For financial adviser use only. Not approved for use with customers.

IHT protection guide

Helping clients navigate the Inheritance Tax challenge

Contents

Introduction

If your clients are worried that **Inheritance Tax (IHT)** might reduce the amount they can leave behind for their loved ones, they're not alone. Once considered a concern only for the very wealthy, Inheritance Tax now affects many more families – largely due to rising property values and a threshold that hasn't kept pace.

But here's the good news: with the right planning and support, your clients can take steps today to reduce their IHT liability and ensure more of their wealth goes to the people who matter most.

This is intended as a guide only and is based on our interpretation of current tax rules, which are subject to change. You should ensure that your clients seek appropriate legal, tax and financial advice to fully assess their individual circumstances.

What is Inheritance Tax?

Put simply, IHT is a tax on your client's net estate - everything they own - when they pass away. And their estate might be larger than they think.

It can include:

- Their home and any other property
- Investments and savings
- Insurance policies
- Personal possessions like antiques, jewellery, cars, and furniture
- Gifts they've made but still benefit from (e.g. a home they've given away but still live in)
- Gifts made within the last seven years
- Certain trust-held assets from which they still benefit

From 6 April 2027, it's planned that unused pension funds and death benefits will be included in the taxable estate for IHT purposes.

IHT is typically charged at **40%** on the portion of your client's estate that exceeds the nil-rate band of £325,000, although certain exemptions may apply. The estate usually cannot be distributed until the IHT is paid, which must generally be done within six months of death. If payment is delayed, interest may be added. IHT may also be due in other situations, such as when someone dies within seven years of making a gift.

Why planning matters

Inheritance Tax can significantly impact the legacy clients leave behind. But with smart strategies – like gifting, trust planning, and using available allowances – you can help them reduce their exposure and help them to pass on more to their loved ones.

Trusts and UK Inheritance Tax:

Placing a life insurance policy in trust can be an effective strategy for mitigating IHT. When structured correctly, the policy proceeds are typically excluded from the client's estate, allowing trustees to pay beneficiaries directly – often without triggering an IHT charge.

Premiums and gifting rules:

Premiums paid into a policy held in trust are treated as lifetime gifts for IHT purposes. In many cases, these qualify for exemptions – such as the annual exemption or gifts out of surplus income – making this a tax-efficient way to fund protection.

If exemptions do not apply, the premiums count as either:

- a **Chargeable Lifetime Transfer (CLT)** for discretionary trusts, or
- a **Potentially Exempt Transfer (PET)** for bare trusts.

These can impact your client's nil-rate band and may create an IHT liability if they die within seven years.

Trust type and IHT treatment:

If a **life insurance policy is placed into one of our protection trusts,** HM Revenue & Customs (HMRC) will treat it as a lifetime transfer. This will be:

- a **CLT** (a transfer of assets made during a settlor's lifetime that is liable to an IHT charge) where our Aviva Discretionary Gift Trust (Protection) or our Aviva Survivor Trust is used; or
- a **PET** where our Aviva Bare Trust (Protection) is used.

This classification affects how the transfer is reported and whether it impacts the client's nil-rate band, but it doesn't necessarily result in an immediate tax charge.

Valuation of the transfer:

For whole of life policies, the value of the transfer is the greater of:

- the open market value at the time of transfer (often aligned with the surrender value if the life covered is in good health); or
- the total premiums paid up to the date the trust is created.

For term life insurance, only the open market value is considered. While the surrender value is typically nil, the policy may still have value – particularly if the life covered is in poor health and a claim is likely.

Key IHT exemptions and reliefs

Before choosing a suitable solution for your clients it's worth reviewing some of the circumstances where there might not be an IHT liability.

Standard nil-rate band (NRB):

The threshold for IHT is currently set at **£325,000** and will remain frozen until the end of the 2030/31 tax year (April 2031). Each individual has their own NRB, and it can be transferred between spouses or civil partners upon death – potentially giving the surviving partner a combined allowance of **£650,000**.

