BY COLIN LAWSON

Double dips and top tips

Whilst most clients appreciate the need to have a will in place, the importance of updating it regularly is often underestimated.

We recently had an annual review for a couple whom we will call Mike (age 79) and Wendy (age 77). Their wills were only completed three years ago, and they felt confident that they correctly reflected their wishes at the time. However, a quick review by Equilibrium highlighted that, whilst they did indeed reflect their wishes on who they wanted to benefit from the estate, there were some simple changes that could make a big difference.

Let's look at each in turn.

Business property relief

Any asset that qualifies for business property relief (BPR) is automatically outside of an estate for IHT once it has been owned for two years, plus, the owner can still have full access during their lifetime.

On Mike and Wendy's second death, there would still be a substantial IHT liability despite them having already made significant gifts and utilised trusts. As a result, we have recommended that Mike invests £300,000 into our AIM portfolio which qualifies for BPR and so will hopefully save them the £120,000 that they would have paid in tax on the amount. There are, of course, risks associated with AIM, and it is not suitable for everyone, especially those with a low emotional tolerance for volatility.

On first death, their wills both leave £50,000 split between five charities and the balance to each other. Therefore, if we assume that Mike dies first then Wendy will inherit the AIM portfolio which she would have to continue to hold until her death in order to get the IHT benefit.

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The problem with this is twofold. Firstly, BPR legislation could change in the future. Secondly, given the high-risk nature of AIM, Wendy might ideally prefer a lower risk strategy.

If we changed the wording of the will to say that any assets that qualify for BPR are to be left in a trust, this provides two key benefits:

1 Crystalizing the IHT benefit

Once the £300,000 of BPR assets are settled into the trust, these can be sold and the IHT benefit has been secured. Future changes to legislation will no longer impact the strategy. The monies will not form part of Wendy's estate, and she is free to reinvest them anywhere she pleases. As a beneficiary and trustee, Wendy will still have full access to the monies.

2 The double dip

If Wendy was comfortable owning £300,000 of AIM holdings, we would still recommend that they are sold within the trust and that Wendy then repurchases them via her personal portfolio.

If Wendy survives for two further years, that £300,000 will also be outside of her estate, saving another £120,000 in IHT, bringing the total saved to £240,000.

Winning by giving

You may have read in previous editions of Equinox where we discuss the effect of charitable giving, if you leave 10% of your taxable estate to charity, then the charitable gift is exempt from IHT and the balance of the estate is taxed at a reduced rate of 36% (instead of 40%). This can create some fantastic results.

our purpose of making people's lives better really comes into its own

As mentioned earlier, Mike and Wendy each planned to leave £50,000 to charity, so £100,000 in total. Upping the amount they leave to charity to 10% of their taxable estate increases the donation by over £140,000 whilst the children inherit slightly more - a win win strategy! It seems counterintuitive that by giving more, you keep more, but in some circumstances, such as this example, that really can be the case. In any event, it will save money from going to the inland revenue and therefore, overall, saves the estate money.

There are some complicated calculations behind this, and it certainly isn't always the case, but if you would like to learn more, you can contact us at askus@equilibrium.co.uk.

We agreed to drop Mike and Wendy's solicitor a line to make the necessary updates to the will.

I love an annual meeting like this where our purpose of making people's lives better really comes into its own.

We actually achieved much more during the meeting, however, this was the highlight. Over £140,000 given to charity and a substantial reduction to their IHT bill – not a bad outcome from reviewing a will!

Risk warning: The content in this article is purely for entertainment purposes and under no circumstances constitutes a solicitation of advice. AIM is not a suitable investment strategy for the risk-averse or those with a low emotional tolerance for volatility.