



Get peace of mind with this
complete guide to organising an estate

Wills, Probate & Inheritance Tax

FOR
DUMMIES[®]

2nd Edition



Julian Knight

Personal Finance Editor, The Independent on Sunday

A Reference for the Rest of Us![®]



UK Edition



Get peace of mind with this
complete guide to organising an estate

Wills, Probate & Inheritance Tax

FOR
DUMMIES[®]

2nd Edition



Julian Knight

Personal Finance Editor, The Independent on Sunday

A Reference for the Rest of Us![®]

 **UK Edition**

***Wills, Probate, &
Inheritance Tax For
Dummies, 2nd Edition***



A John Wiley and Sons, Ltd, Publication

Wills, Probate, & Inheritance Tax For Dummies, 2nd Edition®

Published by **John Wiley & Sons, Ltd** The Atrium
Southern Gate Chichester West Sussex PO19 8SQ
England

E-mail (for orders and customer service enquires): cs-
books@wiley.co.uk

Visit our Home Page on www.wileyeurope.com

Copyright © 2008 John Wiley & Sons, Ltd, Chichester,
West Sussex, England

Published by John Wiley & Sons, Ltd, Chichester, West
Sussex

All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except under the terms of the Copyright, Designs and Patents Act 1988 or under the terms of a licence issued by the Copyright Licensing Agency Ltd, 90 Tottenham Court Road, London, W1T 4LP, UK, without the permission in writing of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ,

England, or emailed to permreq@wiley.co.uk, or faxed to (44) 1243 770620.

Trademarks: Wiley, the Wiley Publishing logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. Wiley Publishing, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: The publisher, the author, AND ANYONE ELSE INVOLVED IN PREPARING THIS WORK make no representations or warranties with respect to the accuracy or completeness of the contents of this work and specifically disclaim all warranties, including without limitation warranties of fitness for a particular purpose. No warranty may be created or extended by sales or promotional materials. The advice and strategies contained herein may not be suitable for every situation. This work is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If professional assistance is required, the services of a competent professional person should be sought. Neither the publisher nor the author shall be liable for damages arising herefrom. The

fact that an organization or Website is referred to in this work as a citation and/or a potential source of further information does not mean that the author or the publisher endorses the information the organization or Website may provide or recommendations it may make. Further, readers should be aware that Internet Websites listed in this work may have changed or disappeared between when this work was written and when it is read.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

British Library Cataloguing in Publication Data: A catalogue record for this book is available from the British Library.

ISBN: 978-0-470-75629-4

Printed and bound in Great Britain by Bell and Bain,
Glasgow

10 9 8 7 6 5 4 3 2



About the Author

Julian Knight was born in 1972 in Chester. He was educated at Chester Catholic High School and later Hull University, where he obtained a degree in history.

He is currently the Personal Finance Editor for the *Independent on Sunday*. He was the BBC News Personal Finance and Consumer Affairs Reporter for five years and wrote for the BBC News Web site. Before joining the BBC, Julian worked at *Moneywise* magazine and contributed to the *Guardian* as well as many other publications.

Julian Knight is the author of *Retiring Wealthy For Dummies*, *The British Citizenship Test For Dummies*, and *Cricket For Dummies*.

Dedication

To Val, my mother, for her love, support, and working so hard to give me the best.

And to Charlotte de Veras (1973-1999) for always being right.

Author's Acknowledgements

Great thanks to Francis Klonowski, one of the UK's leading financial planners, for all his help and advice on the inheritance tax passages of this book.

Publisher's Acknowledgements

We're proud of this book; please send us your comments through our Dummies online registration form located at www.dummies.com/register/.

