

TAX EFFECTIVE WILL PLANNING

It is surprising how many people forget or do not wish to make a will. Most married couples do not perhaps realise that, for example, that if they die without having made a will, it is not certain that the estate will automatically go to the surviving spouse - any children or other relatives may well, subject to the size of the estate, have a valid claim on some of the assets. The clear way to avoid any such problems is therefore to make a will. It can be later changed as many times as you wish.

A common type of will for married couples with children is where each person leaves their share of the assets to the surviving spouse. This can be very sensible when, for example, the principal asset is the home. However where there are substantial other assets it may be important to consider transferring, at death, some assets to a trust for the benefit of the surviving spouse and children. (Note that if the correct trust is chosen, the surviving spouse can benefit from these assets).

By doing this, you are able to use the Inheritance Tax exemption available to each person (the current limit is £325,000) and save tax being charged on the estate when the second spouse dies. In this way, the potential tax savings, on the second death, can be up to £130,000.

The budget 2007 announced new changes to the IHT regime enabling any IHT exemption not used on 1st death to be available on 2nd death. Therefore a current joint estate of £650,000 will avoid IHT on death.