

Inheritance Tax – Keeping it Simple

Some of the best ways of avoiding Inheritance Tax (IHT) are the easiest and one of these is to make sure you have an appropriately worded will. It is very surprising, therefore, that so many adults (nearly two in three) fail to make a will, especially as the inheritance rules for people who die intestate can be very complex indeed.

Many people make the basic assumption that their spouse or partner will inherit everything when they die, but this is often incorrect. This misunderstanding can cause a great deal of difficulty.

Needless to say, therefore, the first point is actually to make a will and to keep it up to date by reviewing it every few years or if your financial circumstances change significantly. If you do not have a will and especially if you have net assets in six figures, contact us now!

The main tactic to adopt in IHT planning is to make sure the estate which is subject to IHT is minimised and to make sure that the number of times any wealth falls into the IHT pot is also minimised. In the recent budget, the Chancellor of the Exchequer announced that the IHT threshold is being raised in stages from the current £263,000 to £300,000, over three years. This will remove the burden of IHT for many families whose estates became taxable as a result of rising house prices. The limits will be: 2005/6 - £275,000; 2006/7 - £285,000; and 2007/8 £300,000.

One simple IHT planning technique is to write life insurance policies in trust, so that they are not included in your estate. The proceeds of the policy will not then be subject to IHT. This can also be done for pension policies, which normally pay the whole of the fund as a lump sum if you die before you take the pension. The lump sum will be added to your taxable estate unless it is written in trust for your next of kin.

The second simple technique is to arrange for assets (for example, your house) to be owned jointly so that on the death of one spouse or partner the title passes by succession to the other, so that the property is not included in the estate.

One easy way to make the payment of unavoidable IHT less painful is to take out a life insurance policy to cover the expected payment – but don't forget to make the policy payable to a family member. A policy which is written on 'own life' terms will be included in your estate.

Says **Liz Stephen**, “Many people are surprised how easy it is to mitigate IHT by doing some straightforward financial and will planning. The steps outlined above are simple and easy to effect. Much more can be accomplished with a more sophisticated approach. However, the cardinal rule is to think through the issues and to design a solution that is practical and works for your family.”

Contact **Liz Stephen** or **Ailsa Jarvis** for further guidance on all wills and probate related matters, Tel: 0113 201 4900, liz.stepehn@emsleys.co.uk, ailsa.jarvis@emsleys.co.uk