Viewpoint

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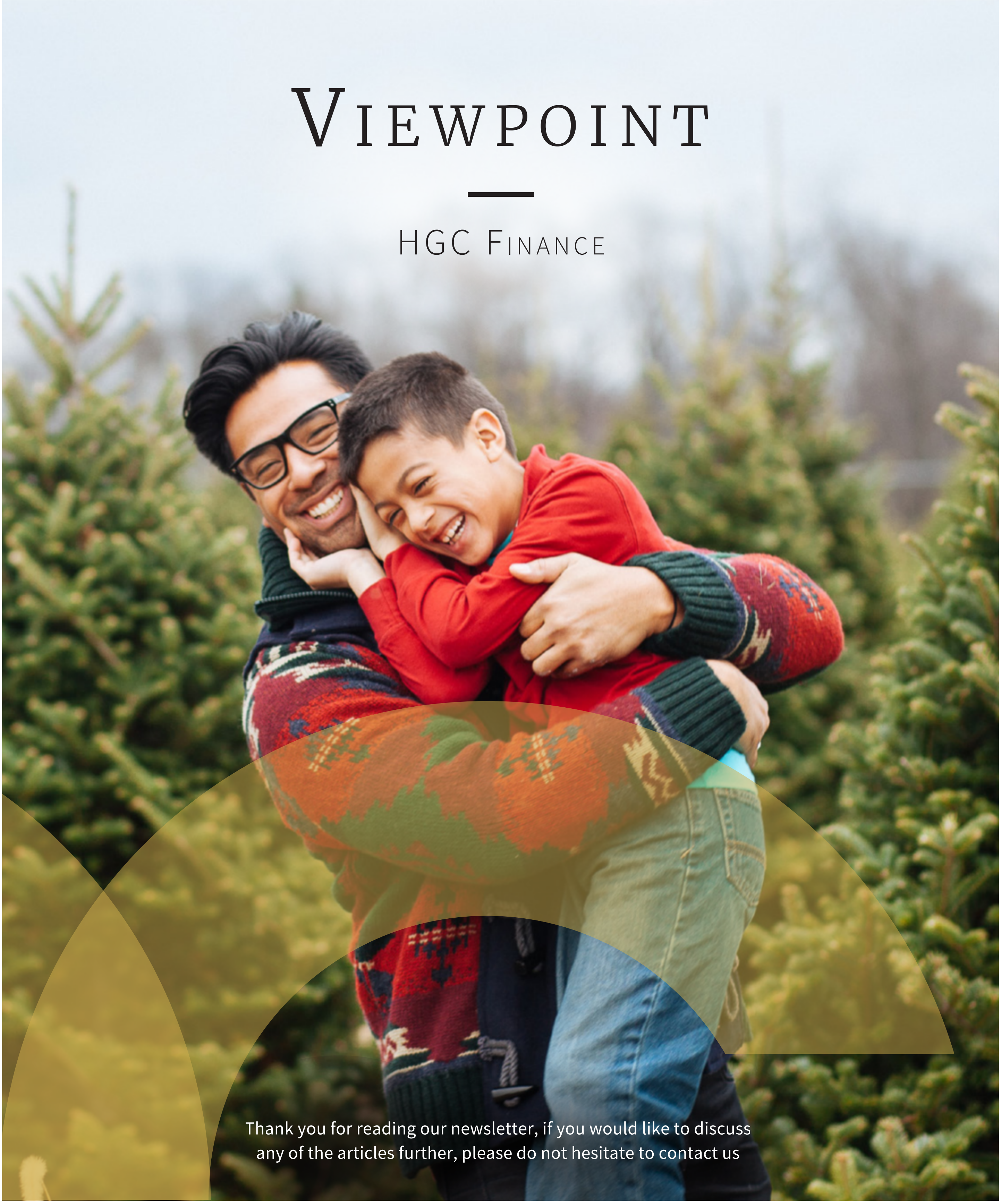

Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

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Life insurance in trust

A life insurance policy in trust is a legal arrangement that keeps a life insurance pay out separate from the valuation of your estate (property, money and possessions) after you die. Here we take a look at some main points to consider when deciding whether to write your life insurance in trust.

The logistics

A trust is a legal entity that allows you to put aside assets for your chosen beneficiary or beneficiaries. A solicitor or insurance provider can arrange to place your policy in trust. You can nominate one or more trustees to manage the trust until the beneficiary is ready to inherit. The trustee(s), ideally a solicitor or close friend, is responsible for ensuring the money set aside goes to the correct people after you have passed away. Trust deeds are agreed and signed by all parties, setting out the terms of the trust.

Trusts can be inflexible

You can set up either an absolute or a discretionary trust, the main difference being flexibility. With an absolute trust, they are fixed, so making any changes is not permitted. With a discretionary arrangement you don't need to specify: beneficiaries at the outset, how much will be received and when it will be received. You can also add other trustees to discretionary trust once it's set up.

It can be risky to amend a trust - there have been instances when people have invalidated their life insurance, after making changes to the policy in trust.

Minimising Inheritance Tax (IHT)

One of the prime motivators to people putting life insurance in trust is to mitigate IHT. Normally, a life insurance pay out is considered as part of your estate, which will be liable to IHT on anything exceeding the £325,000 threshold (taxed at 40%). When you write your life insurance in trust, you are in effect, ring-fencing the pay out, so it won't be included in the value of your estate, therefore protecting it from IHT and leaving more for your loved ones.

Greater control, expedience and options

Writing your life insurance policy in trust gives you more control over the pay out. This is very important if you aren't married or in a civil partnership; otherwise, your intended recipient may miss out. Pay outs from a trust can be paid quickly because there is no need to wait for probate to come through. If you have existing life insurance policies, you can transfer these into trust, but you would need to take advice on this first.

Seek advice

There could be tax implications if you move a life insurance policy into trust, for example IHT may be charged if, within 7 years prior to dying, a policyholder changes the person who's named as a beneficiary on a life policy held in trust. If you are unsure whether to write your life insurance in trust, talk to us. We can guide you through the pros and cons considering your circumstances.

As with all insurance policies, conditions and exclusions will apply.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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