Some of the people who helped bring this book to market include the following:

Acquisitions, Editorial, and Media Development

Project Editor: Rachael Chilvers

Commissioning Editor: Samantha Spickernell

Proofreader: Christine Lea

Publisher: Jason Dunne

Executive Project Editor: Daniel Mersey

Cover Photo: © Blend Images / Alamy

Cartoons: Ed McLachlan

Composition Services

Project Coordinator: Erin Smith

Layout and Graphics: Claudia Bell, Reuben W. Davis, Alissa D. Ellet, Melissa K. Jester, Stephanie D. Jumper,

Christine Williams

Proofreader: David Faust

Indexer: Christine Karpeles

Contents

Title

Introduction

About This Book

Conventions Used in This Book

What You're Not to Read

Foolish Assumptions

How This Book Is Organised

Icons Used In This Book

Where to Go From Here

Part I : Planning Your Will

Chapter 1: Preparing for the Inevitable

Recognising the Advantages of Putting Your Estate in Order

Plotting Your Estate Strategy

Gearing Up for the Probate Challenge

Launching Your Strategy: The Checklist

Chapter 2: Recognising the Benefits of Making a Will

The Circle of Life: Events to Prompt You into Will-Writing

Making a Will with Your Spouse

Considering Who Can't Make a Will

Understanding the Consequences of Dying without a Will

Modern Life: Intestacy Isn't Geared Up for It!

Looking at the Different Rules in Scotland

Chapter 3: Totting Up the Value of Your Estate

[An Estate: Isn't That a Place in the Country?](#)

[Understanding Why You Need to Do the Sums](#)

[Dishing Out the Dosh with Aplomb](#)

[Calculating the Value of Your Assets](#)

[What on Earth Are Chattels? Looking at Moveable Possessions](#)

[Honey, I Shrunk the Estate! Factoring in Time and Debt](#)

[The Grand Total: Your Net Worth](#)

Chapter 4: Deciding Who Gets What

[Who You Have to Include in Your Will](#)

[Assessing What Everyone Should Have](#)

[Gift Failure and How to Prevent It](#)

[Playing the Philanthropist](#)

[Gifting to Cut the Tax Bill](#)

Chapter 5: Leaving Your Home in Your Will

[Giving the Mortgage Lender a Piece of the Pie](#)

[Understanding How Ownership Affects Your Bequest](#)

[Leaving Your Buy-to-Let Property in Your Will](#)

[The Other Side of the Fence: The Tenants' Story](#)

[Writing Your Home into Your Will](#)

[Putting Your Faith in Trusts](#)

Part II : Writing Your Will

Chapter 6: Choosing the Right People to Follow Your Wishes

[Considering the People Who Make Your Will Work](#)

[The Big Cheese: The Executor](#)

[A Matter of Faith: Trustees](#)

[Protecting Your Children: Guardians](#)

[The Eyes Have It: Witnesses](#)

[Considering Getting Expert Help](#)

[Calling in the Professionals](#)

[Going Solo: Using a Will Kit](#)

[Keeping Your Will Safe](#)

[Chapter 7: Getting It in Writing: Drawing Up Your Will](#)

[Choosing Your Materials](#)

[Taking Care of Preliminaries](#)

[Giving Your Executors Elbow-Room](#)

[Detailing Who Gets What](#)

[Passing the Finishing Line: Signing Your Will](#)

[Getting Your Will Witnessed](#)

[Chapter 8: Fine-Tuning Your Will](#)

[Powering Up Your Executors](#)

[Clinging on to a Survivorship Clause](#)

[On One Condition: Putting Stipulations in Your Will](#)

[Protecting Your Will Against Challenges](#)

[Getting to Grips with Power of Attorney](#)

[Chapter 9: Ringing the Changes: When and How to Change a Will](#)

[Love Changes Everything . . . Even Your Will](#)

[Having Children: Sleepless Nights and Altered Wills](#)

[Correcting Mistakes in Your Unsigned Will](#)

[Changing a Beneficiary](#)

[Snip, Snip: Cutting Someone Out of Your Will](#)

[Changing Financial Circumstances](#)

[Appointing New Appointees](#)

[Writing Changes into Your Will](#)

[Having Your Will Changed by the Courts](#)

[Clubbing Together to Change Your Will](#)

[Ka-Boom! Destroying Your Will](#)

[Starting Over: Creating a New Will](#)

