

Placing Your Life Policy Into Trust

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Wills and Inheritance
Factsheet



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A large part of your Estate, which would be assessed for Inheritance Tax on your death, may be the proceeds of a Life Policy.

If the value of your Estate exceeds the current Inheritance Tax threshold you should consider making a gift of the Policy into a Trust.

Key benefits

- Subject to points below, a gift of a Life Policy creates an effective gift for Inheritance Tax purposes.
- Unlike cash or property which you may wish to use or enjoy during your lifetime, you will not be personally disadvantaged if you place an Insurance Policy in Trust (because the benefits of the policy are only paid after your death).

Key features

- The Policy Holder (i.e. you by yourself or with your Joint Policy Holder) sign A Trust Deed to declare that you are placing the Policy in a Trust
- You will be a Trustee (rather than an outright owner) of the Policy. It is sensible to appoint at least one other Trustee with the Trust Deed because the policy proceeds will need to be paid out to somebody after your death
- Further Trustees can be added to the Trust from time to time
- The Beneficiaries of the Trust (i.e. the Policy money) will be specified individuals or a group of individuals (e.g. grandchildren) who will receive whatever the Trustees in their discretion decide (a Discretionary Trust)

- Crucially, you cannot be a Beneficiary under the Trust. The whole point of the Trust is to ensure that the proceeds of the Policy do not fall into your Estate on death. The obvious Beneficiaries are immediate relatives of the Policy Holder(s), but anybody other than the policy Holder(s) can be a Beneficiaries
- Further Beneficiaries can be added later

Inheritance Tax

- By placing your Life Policy into Trust you are making a gift, and a gift is called a 'potentially exempt transfer' for Inheritance Tax purposes. This means that if you do not survive three years from the date of the Deed the value of the Policy will be added back into your Estate on death for the purposes of calculating Inheritance Tax. If you survive at least seven years from the date of the Deed, the value of the Policy will fall out of your Estate completely (no tax payable) and if you die between three and seven years after the date of the Deed, Inheritance Tax is calculated on a sliding scale basis
- The value of the gift will be the greater of the market value of the Policy at the date of the Deed of Trust or the value of premiums already paid (except where your policy is a Term Insurance Policy when only the value of the Policy (usually nil) will be taken into account)
- Premiums on the Policy should be continued to be paid by the Policy Holder. Be careful to ensure, if it is a single Policy, that continuing premiums are paid from that person's own (and not joint) account, because there may be adverse Inheritance Tax consequences
- The continuing Premiums should not be liable to Inheritance Tax as there is an exemption for gifts out of normal expenditure
- As the named Beneficiaries are treated as the owners of the Trust property for Inheritance Tax purposes, if the Beneficiary who is named is the removed, he is treated as having made gift of the value of his share, for Inheritance Tax purposes and the three year rule above applies.

Income Tax and Capital Gains Tax

- Your Insurance Policy will generally be exempt from Capital Gains Tax
- Income Tax on any chargeable gains could arise with certain Life Insurance Policies, mainly single premium Insurance Bonds