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# Inheritance Tax (IHT) cover

**Adviser guide**



**Specialist solutions**

As the nation's wealth grows, so do the Government's IHT receipts. With this trend comes an increasing need for effective IHT planning. This has led to more focus on how to reduce clients' IHT liability over time – either by gifting away assets during their lifetime, or investments into IHT friendly schemes – and ultimately how to provide for the IHT bill.

## What is IHT?

IHT is a one-off tax payable on the estate (property, money and possessions) of a person who has died.

The tax is typically levied at a rate of 40% on the value of an estate that is above the nil-rate band (£325,000 since 2009), subject to certain exemptions.

The IHT bill must be paid before a grant of representation will be issued to allow distribution of the deceased's estate. If the tax is not paid within the six month timeframe set by HMRC, they will start charging interest.

IHT may also be payable in other situations, for example if a person dies within seven years of making a gift, or within two years of investing in a Business Relief qualifying asset.

## Selected exemptions from IHT

- Transfers between spouses/civil partners
- £3,000 annual exemption
- Wedding – £5,000 (child)/£2,500 (grandchild)/£1,000 (anyone else)
- Normal expenditure out of income, for example life insurance premiums

### £325,000

The **basic nil-rate band**, up to which no IHT is chargeable on a deceased individual's estate

### 40%

The rate of **IHT payable** on estates over the total available nil-rate band

### 6 months

The period in which the **IHT bill must be paid** before HMRC starts charging interest

## Estate IHT liability cover

The IHT liability on an estate is, broadly – the value of the estate, less the available nil-rate band, multiplied by 40%. For example:

- Value of estate = £1m
- Nil-rate band = £325,000
- Taxable estate = £675,000
- IHT @ 40% = £270,000

Each person has their own nil-rate band. For married couples or civil partners the total nil-rate band would be £650,000 – and therefore the IHT liability in this example would be £140,000.

## What type of cover?

If the IHT liability is expected to remain indefinitely (i.e. until death), then a whole of life policy will be needed. This will pay out regardless of how old the person covered lives to.

If however the individual(s) plans to erode their IHT liability during their lifetime, for example by gifting assets to their family, or by way of IHT-friendly investments, a level term policy will be required. We can offer cover up to age 90.

When spouses (or civil partners) leave their assets to each other, there will be no IHT liability on the first death. As such a joint life second death policy will be required.

## Why life insurance?

Pure protection policies, such as those offered by Aviva provide a **tax-free capital return**. And if they're written into trust there will be no immediate IHT liability either.



## 'Gift Inter Vivos' cover

Broadly, a gift that's not otherwise exempt will be liable to IHT if the donor dies within seven years.

For example, a person makes a gift of £500,000 and dies within seven years:

- Value of gift = £500,000
- Nil-rate band = £325,000
- Taxable amount = £175,000
- Initial IHT liability = £70,000

The rate of IHT reduces by 20% between years three and seven. As such, **five level term covers, each equal to 20% of the initial liability** (£14,000), are required.

From year three onwards, 20% of the total sum assured falls away to match the reducing liability.

**The recipient of the gift is the one who will have to pay the IHT**, not the estate of the deceased. And once they've received the gift, the recipient may then also have a liability on their own estate which should be covered too.

## Gift Inter Vivos 'carve-out' option

Aviva has a Guaranteed Insurability Option that allows a new series of Level Term covers (as below) to be taken out by the donor of a gift, without any further underwriting, within six months of making the gift. The sum assured on their original cover will reduce accordingly.

Year	Taper relief	IHT rate	IHT liability	Level Term	Sum Assured
0-3	0%	40%	£70,000	7 years	£14,000
4	20%	32%	£56,000	6 years	£14,000
5	40%	24%	£42,000	5 years	£14,000
6	60%	16%	£28,000	4 years	£14,000
7	80%	8%	£14,000	3 years	£14,000

## Investment IHT liability cover

Investments which qualify for Business Relief (BR), also known as Business Property Relief, are an increasingly popular way of reducing a client's IHT liability.

Shares in qualifying businesses (or funds which invest in such businesses) are exempt from IHT provided they've been held for at least two years at the time of death.

However, if the investor dies within two years, the investment will remain subject to IHT and therefore life cover would be needed to cover that period of IHT liability.

Further information can be found on our [Investment IHT Liability Insurance sales aid](#).

Investment in a BR-qualifying scheme	Death within two years	Death after two years
Value at death	£200,000	£200,000
Inheritance tax liability	£80,000	£0
Net value to estate	£120,000	£200,000



## More than financial support

Our life insurance products include value added services – extra support at no extra cost:

### Aviva Smart Health

Access to a range of health and wellbeing services and experts from on-demand consultations with UK based GPs, to expert case management service with the world's top medical specialists. Aviva Smart Health\* is a convenient way to connect your clients to experts who can help manage their health and wellbeing from anywhere in the world, 24/7.

### Funeral pledge

Once a death claim is approved, we can ease the worry by paying up to £10,000 of the claim in advance towards the costs of a funeral. This can even be paid directly to a funeral company.

### Winston's Wish

Access to Winston's Wish\*\*, the leading UK charity for bereaved children and their families. Winston's Wish offers a wide range of practical assistance and guidance in the UK, including online resources, publications, a national telephone helpline, professional face-to-face support and group work.

### Claims support fund

A discretionary fund to pay up to £500 worth of extra services that'll make your clients life a little easier. Things like travel costs, parking at hospitals, wigs following cancer treatment – there's no limit to what it can be used for.

\*Aviva Smart Health is provided to Aviva Protection UK Limited customers by Teladoc Health. We want to let you know that these services are non-contractual, which means they don't form part of the insurance contract with us. If our partnership with Teladoc Health ends, these services could be changed or withdrawn in the future.

\*\*Winston's Wish is a national charity that is accessible to anyone regardless of their insurance policy. The service is available even if the policy ends.

## Why Aviva?

- Quick and easy application process
- Joint life second death option available on Whole of Life and Level Term
- Fully online journey – including trusts
- Up to £1.25m life cover with no financial questions
- Up to £110m Level Term/£52m Whole of Life cover available
- No automatic requirement for a GP Report
- No automatic requirement for a financial questionnaire
- Gift Inter Vivos 'carve-out' option available



## How to contact us

If you would like to know more about this or any of Aviva's other wealth protection solutions, please contact our Sales team.

 0345 600 6829

Email us at: [sales@protection.aviva.com](mailto:sales@protection.aviva.com)

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