[Chapter 10: Making Clear Your Funeral Wishes](#)

[Paying for Your Funeral](#)

[Donating Your Body to Medical Science](#)

[Breathing Easier with a Living Will](#)

[Part III : Managing Probate](#)

[Chapter 11: What to Do When Someone Dies](#)

[Registering the Death](#)

[Breaking the News: Informing People of the Death](#)

[Celebrating a Life: Planning the Send-off](#)

[Paying for the Funeral](#)

[Chapter 12: Pro-what? The Basics of the Probate Process](#)

[Starting at the Beginning: What Is Probate?](#)

[Understanding Grant of Probate and Letters of Administration](#)

[Knowing When You Don't Need a Grant of Probate](#)

[Team Executor: Working Together](#)

[Following the Duties of an Executor and Administrator](#)

[Using a Solicitor](#)

[Chapter 13: Dealing with the Estate: First Steps](#)

[Taking Stock of the Estate Assets](#)

[Deducting the Debts](#)

[Applying for Probate](#)

[Applying for Confirmation in Scotland](#)

[You Have the Power: What Next?](#)

[Chapter 14: Distributing the Estate](#)

[Paying Out in Sequence](#)

[Form-filing for HM Revenue & Customs](#)

[Calculating Inheritance Tax](#)

[Raising Money to Pay Inheritance Tax](#)

[Gathering in the Assets](#)

[Paying Off the Debts](#)

[Locating Missing Creditors](#)

[Coping with an Insolvent Estate](#)

[Selling the Assets to Pay the Debts](#)

[Paying the Beneficiaries](#)

[Facing Up to a Will Challenge](#)

[Sneaky! Changing Who Gets What in a Will](#)

[The Tax-Collector's Second Coming](#)

[Working with the Residuary Estate](#)

[Producing the Final Accounts](#)

[Part IV : Taxing Times: Inheritance Planning](#)

[Chapter 15: Introducing Inheritance Tax](#)

[Making Sense of Inheritance Tax](#)

[Doing the Inheritance Tax Sums](#)

[Working Out Your Tax Liability](#)

[Recognising the 'Must Plan' Scenarios](#)

[The Cruellest Cut of All: Tax and the Family Home](#)

[Facing Up to an Inheritance Tax Bill](#)

[A Taxing Question: Avoidance or Evasion?](#)

[Tax Planning: An Act of Faith](#)

[Chapter 16: Simple Steps to Reduce Inheritance Tax](#)

[Exploiting the Combined Nil-Rate Band](#)

[Using Exempt Gifts to Save Tax](#)

[Giftng from Everyday Income](#)

[Revving-up Potentially Exempt Transfers](#)

[Don't Let the GROB Get You!](#)

[Strategies for Singletons](#)

[The Generation Game: Reducing Tax by Generation Skipping](#)

[Protecting the Family Home . . . By Moving Out!](#)

[Fleeing the Country to Avoid IHT](#)

[Dropping the Temperature: Estate Freezing](#)

[Chapter 17: Rolling Out the Big Guns: Understanding Trusts](#)

[Starting at the Beginning: A Quick Tour of Trusts](#)

[Protecting the Family Fortune](#)

[Protecting the Family](#)

[Deciding Which Assets to Put into Trust](#)

[Matching the Asset to the Trust Beneficiary](#)

[Activating a Trust Before You Die](#)

[Putting Your Trust in Solicitors](#)

[Adding the Magic Ingredient: Trustees](#)

[Show Me the Money: Trustees and Assets](#)

[Saving Tax Through a Trust](#)

[Checking Out Different Types of Trust](#)

[A Potent Combination: Trusts and Insurance](#)

[Getting Ready for Trust Take-off](#)

[Chapter 18: Using Trusts to Help Your Family](#)

[Saving Tax with Trusts for Your Family](#)

[Helping a Needy Beneficiary](#)

[Using Trusts for Your Little Rascals](#)

[Trusting to Look After Your Spouse](#)

[Home Free: Putting the Family Home Into Trust](#)

