Life Interest in Property Trust (LIPT)

What does a LIPT do? – A quick summary

- Protects 50% of your Principal Private Residence (your home) between first and second death from being used to pay for long term residential care fees.
- Protects 50% of your Principal Private Residence (your home) from being lost due to sideways disinheritance.
- Allows you to have 100% confidence that your half of your home will go to the people you nominate, whilst allowing your Executors to claim the maximum Inheritance Tax (IHT) reliefs.

A more detailed explanation – with examples

If you ask an 'average' family man or woman what they want to happen with their assets when they die the reply is often "Everything to my Spouse and then to my children". Unfortunately, a standard Will does not necessarily guarantee one's children will inherit one's hard earned wealth.

The reason the majority of people make a Will is to provide for a Spouse and then children. However, below shows what can happen with just a 'simple Will'.

1. Spouse One and Spouse Two are married and have children.
2. Spouse One passes away.
3. Spouse Two inherits Spouse One's estate.
4. Spouse Two, with Spouse One's assets, meets and eventually marries Spouse Three.
5. Spouse Two passes away. Their estate, comprising also of Spouse One's assets, passes to Spouse Three via the Laws of Intestacy.
6. The children of Spouse One and Spouse Two are 'sideways disinherited'.

Why make the Will in the first place if it isn't to take care of the second Spouse to die and then to pass on all the hard-earned inheritance to the children (of Spouse One and Spouse Two)? Is that not the intention of Spouse One? Why didn't it happen?

Most couples own their home as 'Joint Tenants'. This means that when joint owner Spouse One dies the survivor, Spouse Two, would own the total value, by survivorship, irrespective of what might be written in Spouse One's Will. The alternative is to own a property as 'Tenants in Common'. This means that each Spouse owns a share of the property and can deal with it as they wish. The difference with this arrangement combined with a LIPT is that the **children or other named beneficiaries of Spouse One would be guaranteed to inherit** at least some of the value of his / her home. This arrangement will also protect Spouse One's share of the family home if Spouse Two were to later remarry. A life interest trust incorporated within Spouse One's Will would guarantee a right of residency to Spouse Two thus taking care of her / him but would not allow Spouse One's share of the home to be passed to anyone other than his / her children or other named beneficiaries.

This is what happens with a LIPT Will:

1. Spouse One and Spouse Two are married. They own their property as 'Tenants in Common'.
2. Spouse One and Spouse Two each make a Will containing a LIPT which provides for each other and then their children, or other named beneficiaries.
3. Spouse One passes away. Spouse One's LIPT is set up, protecting 50% of the property. Spouse One's LIPT means Spouse Two is taken care of during their lifetime, can sell the property if necessary and move to a smaller home.
4. Spouse Two meets and eventually marries Spouse Three.
5. Spouse Two passes away. Their entire estate passes to Spouse Three.
6. The LIPT ends with Spouse One's named beneficiaries inheriting the 50% share of the property in the LIPT.

Quality estate planning provided by Casey & Associates means that the survivor never becomes sole owner of the property which prevents the Local Authority including the whole value of the property when totalling assets if the survivor needs residential care. Therefore, the most that could be included in the "means test" is half of the property.

Please note that:

1. When the first Spouse goes into long term care the value of the whole of the house is disregarded whilst the remaining Spouse lives in the house.
2. The house is owned by Spouse One and Spouse Two until the death of the first at which time his / her half of the property passes into trust. Normally, the trustees are surviving Spouse and the children. It follows, therefore, that if both Spouse One and Spouse Two, although statistically this is quite rare, should be in long term care at the same time then the whole of the family home will be included in the 'means test'.

Casey & Associates

Casey & Associates are specialists in Wills and Estate Planning for homeowners and have created over 50,000 Wills, many of which contain a LIPT. For more information about how we can help you, please visit our website: **www.caseyandassociates.co.uk.**

If you would like to see a video showing what happens without a LIPT in your Will, please visit our website and search 'Video' in our search facility.

Will Writer Limited trading as Casey & Associates
Registered Office: Hearts of Oak House, 4 Pembroke Road, SEVENOAKS, Kent, TN13 1XR
Company Registration Number: England 6623643 VAT Registration Number GB 934 9289 79
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