

Inheritance Tax Planning using Life Insurance

You can make provision for an IHT liability by taking out a Whole of Life insurance policy on your own life if you are single or on your joint lives (last survivor) if you are married or in a Civil Partnership. The sum assured should be equal to the expected IHT liability.

The plan is written under trust with the intended recipients of your estate as beneficiaries of the trust. On death, the insurance company will pay the sum assured to the trustees who will in turn pay the sum to the beneficiaries outside of the estate. This means the beneficiaries have the means to pay the IHT bill. In effect the whole estate is thereby passed unreduced to the beneficiaries.

The regular premiums for the life policy are gifts in themselves. However in most cases they will be exempt from IHT as they are regular gifts out of income which do not affect your standard of living and/or fall within your annual exemption. The policy proceeds would normally be paid free of inheritance tax.