Residence nil-rate band (RNRB):

This is an additional IHT relief introduced in 2017 for estates that include a main home which is passed on to children (biological, adopted, step and foster) and grandchildren. It can also apply where the deceased sold or downsized their residence during their lifetime.

It's currently set at **£175,000** and will also remain frozen until the end of the 2030/31 tax year (April 2031). If unused, the RNRB can be transferred between surviving spouses and civil partners if the first death occurred on or after the 6 April 2017.

The RNRB is reduced by £1 for every £2 that the value of the estate exceeds **£2 million**.

Gifts between married couples/registered civil partners:

Your clients can give **unlimited gifts** to their spouse or civil partner during their lifetime without incurring IHT, provided they are legally married or in a registered civil partnership and both partners live in the UK permanently.

Annual gift exemption:

Individuals can give away up to **£3,000** in total each tax year without incurring IHT. This can be given to one person or split between multiple recipients. If the full allowance isn't used, the unused portion can be carried forward to the following year – but only for one year.

Normal expenditure out of income:

These are **gifts made regularly** as part of a person's usual spending and must come from their income rather than capital. The individual making the gift must retain enough income to maintain their standard of living.

These gifts must form part of a settled pattern of giving or demonstrate an intention to make regular gifts.

It's essential to keep clear records showing the donor's income and expenditure, the regularity of gifts and the intention for these gifts to be ongoing as HMRC may request this evidence when assessing claims.

Unlike the annual gift exemption, there is no upper limit on gifts, provided the conditions are met.

Unlike **PETs and CLTs** there is also no seven-year clock.

Small gifts exemption:

Your clients may gift up to **£250** to any number of individuals each tax year. However, this exemption can't be combined with other gift exemptions for the same recipient, i.e. the recipient can't have received anything from a client's **£3,000** annual exemption.

Gifts on marriage or civil partnership:

The following gifts can be made in connection with a marriage or civil partnership:

- Up to **£5,000** from each parent
- Up to **£2,500** from each grandparent
- Up to **£1,000** from anyone else

Gifts to charities:

Any lifetime gifts made to UK charities are **fully exempt** from IHT. If 10% or more of a person's net estate is left to charity on their death, then the IHT rate on their remaining estate will be reduced down from 40% to 36% on the remainder.

Outright gifts to individuals & trusts:

If gifts are made directly and unconditionally to individuals or certain trusts, they can become **PETs** – if the donor survives for more than seven years after making the gift then no IHT will be payable. If they die within seven years, the gift may be subject to IHT but taper relief can reduce the tax if death occurs between years three and seven.

Gifts between spouses or civil partners are automatically exempt.

Business Relief (Business Property Relief):

This offers IHT relief on qualifying business assets transferred during life or on death. This applies to shares in eligible businesses or investment funds, provided they've been held for at least two years. From April 2026, the first **£2.5 million** of qualifying business property will receive **100%** relief – anything above this level will receive **50%** relief.

Unused allowances can be transferred between spouses or civil partners, allowing up to **£5 million** of qualifying assets to pass free of IHT.

Shares held in companies not listed on recognised stock exchanges, such as AIM, don't benefit from the £2.5 million allowance and will only qualify for **50%** relief rather than **100%.**

If the investor dies within two years of acquiring the assets, the relief will not apply, and the assets may still be subject to IHT – so life cover may be needed to cover this risk.

The impact of potentially having to pay IHT on business assets should be a key focus for firms considering succession planning.

Agricultural Relief (Agricultural Property Relief):

This provides IHT relief on qualifying agricultural property transferred during life or on death. It applies to farmland, farm buildings, and certain farmhouses used for agricultural purposes. From 6 April 2026, the first **£2.5 million** of qualifying agricultural property will receive **100% relief** – anything above this level will receive **50% relief**.

