

Hidden assets, or an “Aunt Ada”

We have been advising a family about their investments for many years gradually making all their investments tax free and investing appropriately to minimise the effect of Inheritance tax.

Sadly the Husband died recently and we assisted by producing the figures required to apply for a grant of Probate. It was when the executor, the person applying for probate, asked for valuations on three accounts we knew nothing about, we knew that something was wrong.

Even though we have been looking after this family for over twenty years, he kept these accounts secret from us, why we will now never know, but the financial damage could have been incalculable.

There could have been substantial penalties and fines from failure to correctly complete the probate application, an increased liability to Inheritance tax as well as increased risk from doubled up investments. He has also paid far more income tax than he needed to all because for some reason he did not tell us as his advisers about all his assets.

This reminded me of Aunt Ada’s money.

Many moons ago I visited a couple to advise on investing the redundancy and pension lump sums the husband had just received on his retirement. Using all the “tricks of the trade” I suggested a portfolio of investments that kept the wife a non-taxpayer. (There is no point in investing money only to give 20% or more of any profit to the government)

Imagine my surprise then when they rang to say the revenue was demanding income tax from the wife. I called to see them and read the letter from the Revenue which referred to interest from a Building Society account which was not included in her return.

“They’ve made a mistake” I said “they think you have an Alliance and Leicester account”. “This one” she said, handing me a passbook in her name showing a healthy balance. “That will be it” I replied, “Why did you not tell me about it?”

“It’s not my money, its Aunt Ada’s and I just look after it for her” “But it’s in your name and you are liable for the tax on it. It also makes the non-taxpayer declarations we have made wrong because the interest on this account takes you over the limit allowed”

I made some changes to get her back tax free but it still took me seven years to stop the revenue sending her tax returns to complete.

The moral of these tales, tell your Independent Financial Adviser everything. Failure to do so can be very expensive indeed. We now call this situation an “Aunt Ada”!