problem for unsuspecting Brits for they come and 'assume' that the system here is the same as back home. And it is not!

Most Brits who buy in Spain fall into one of three camps; the investor, the holiday home owner and the retiree.

Investors buy for speculative purposes, some short term and some medium term, but seldom long term. They are in and out in a number of years, normally looking to cover heavy 'Interest Only' mortgages via rental income, and hopefully pocketing a capital gain at the end.

Holiday home owners clearly take a far more relaxed view to the end gain, buying more to meet a need of the family rather than focusing just on capital growth. Some rent when they do not need the property; most do not. And many look to buy for cash or even to release equity via a UK property remortgage. An expensive option in comparison to mortgaging in Spain in Euros.

And then we have the retiree. Sadly, in my eyes anyway, many of these, Brits in particular, are caught in a very quirky British mentality when it comes to buying their potential final home in the sun. And this 'quirkiness' comes at real cost and potentially great expense to them and their families. I hint at the dream of buying that home for cash with no mortgage ever again to be paid! To retire with no debt!

From the perspective of the intrinsic financial risks in electing for this route versus the potential massive benefits of alternative planning, I wish more people could hear the message for, from a position of logic based on financial losses and alternative returns, I believe most would reconsider their stance.

There is a need to understand why we think why we do and the damage that that can do!

See the next issue to investigate this very important matter and some suggestions as to alternative ways of thinking.

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## **INHERITANCE – HOW ODD THE BRITISH ARE!**

### **Part 2**

In the last edition I made a suggestion that the Brits are a strangely peculiar breed when it comes to thinking about Inheritance and the passing of an estate to successors, and where this attitude may have stemmed from.

Now I want to develop the argument and get into alternative ways to think i.e. Non British to ensure that we and our end beneficiaries are not penalised by our actions or, as is actually more accurate, inaction or even apathy to the subject.

Last time I ended in identifying a modern day British oddity where we believe we have failed in our lives if we do not leave a family home to our children free of lien or debt.

I need to explain this mentality, where it comes from and the dangers that it can hold for, without that understanding, apathy can override. Apathy borne from lack of information and understanding.

As I mentioned above, the British middle class did not exist more than a couple of generations ago. You had effectively just the two classes; the haves and the have nots. The upper and lower classes.

The middle class was borne from revolution; a revolution of pretty much any single thing you would like to mention. Attitudes are now dramatically different than before. Today we know we can have almost anything we want if we work at it because the opportunity is there. Before there was little hope to create a real wealth.

And from that dynamic movement in the distribution of wealth has come a very odd attitude which, to my knowledge anyway, seems strangely limited to the Brits.

And here it is!

A sense of failure if we do not leave capital, normally in the form of the family home at least, to our children without debt!

Think about that and then the value of the average estate now if all debt (mortgages primarily) is eliminated. We hear that the average house in the UK is now valued at £180,000 versus the current IHT allowance of £285,000. And when you look at the affluent South of England, it is not rocket science to see that most of the middle class now contributing to Her Majesty's coffers, are simply exposed to this tax courtesy of the home. In other words, there is no plan to pass the home without protecting the beneficiaries from unnecessary taxes.

Bear in mind also that many of these Brits did not themselves inherit, which means that this sense of 'failure' has developed just over that period of 60 years or so. Why that is I simply do not know; I have thought about this often and continue to scratch my head. It could be a form of 'snobbery', which is a result of that failure syndrome in that, in a world of opportunity and success, if I do not leave something to my children then I personally have failed in that world! A result then of the much talked about 'rate race' and the need to win!

And here you have the clash between this 'quirkiness' and odd ideal (to leave the home to the kids) and the more rational approach of planning to protect t them against tax.

And the primary tool to use to defeat this exposure is simply ... debt!

Do you see the point?

By carefully using debt via a mortgage balanced and funded by carefully protected, tax efficient investment, the tax can be eliminated.

A simple rule of thumb is always, always borrow when you buy and always use long term 'Interest Only' products. The UK has a phenomenal range of products including 'pure' equity release mortgages allowing for capital to be released and invested for income. The depth of the market in Spain is like 'chalk and cheese' compared to the UK. We are not there yet with products BUT, in most cases, an ordinary 'vanilla' mortgage will do the job. There is often no need for anything more complex.

So, when buying, you use someone else's money i.e. the bank's, and you carefully invest your own capital in long term, sometimes guaranteed, investments for income to meet the mortgage debt and end capital growth. A simple technique which, as part of an overall estate plan, will lead to the avoidance of unnecessary IHT.

But that clashes with that odd British attitude to not have any debt!

And there is more!

Every week the numerous advisers at Rose FS have this same conversation with clients who have bought here in Spain without aforethought to the issues raised, other than 'we wanted no mortgage'. And yet they now have little or no free capital to meet emergencies or to enjoy their retirement and, in most cases limited retirement income. In other words, everything is locked into their home for the benefit of those end beneficiaries.

Now when I talk about this odd phenomenon i.e. what do you want of your life, your home and what do we plan to leave to the kids, the answers fall into two camps; those that realise the error of their ways (in their opinion) of overly protecting the estate and secondly, those that want to continue to do so! Put another way, those that now want to access some of that locked in capital for

their own enjoyment whilst they are alive leaving a part of the estate and those that are willing to forego an awful lot life's pleasures for the sole benefit of their children.

There is no right or wrong in this! It is a personal choice. But the rub is this. Most do not want to compromise their own lives for their children, but mistakes have been made in their planning which need correction. And that is why they are talking to RFS, of course!

It is a fact, a provable point, that there is a greater need to plan for end inheritance and the passing of the estate here in Spain than in the UK. That is because we are dealing with different issues (such as the Euro as a foreign currency, for example) and some harder, more punitive ones (the much lower Spanish IHT allowance as another example) than we have in the UK. It is recognising that this is Spain and NOT the UK and that all things financial need reconsideration. It requires a different attitude to thinking.

That translates into ALL home owners having a 'need', whether they know it or now, to have a conversation with an Independent Financial Adviser to explore and understand the risks, but also the benefits of manipulating the system to your and your end beneficiaries advantage.

And NOT THE TAX MAN!

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