Unused allowances can be transferred between spouses or civil partners, allowing up to **£5 million** of qualifying assets to pass free of IHT. Properties must meet occupation and usage conditions to qualify, and relief is available whether the property is owned outright or let for agricultural use.

Any excess of this relief can be paid in 10 annual interest-free instalments.

Why use protection for IHT planning?

Cost certainty:

With guaranteed premiums, your clients benefit from predictable costs and the reassurance that funds will be available to meet any IHT liability when needed.

Faster access to funds:

Placing the policy in an appropriate trust (e.g. a Discretionary Trust) ensures the payout bypasses probate. This allows the IHT bill to be settled quickly, helping to avoid delays in distributing the estate.

Certainty of outcome:

The cover amount is designed to pay out on death, providing confidence that the intended financial support will be delivered.

Tax efficiency:

When written in trust, the policy proceeds fall outside the client's estate – helping to reduce the overall IHT liability and maximise the value passed on to beneficiaries.

Whole of life cover: a long-term solution for IHT planning

Whole of life cover can be a powerful tool in managing future IHT liabilities. It guarantees to pay out a lump sum when the life covered dies, whenever that might happen. This money can then be used to cover a potential IHT bill on death.

Single life and joint life second death cover can be particularly effective tools in managing future IHT bills as they guarantee to make funds available at the right time.

How can Aviva help with whole of life IHT planning

- **Flexible cover options** – available as single life or joint life first or second death protection.
- **Lifetime protection** – whole of life cover available for clients up to age 85.
- **Inclusive underwriting** – joint life second death cover can be arranged online even if one life is uninsurable.
- **IHT legislation benefit** – clients can increase cover by up to £1 million without underwriting if future changes to IHT rules increase their liability (available up to age 85).
- **Inheritance safeguard** – up to £200,000 of additional cover available, free of underwriting, if a client's IHT liability rises due to receiving a gift or inheritance.
- **Separation flexibility** – if clients separate, joint life second death cover can be split into individual policies without further underwriting.
- **Streamlined trust setup** – online trust solutions help ensure policy proceeds are protected and structured efficiently for IHT purposes.

Aviva's joint life second event term: designed for IHT efficiency

Aviva offers a **joint life second event** cover option on its Life Insurance+ product.

This type of cover can be well suited to supporting IHT gifting strategies and could be a more affordable alternative for clients compared to the traditional joint life second death whole of life cover solution. It pays out on the second death or terminal illness of the lives covered during the policy term, ensuring funds only become available when needed.

Why joint life second event term could make sense for IHT planning:

Gifting strategy support:
Suits clients who intend to reduce their IHT liability by gifting assets during their lifetime, ensuring protection is in place while taper relief applies.

Targeted protection:
Offers a practical solution for clients who want to ensure their estate can meet future IHT obligations without overcommitting financially.

Affordability:
Ideal for clients with significant assets but limited liquidity, joint life second event term can provide essential cover without the higher costs usually associated with whole of life cover.

Aviva's joint life second event term can support your clients

Aviva's joint life second event term product has been designed to **help your clients meet their IHT planning needs** now and protect them against future changes.

It offers:

- **Cover up to age 90** – available for clients aged 18 to 89, offering long-term protection.
- **Flexible cover levels** – high cover amounts, with increasing cover available up to £20 million at outset.
- **Support for uninsurable lives** – joint life second event cover can be set up online even if one life is uninsurable.
- **IHT legislation benefit** – clients can increase their cover by up to £1 million without underwriting if future changes to IHT rules result in a higher liability (available up to age 85).
- **Gift inter vivos benefit** – if your client makes a gift that reduces their IHT liability, they can convert their existing joint life cover into single life policies – without further underwriting – to ensure the potential IHT liability on the gift is covered should they pass away within seven years.
- **Inheritance safeguard** – up to £200,000 of additional cover available, free of underwriting, if a client's IHT liability increases due to receiving a gift or inheritance.
- **Separation flexibility** – if clients separate, they can split their joint life second event term cover into individual policies, free of underwriting.
- **Free cover during underwriting** – up to £1.5 million of cover is available while the application is being processed.
- **Online trust solutions** – streamlined trust setup to ensure policy proceeds are protected and IHT-efficient.

