# CastleAcre

## Life Insurance & Inheritance

www.castleacreinsurance.com

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"Whether you want to gift your assets in your own lifetime or pass your property, farm or business as a legacy to your family after death, different life insurance policies can really help with inheritance tax."

Ali Adham, Life Insurance Advisor

# What is Life Insurance for?

A life insurance policy is designed to provide a lump sum to your beneficiaries on your death. This lump sum can be used to pay off a mortgage, provide an income for your family or settle an inheritance tax bill. Crucially if it is held in trust your family can access it immediately (Inheritance Tax, excluding property, has to be paid before probate is granted and within six months of death). At a difficult time for your family a life insurance settlement offers financial security and reassurance.

# Inheritance Solutions and Life Insurance

The first time we consider life insurance might be when we buy a home or start a family. A life insurance policy linked to the term of your mortgage offers financial protection and security for your family. If you or your partner dies your remaining mortgage loan will be paid off - but life policies can also provide invaluable inheritance tax solutions.

Life Insurance can help mitigate the impact of Inheritance Tax on your family

# One in **four** families pay inheritance tax

If you have paid tax throughout your life, carefully setting aside savings and capital, in the hope of passing it on to your children, it can feel unfair to burden them with a large inheritance tax bill.

Inheritance tax is paid before executors can access or distribute funds from your estate – this means that your family must find a large lump sum before completing probate.

Some people will choose instead to give part of their estate away during their lifetime but if you die within seven years this gift will also be subject to inheritance tax, on a tapered basis over the seven-year period.

A well-chosen life policy can help you protect your family, providing a cash lump sum to pay your inheritance tax when other funds from your estate are inaccessible.

# Inheritance Tax Costs

## Is your estate eligible for Inheritance Tax?

If you pass your estate directly to your wife, husband or registered civil partner there is no inheritance tax payable. If you leave your estate to your children, grandchildren or other loved ones then inheritance tax is a consideration.

Currently, inheritance tax is only paid on an estate that exceeds £325,000, anything above this is subject to a 40% tax rate. If you are married or in a civil partnership, then both partners can pass on their nil rate band of £325,000 to their heirs and the total tax-free allowance increases to £650,000.

If you pass your main residence to children or grandchildren there is additional tax relief of £175,000 (providing your estate is valued below £2 million).

Even taking this into account, high property values in the UK mean that many more families are landed with inheritance tax bills that run into thousands.

# Placing a Life Policy in Trust

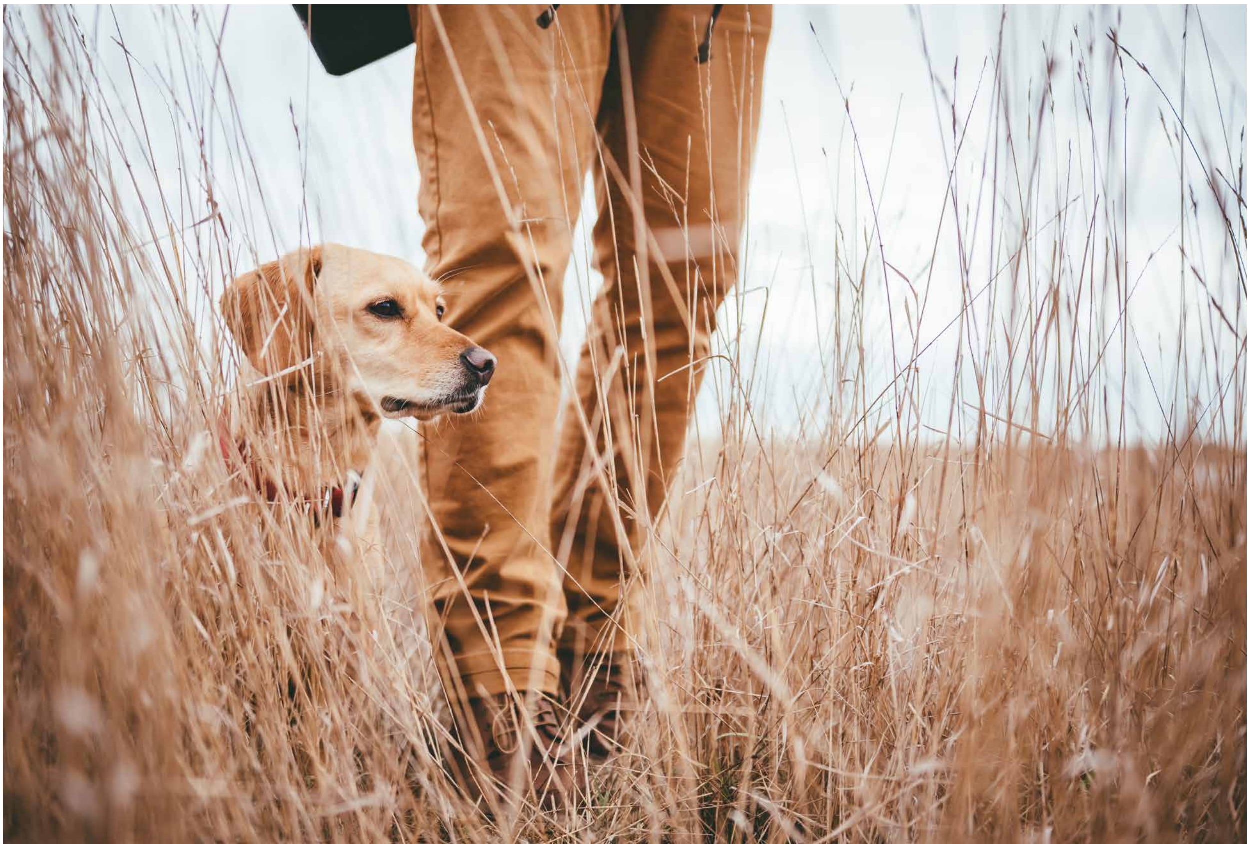
## gives a family access to funds when they need it

