



## INHERITANCE TAX PLANNING – WHOLE OF LIFE ASSURANCE

### PURPOSE

To create a fund via the payment from a life assurance plan that will pay part or all of the Inheritance Tax (IHT) liability and thereby allow the beneficiaries to inherit a larger proportion of the estate.

### DESCRIPTION

By using life assurance it is possible to protect dependants and beneficiaries against an early death. Protection also can be used to fund the IHT liability whenever it may arise. Life Assurance is often the only means of providing immediate protection against a future liability. Not only is an immediate tax free fund created on the payment of the first premium but the fund may also build up over the years. The longer the policy is in force the greater the benefits are likely to be. Each premium payment will be a gift for IHT purposes.

Any policy designed to produce benefits free of IHT for your chosen beneficiaries should be written in trust. The trust will enable policyholders to retain control over the ultimate destination of the benefits. The trust will be standardise by the selected life company.

Once the Trust is set up it is advisable to appoint additional trustees. This should ensure that there are individuals alive when a claim arises. The policy proceeds are then immediately available with no delay for probate. They can, for example, be used to meet an IHT liability that the beneficiaries would otherwise face.

Choosing the additional trustees is important. Any adult (over 18) in whom you have confidence can act as a trustee.

The premium payments may be organised so that they are exempt from tax either by using the exemption for normal expenditure out of income or the annual allowance of £3,000 (if not already used). Premium payments within normal expenditure out of income will leave the annual allowance free for use elsewhere.

The policy proceeds will not be subject to IHT. The substantial profit element payable in the event of early death and the long term investment profit arising from the policy will both be free of Inheritance Tax.

Payment of the initial premium to set up a policy in trust is treated as a potentially exempt transfer (PET) for IHT purposes unless it is covered by the exemption for normal expenditure out of income or the £3,000 annual allowance.

In certain circumstances further potential tax charges may be triggered where the level of premium exceeds either by the exemption for normal expenditure out of income or the £3,000 annual allowance. If you are in any doubt about this matter further advice can be provided.





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There are two main types of whole of life plans.

1. Guaranteed Whole of Life assurance plans guarantee that on death the chosen sum assured (life assurance) will be paid provided the associated premiums are paid. The plan has no surrender value.
2. Unit Linked Whole of Life assurance plans guarantee payment of the sum assured during the first ten years. At this point the plan is reviewed and provided agreed growth rates have been achieved the sum assured will remain the same. If the investment return has failed to meet the investment growth target then the sum assured will be reduced or alternatively the premium can be increased to maintain the sum assured. The plan is then generally reviewed every five years thereafter and the process repeated. Given that there is an investment value, the plan may be surrendered and the policyholders will receive the plan value.

## EFFECTS

Create a fund to meet all or part of an estate's liability to IHT thereby allowing Beneficiaries to inherit a larger net value of the estate.

## CASE STUDY

Mr & Mrs Jukes are both age 65 and have an estate worth £800,000. The main Beneficiaries of their estate are their three children. They are concerned about their estate's liability to IHT. Having taken certain other steps to mitigate the IHT problem they are keen to explore other possible solutions. With a desire to keep things simple, they decide to affect a guaranteed joint life second death whole of life assurance plan for £70,400, their estate's current IHT liability at a cost of £3,000 per annum and wrapped in trust for their three children. The sum assured of the plan and the premium will rise with RPI each year to account for the likely increase in their estate's IHT liability.

Following the second death 20 years later, the plan was used to pay the estate's liability to IHT, leaving the three children to inherit the full net value of their parent's estate.

For further information please call 0845 0551970 or go to [www.henwoodcourt.com](http://www.henwoodcourt.com)