Why joint life first event cover may not be the best fit for IHT planning

While joint life first event term cover can play a role in certain IHT scenarios, it's generally less effective for clients looking to mitigate IHT liabilities.

Key limitations to consider:

- **Spouse exemption**

  For married couples and civil partners, assets passed to the surviving spouse are typically exempt from IHT. This means a payout on the first death may not be necessary for IHT purposes.

- **Timing mismatch**

  IHT is usually payable after the second death – when the estate is passed to children or other beneficiaries. A joint life second event policy is better aligned with this timing, ensuring funds are available when the liability arises.

- **Trust implications**

  If the policy isn't written in trust, the payout may be added to the deceased's estate, potentially increasing the IHT liability and delaying access to funds.

For clients aiming to cover the IHT due when passing wealth to the next generation, joint life second event policies – such as **Aviva's joint life second event cover** – are typically more suitable. These policies pay out at the point when the IHT liability is triggered, helping ensure the estate can be settled efficiently and tax-effectively.

Gift inter vivos solutions: help your clients give a gift, not a burden

If your client is gifting substantial amounts of money or assets to a loved one, they'll want them to enjoy that gift to the full. Yet if your client dies within seven years, the recipient may be left with a hefty IHT bill to pay.

That's why, at Aviva, we offer a number of **gift inter vivos** solutions to help mitigate this risk.

Once cover is in place, if your client dies while IHT is still due on the gift(s), they'll pay out a lump sum designed to cover the bill. So your client – and their loved ones – can both rest assured.

Key benefits

Peace of mind for your client

If something happens to them, their loved ones will receive the amount(s) covered to help fund the tax.

Quick and simple online applications

Plus you can get an instant decision with our fast track underwriting service.

Reducing premiums

As your client's level of IHT liability falls, their cover will decrease and so will their premium.

How to set up our solution if your client is making a gift

It's simple. To set up our **gift inter vivos solution** for your client, all you need to do is create **five individual Life Insurance+ policies**. Using our ALPS platform via a multi-product application you'll only have to complete one set of application questions for all policies.

Each of the five policies should be set up for **20%** of the total amount of tax that would be payable on the value of the gift that exceeds the NRB. So, in total **100%** of the liability would be covered. As an example, if the recipient of the gift had a potential IHT liability of **£1 million** immediately as a result of receiving a gift, you'd need to set up five policies, each giving **£200,000 cover**.

Each of the policies will need to have different terms because – as you'll know – taper relief means the IHT tax liability gradually reduces over time until, after seven years, no tax would be owed on the gift if your client died.

You'll need to set up individual policies with terms of three, four, five, six and seven years to mirror the effect of taper relief on the remaining liability.

Remember - The policies all need to be written in trust for the benefit of the recipient(s) of the gift(s) as otherwise any payout would add to the IHT bill of the donor of the gift. Our online trust tool can help you do that fast and efficiently.

Here's a table showing how it works in practice:

