

Using a will to plan ahead

It may not be the most pleasant of thoughts, but making a will should be a key part of any lifetime financial plan.

Having a valid will in place will ensure that the people who you want to benefit from your estate after you die will be able to do so. Also, if it looks like your estate will breach the inheritance tax threshold, you will want to put plans in place to ensure this additional financial burden will have a minimal effect on your loved ones.

Creating a will

A will is a legal document that simply states who you want to benefit from your estate when you die and how much they will get. For a will to be valid, it has to be properly signed and witnessed.

Many people assume that if you die without a will, or without a valid will, everything passes to your surviving spouse or civil partner, but this is not always the case. Instead, your estate will be distributed according to the laws of intestacy, which vary depending on which part of the UK you live in, and will not necessarily reflect your own wishes.

In England and Wales, if you are married, or in a civil partnership, with children and die intestate, your partner will inherit your personal effects as well as the first £250 000 of your estate. If the value of your estate is worth more than £250 000 any excess is split in half. One half will go to your children at 18 years of age or when they get married, if that comes sooner. They will ultimately receive the second half once your partner dies but while he/she is alive your partner is entitled to an income from these assets. The rules in Northern Ireland are slightly different as, for example, the surviving partner's share of the excess is smaller if you leave more than one child.

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If you are married or in a civil partnership and do not have children, your partner will receive your personal effects, the first £450 000 of the estate and half of anything above this amount. The remainder would go to your parents or, if neither parent is alive, to any siblings or their children.

If you are single your estate goes to your parents or brothers and sisters, or if you have no blood relatives, your estate goes to the Crown. It is important to note that if you are co-habiting, your partner will not be recognized under the

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laws of intestacy so it is essential you have a will in place to protect his/her interests.

In Scotland, the rules of intestacy are very different. Under Scottish law, certain rights have to be satisfied before the rest of the estate can be distributed. These include the right of a surviving spouse or civil partner to inherit the marital home.

A will can be amended as many times as necessary to ensure it reflects your changing circumstances, so remember to keep it up to date. Marriage will invalidate any existing will, so if you have married, or entered into a civil partnership, you will have to create a new one.

Dealing with inheritance tax

Your loved ones will only have to worry about paying inheritance tax if the value of your estate exceeds a certain value when you die. Currently, the nil rate band is £325 000 and tax is payable at 40% on anything above this level.

Married couples and those in civil partnerships can share nil rate bands, which means couples can have as much as £650 000 in assets before paying inheritance tax.

Your estate will include your home and its contents, as well as any savings, investments and other assets you may have. If your home is worth £365 000 and your savings and other assets are valued at £100 000, you will be £140 000 over the threshold. This means there could be a £56 000 bill on your estate for your family to pay.

What sets inheritance tax aside from most other taxes is that you can make plans to ensure the impact is as minimal as possible.

To help reduce your estate to below £325 000, you are able to gift money to the value of £3000 each year free of tax. Any part of this allowance not used in one year can be carried forward to the next. Regular gifts out of income are also permitted with no monetary limit, providing they do not impinge on your normal standard of living.

Larger lump sum gifts can also be made during your lifetime up to the nil rate band free of inheritance tax. They will not be counted as part of your estate on death providing you live for at least 7 years after making the gift. If you survive for 7 years, the nil rate band will become available again so you can go on making further gifts up to that level every 7 years. The cumulative effect of this can be huge and, at current rates, it could be possible to make £130 000 worth of tax savings every 7 years.

Conclusions

It is never too early to start thinking about a will. As soon as you start building up savings or investing in property it is worth talking to a solicitor to ensure the correct paperwork is in place to ensure those you would like to benefit from your estate, do so.

Reducing your inheritance tax liabilities can be a complex area, so it is important to take expert advice in order to get a solution that is right for you. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.