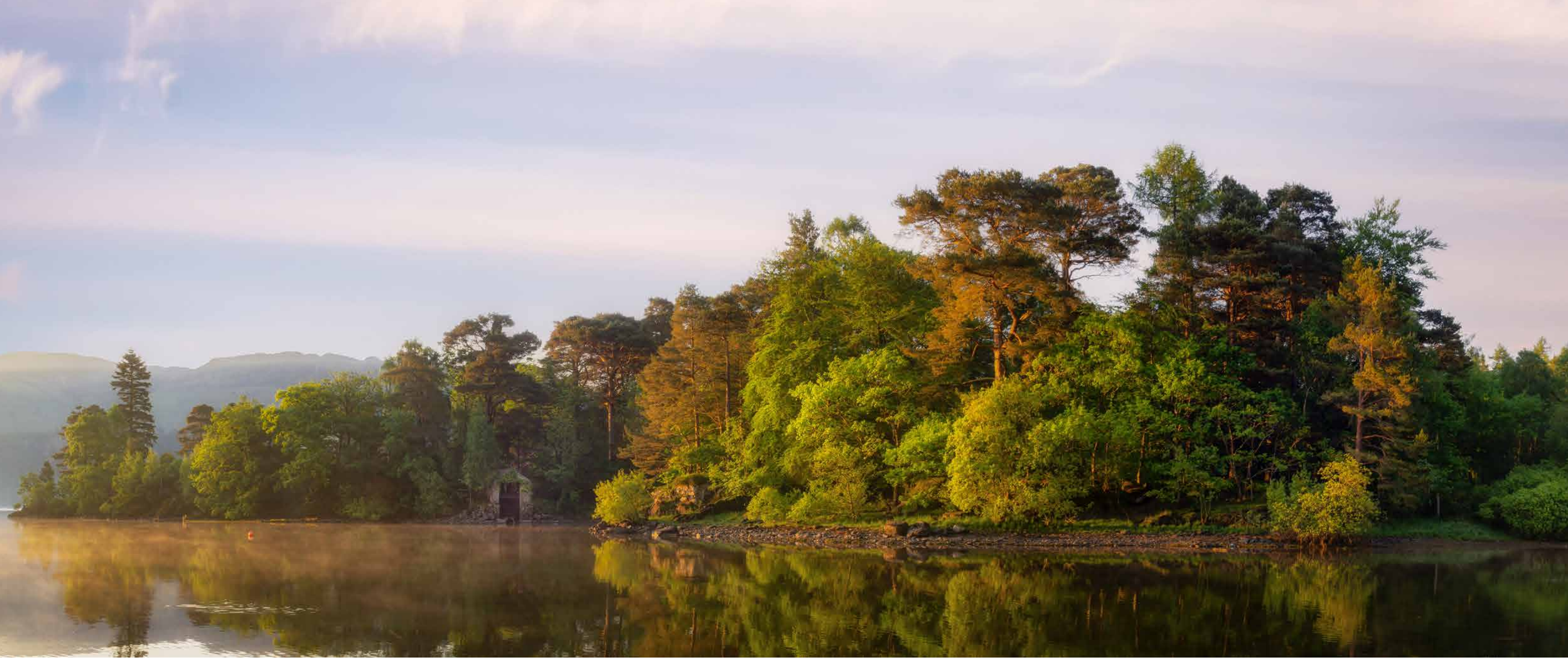
If you ensure that the lump sum from your life insurance is held in a discretionary trust on your death it will not be included as part of your estate. Holding the money in trust for your heirs also means that the money can be paid before probate is granted.