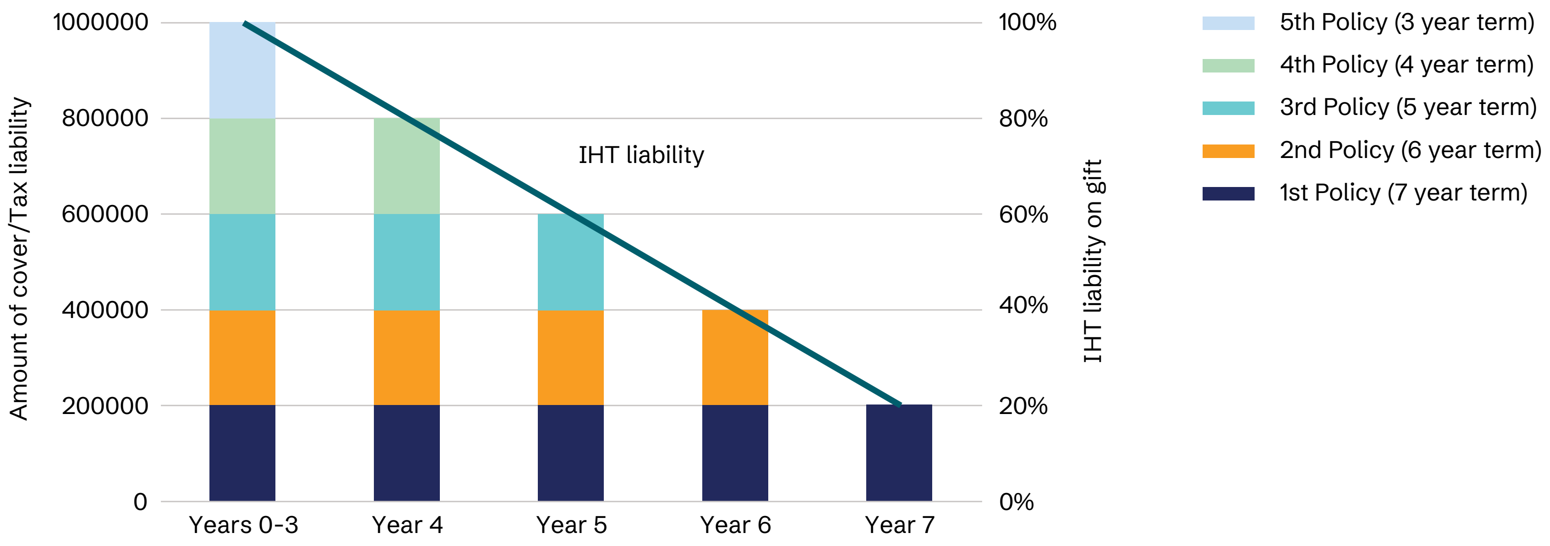
Years since gift	0-3	4	5	6	7
Percentage of IHT owed	100%	80%	60%	40%	20%
IHT liability	£1 million	£800,000	£600,000	£400,000	£200,000
Policies in place	5	4	3	2	1
Total cover	£1 million	£800,000	£600,000	£400,000	£200,000

This example is for illustrative purposes only.

You can find the current NRB on the HMRC website **here**

After three years, when the IHT liability drops by 20%/£200,000, one policy comes to an end. And the same thing happens every time the IHT liability falls.

The chart helps to illustrate this further.



How to help if your client is planning on making a gift in the future

If your client is planning on making a gift in the future, we have a **gift inter vivos benefit** which can be used to convert their existing cover and set up gift inter vivos cover, quickly, efficiently and free of underwriting.

This benefit is offered at **no extra cost** for joint life second event cover on our Life Insurance+ product.

Cover will be set up using a five-policy solution and existing cover will reduce in line with shifting IHT liabilities. As the cover won't be underwritten, this can be put in place quickly to ensure the right protection is in place for your clients when they need it.

Our gift inter vivos benefit is a useful tool that can be used in effective gifting strategies, which look to help your clients transfer wealth, minimise the impact of taxation and support their loved ones, whilst aligning with their financial goals.

Rysaffe: a smart way to reduce Inheritance Tax

The Rysaffe principle is a legal and tax planning strategy that enables advisers to help clients mitigate IHT exposure by maximising the use of the NRB through the structured use of discretionary trusts.

Originating from the case *Rysaffe Trustee Co (CI) v Inland Revenue Commissioners (2003)*, the principle established that discretionary trusts created on separate days are treated as distinct settlements for IHT purposes. This means each trust can benefit from its own NRB, rather than being aggregated and assessed collectively.

This approach is particularly effective when placing life insurance policies into trust. By establishing multiple discretionary trusts on different dates, each policy can be held independently, allowing for more efficient use of available tax allowances and reducing the potential for periodic and exit charges.