[Boo, Hiss! Closing Tax Loopholes](#)

[Ringing in Changes to Your Trust](#)

[Considering the Downsides of Trusts](#)

[Picking Easier Options: Alternatives to Trusts](#)

[Chapter 19: Taking Care of Business: Inheritance Tax and Your Firm](#)

[Winning the Tax War with Business Property Relief](#)

[Using Business Property Relief to the Max](#)

[Knowing Business Property Relief Limits](#)

[Reducing Tax on Excepted Assets](#)

[Taking it Easy When You Pay Inheritance Tax](#)

[Taking a Bow: Exiting the Business Stage](#)

[Part V : The Part of Tens](#)

[Chapter 20: Ten Items to Keep with Your Will](#)

[Bank and Building Society Accounts](#)

[Insurance Policies](#)

[National Savings Accounts](#)

[Details of Stocks and Shares](#)

[Keys to Your Property](#)

[A List of Small Items of Personal Property](#)

[Your Prepaid Funeral Plan](#)

[Your Funeral Wishes](#)

[Instructions on Donating Your Body](#)

[A List of People Who Need to Know](#)

[Chapter 21: Ten Problem Wills to Avoid](#)

[An Unsigned Will](#)

[An Unwitnessed Will](#)

[Getting Married = New Will](#)

[Getting Divorced = New Will](#)

[A Will Leaving Dependents Out in the Cold](#)

[A Will with Strings Attached](#)

[A Will That Creates an Accidental Life Interest](#)

[An Altered Will](#)

[A Will Appointing Elderly Executors](#)

[An Elderly Will](#)

[Chapter 22: Ten Tips for Getting Your Estate into Tax-Saving Shape](#)

[Use the Nil-Rate Band to the Max](#)

[Own Your Home on a 'Tenants- in-Common' Basis](#)

[Make Use of Annual Gift Exemptions](#)

[Give Away High-Value, Low-Income Assets](#)

[Deep-Freeze Your Estate](#)

[Set Up a Trust](#)

[Build Up Exempt Assets](#)

[Write a Joint, Mirror, or Mutual Will](#)

[Inherit Money Tax-Efficiently](#)

[Take Advantage of Your Tax Breaks](#)

[Appendix: Sample Wills](#)

[Standard Will](#)

[Simple Will](#)

[Will with a Discretionary Trust](#)

[: Further Reading](#)

Introduction

We probably all know a story about wills and inheritance. From the recluse down the road who left millions so that Tiddles could enjoy the best cat food money can buy, to the 20-something glamour model who inherited a fortune when her octogenarian husband died of a heart attack but with a big smile on his face.

However, two-thirds of people haven't made a will yet and half of us never will. These people are missing out on a golden opportunity to look after their families and frustrate the tax-collector.

You've bought this book (and if you haven't, better hurry along to the checkout) and that means you're already thinking about putting a framework in place for your family's future for a time when you're no longer around.

About This Book

For Dummies books are all about giving you useful advice and information, in a light, easy-to-access format, and this book is no different. I go through the benefits of making a will, how to write your own will or get the help of a solicitor, and what tax-saving steps you can take to stop Her Majesty's Revenue & Customs (the snazzy new name for the Inland Revenue) indulging in a post-death tax grab. I include hints and tips on reducing your

liability for inheritance tax, how to use trusts to help your family, and what to do if you want to pass on your family business. Just as importantly, this book helps you maintain your sense of humour as you jump those inheritance-planning hurdles before you.

Conventions Used in This Book

To help you navigate through this book, I've set up a few conventions:

- ✓ *Italic* is used for emphasis and to highlight new words or terms that are defined.
- ✓ **Boldfaced** text is used to indicate the action part of numbered steps.
- ✓ Monofont is used for Web addresses.

What You're Not to Read

I've written this book so that you can

1. Find information easily and
2. Easily understand what you find.

And although I'm sure you want to pore over every last word between the two yellow covers, I actually make it easy for you to identify 'skippable' material. This is the

stuff that, although interesting and related to the topic at hand, isn't essential for you to know.

