

The 'secret' to easing an Inheritance Tax burden

A practical solution to a challenge many families could face

When planning your legacy, it's essential to understand how Inheritance Tax (IHT) may impact what you leave behind for your loved ones. IHT is often seen as a burden that can reduce the value of your estate, leading to financial challenges for your family. Without careful planning, a substantial portion of your hard-earned wealth might end up with HM Revenue & Customs (HMRC) instead of benefiting those you care for most.

While many solutions are available to help reduce or mitigate the impact of IHT, finding the right approach for your situation is crucial for securing your family's financial future. One highly effective, though sometimes overlooked, solution is whole of life cover. This type of life insurance can provide your family with the financial means to address an IHT liability when the time comes.

WHAT IS WHOLE OF LIFE COVER?

Whole of life cover is a type of life insurance policy that guarantees to pay out a tax-free lump sum whenever you pass away, as long as you keep up with the premium payments. Unlike term insurance, which covers you for a fixed period, whole of life cover doesn't expire. It's designed to provide financial protection for your loved ones and can be tailored to meet specific needs, such as covering IHT liabilities.

This kind of policy is frequently used in estate planning, especially for individuals whose assets may exceed the IHT threshold. It essentially acts as a financial safety net, providing funds that can be used to settle any tax dues owed when your estate is transferred to your heirs.

DOES IHT STILL HAVE TO BE PAID WITH WHOLE OF LIFE COVER?

Yes, IHT still needs to be paid even if you have a whole of life cover policy in place. The policy does not eliminate your tax liabilities but provides a way to meet them without placing undue financial strain on your family. When properly structured and written in an appropriate trust, the payout from a whole of life insurance policy is kept outside of your taxable estate.

This ensures that the funds remain untouched by IHT and can go directly towards paying the tax

bill. Without such preparation, heirs might face the daunting task of liquidating assets or accessing savings to cover IHT dues, further complicating an already emotional time.

WHAT DOES WHOLE OF LIFE COVER COST?

The cost of a whole of life policy depends on several factors, including your age, health, lifestyle and the level of cover you wish to secure. Generally, premiums are higher than term life insurance because of the guaranteed payout and lifelong cover. However, considering the potential IHT savings it provides, many people find it to be a worthwhile investment.

For instance, a healthy 55-year-old non-smoker might pay anywhere from a few hundred to over a thousand pounds per month, depending on the amount insured. Furthermore, some providers offer flexible options, such as reviewable premiums that can fluctuate over time. While this flexibility may appeal to some, others may prefer fixed premiums for increased predictability.

USING LIFE INSURANCE TO COVER IHT

Whole of life cover is particularly effective for estates that exceed the IHT threshold, which is currently set at £325,000 per individual or £650,000 for married couples, who can transfer any unused allowances (tax year 2025/26) and the residence nil rate band remains in place is currently set at £175,000. The IHT tax-free threshold will remain in place until 2030. Assets above this threshold are currently taxed at 40%. Without proper planning, a significant portion of your estate may be allocated to HMRC instead of your loved ones.

Life insurance, specifically whole of life cover placed in an appropriate trust, guarantees that a designated sum is available to cover this tax bill, preserving most of your estate for your heirs. This strategy is frequently used alongside other estate planning tools such as gifting, trusts or investing in assets that qualify for business relief to maximise IHT mitigation. ■

DO YOU NEED TO TAKE ACTION TODAY?

Planning ahead can spare your loved ones from financial stress during a challenging time. If you're concerned about IHT and want to see how whole of life cover could be right for your unique situation, now is the time to act. To discuss your needs or to learn more about IHT mitigation, please contact us. Securing your family's financial future could be simpler than you think.

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