# Gifts

If your estate is above the Inheritance Tax threshold you can gift up to £3,000 every year to your child without it being subject to inheritance tax and separately up to £5,000 for a wedding. Alternatively, you are also able to gift smaller tax-exempt gifts for grandchildren.

You are allowed to give regular gifts to one person providing it comes from your surplus monthly income and as many one-off gifts as you want of £250 or less to different individuals within a tax year. Asset transfers exceeding these annual limits will be subject to inheritance tax, unless you survive for longer than seven years after the gift was made.





# Inheritance Tax Changes

Inheritance tax is one of the levers that government use to raise funds. As governments change so do their economic policies and from April 2025 certain assets and properties will no longer be exempt from IHT.

## Domicile Status and Inheritance Tax

The non-domiciled tax regime will be **changing in April 2025** and a person's estate, including worldwide assets, will now be subject to inheritance tax if they have been resident in the UK for at least 10 years out of a 20-year period.

## Agricultural Property Relief

Agricultural Property inheritance tax exemptions, designed to help families pass their business and land onto the next generation without being broken up, will **change in April 2026**, with reduced benefits for higher value estates.

## Business Property Relief and Lloyd's Underwriting

The **changes in April 2026** will have a significant effect on Lloyd's underwriting businesses and Namecos which may lead to the breakup of such businesses unless preparation and plans are made in good time beforehand.

## Pensions

From **April 2027** unused personal pensions and SIPPs, previously exempt from IHT, may now be considered as part of an estate and subject to inheritance tax. Previously unused pension funds could be passed on to beneficiaries with 100% tax relief so many families will now need to review their pension arrangement plans.

All of these changes are designed to draw more properties and assets into the inheritance tax net. Planning ahead, with a life policy to meet the precise needs of your family, can really help reduce the financial burden after death.

# Which life policy suits your needs?

There are several forms of life policy and they all offer something slightly different with variations in cost.

## Term Life Policies

Protect your income and mortgage and provide help with tax after death.

Term Life policies cover death or critical illness for a limited period. People often take out a term life policy when they are in their twenties or thirties to cover mortgage costs and income for their family and a policy might typically last for around 25/30 years.

There is no limit to the number of term policies you can run simultaneously. Each policy is completely distinct so if a policy expires as you reach 65 years old you can take a new term life policy for a further 10, 15, 20 years that potentially covers inheritance tax costs for your children.

These policies offer one of the most affordable solutions for families, but they often expire before people reach retirement age - so in many cases families do not receive any benefit after death.

## Probate Relief Cover

Offers practical financial support for your surviving partner and family while your estate is administered

This affordable life policy provides an immediate cash lump sum of £100,000 to your surviving spouse or partner in advance of probate and before your personal accounts and assets are accessible. If you take a policy out in your 50s it can cost as little as £37 as a fixed monthly fee and will offer protection until you reach 89 providing a great option if other term life policies have expired.

## Short-Term or Gift Inter Vivos Life Policies

Help protect gifts given during life.

If your estate is subject to inheritance tax and you decide to gift a proportion of your assets during your lifetime, known as a **gift inter vivos**, your heirs will have to pay inheritance tax if you die within seven years of that gift. In these circumstances, you might choose a short-term life policy that covers the inheritance tax liability during those seven years.

Inheritance tax liability tapers downwards over the seven-year period and the policy settlement reflects this – so if you die one year after the policy is taken out your beneficiaries will receive a larger life policy pay out to settle your IHT liability than if you die six years later when the liability has diminished.

## Whole of Life Policies

Offer a guaranteed lump sum to help with Inheritance Tax.

Whole of life policies guarantee that when you die your surviving heirs will receive a set lump sum.

Naturally enough this is an expensive option because the insurers are committed to paying out the full sum whether you die at 60 or 106. It is a high-risk policy for insurers because there is a chance that you could die soon after taking a policy out and the insurer would have to honour the agreement with very few premium payments.

Some whole of life policies are offered with reviewable annual premiums – so as you age your premium increases. A **guaranteed** policy means premiums remain the same throughout your life and costs are predictable but to compensate the premiums will start at a higher level than a **reviewable** policy.

These policies, though expensive, can be cost-effective for your heirs because inheritance tax due can be covered by the policy upon death.

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# For impartial advice on insurance solutions that can help with Inheritance Tax

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