✓ **Text in sidebars.** The sidebars are the shaded boxes that are scattered through the book. They share observations and interesting snippets, but aren't necessary reading.

✓ **The stuff on the copyright page.** No kidding. There's nothing here of interest unless you are inexplicably enamoured by legal language and reprint information.

Foolish Assumptions

In this book, I make some general assumptions about who you are:

✓ You want to make plans so that your money and property is used to help your loved ones when you die but you don't know where to start. You probably have a vague idea about what you'd like to do, and have heard lots of stories and anecdotes about the strange laws governing wills. You feel a little intimidated by all the legal and accountant speak that surrounds wills and inheritance tax. Don't fear, this book is hell bent on busting the jargon and making things crystal clear.

✓ You want to copper-bottom your inheritance plans to reduce any tax liability and ensure that as much of your property as possible passes to your nearest and dearest but you don't want to be blinded by tax science. You want to know how to make the tax system work in your favour just for once!

✓ You want to know how to cope if someone close to you dies and you have to deal with their estate. From arranging a funeral to dealing with HM Revenue & Customs, the whole process is explained from top to bottom.

How This Book Is Organised

Wills, Probate & Inheritance Tax For Dummies, 2nd Edition is organised into five parts. The chapters within each part cover specific topic areas in more detail. So you can easily and quickly find the topic you need.

Part I: Planning Your Will

The chapters in this part help you do the right preparation for making a will. This part helps you figure out your worth and what sort of professional help you need to set up for your inheritance strategy. I give handy hints and tips on how to prioritise the gifts you want to leave. I set out easy-to-use tactics to protect your family home from being sold from under your family's feet when you're gone. I also explain what happens if you adopt a 'sit on your hands' strategy and don't make a will.

Part II: Writing Your Will

In this part I show you how to get your wishes down on paper. I look at the practical side of will-writing, including appointing executors, trustees, and guardians for your children, as well as how to make gifts to your loved ones through your will.

Making your will legal by signing it and getting it witnessed properly is essential – I steer you around the pitfalls. I also explain what life events should prompt you to review your will plans and change your will without running the risk of invalidating it.

Part III: Managing Probate

This part takes you through the process of dealing with someone else's estate when they pass away. I take you step-by-step through all the people that you need to inform when someone close dies. The preliminaries of securing a death certificate, arranging a funeral, and following any donation requests are covered in depth. As for handling the financial affairs of the deceased - a process called *probate* - every angle is covered, from tracking down creditors, calculating and paying any tax due, and distributing the estate to the deceased's beneficiaries. If you find yourself in the sad position of losing someone close, this part shows you how to take the admin in your stride so that you can get on with the grieving process.

Part IV: Taxing Times: Inheritance Planning

More people than ever are being drawn into the inheritance tax net and you could be one of them. This part shows you how to secure your estate from a post-death tax grab. Remember, the earlier you start and the more thorough your tax plans, the greater the amount of money you can leave to your loved ones.

In this part I explain how inheritance works and how by doing relatively simple things you can reduce the tax bill on your estate. I also show you how you can use trusts to beat the tax-collector. I peek behind the myths and complex legal mumbo-jumbo of trusts and show you how you can use trusts to protect your home, property, and business.

Part V: The Part of Tens

Here, in a concise and lively set of condensed chapters, are tips on getting your estate into tax-saving shape, avoiding making mistakes in your will, ensuring that your beneficiaries really will benefit from your will, and the documents you need to keep with your will.

Icons Used In This Book

Scattered throughout the book are icons to guide you along your way and highlight some of the suggestions, solutions, and cautions to bear in mind when making your will.



Keep your sights on the target for important advice and critical insights into the best practices in writing your will.



Remember these important nuggets of information and you'll stand a better chance of achieving your aims.



This icon highlights the landmines that you need to steer clear of.



Beat the tax-collector by following the hints and guidance offered with this icon.



I sometimes go into more technical detail about a particular law or tax issue, so this icon prepares you for brain strain.