What the Rysaffe principle means

Under UK IHT rules:

- Each discretionary trust is treated as a separate settlement if created on different days.
- Each separate trust gets its own NRB, currently £325,000.
- This allows individuals to shelter more of their estate from IHT by spreading assets across multiple trusts.

Discretionary trusts are subject to periodic charges, assessed every ten years, with a maximum rate of 6% on the value of the trust at the anniversary. If a chargeable event occurs - such as the distribution of assets - an exit charge of up to 6% may also apply.

In the context of IHT planning, whole of life policies are commonly used to provide liquidity for future IHT liabilities. These policies often carry substantial premiums, which accumulate within the trust over time. If the total value of premiums paid into a single trust exceeds the NRB at the ten-year point, the trust may become liable for a periodic charge.

By applying the Rysaffe principle – placing smaller life policies into separate discretionary trusts on different days – each trust is treated as an independent settlement. This allows for individual use of the NRB, potentially avoiding aggregation and associated charges, while maximising tax efficiency.

At the moment, the tax-free threshold (known as the nil-rate band, or NRB) is **£325,000**, meaning IHT won’t be paid on the first £325,000 your clients leave to others.

Anything above this threshold is currently taxed at a rate of **40%**, subject to other exemptions and reliefs that may be available.

Here's an example...

...of how the Rysaffe principle could help your clients

James is 62, he has a potential IHT liability of **£2 million** – his adviser has advised that he apply for a whole of life policy. In this example, by splitting his cover into eight **£0.25m** policies and placing them into trust, each policy benefits from its own NRB. James can reduce the potential periodic 10-year tax charge to zero after 30 years, avoiding over **£93,500 in charges**.

If no periodic charges are incurred, James' loved ones will also avoid having to pay an exit charge when the policy proceeds are paid out after his death.

This type of planning doesn't just help while James is alive - it can also protect his family **after his death.**

If James were to die, the life insurance money would be paid into the trusts. Normally, money held in trust is reviewed every 10 years to see whether IHT is due.

By splitting the cover into **separate trusts**, each trust holds an amount **within its own NRB**. This means that even if the insurance money is still held in trust at a 10-year review point, **no IHT charge would apply**.

When set up correctly, this type of planning can help manage IHT at different stages:

During life: helping to reduce or avoid IHT charges on money paid into trust over time.

After death: helping to ensure that life insurance money held in trust is not reduced by periodic IHT charges.

	Non Rysaffe	Rysaffe planning
Whole of Life Insurance+ cover	£2m	£2m = £250,000 x 8
Yearly premium	£42,224	£42,224 = £5,278 x 8
Total of 10 years premiums	£422,240	£422,240 = £52,780 x 8
NRB	£325,000	£325,000 (x8)
Value of premiums above NRB	£97,240	£0
10-year periodic charge (6%)	£5,834	£0
Total of 20 years premiums	£844,480	£844,480 = £105,560 x 8
Value of premiums above NRB	£519,480	£0
20-year periodic charge (6%)	£31,169	£0
Total of 30 years premiums	£1,266,720	£1,266,720 = £158,340 x 8
Value of premiums above NRB	£941,720	£0
30-year periodic charge (6%)	£56,503	£0
Total premiums paid	**£1,266,720**	**£1,266,720**
Total charges	**£93,506**	**£0**
Total saved	**£0**	**£93,506**

For illustrative purposes only. Actual charges depend on trust values at 10-year anniversaries, premium levels, trust structure and tax rules at the time.

Things to consider

There are some key things you need to bear in mind when using the Rysaffe principle:

- **Related settlements rules:**

If trusts have the same settlor and substantially the same beneficiaries, HMRC may treat them as one for tax purposes. It's important that the trusts are carefully structured to avoid this.

- **Same-day addition rule (2015):**

If multiple trusts receive money on the same day, they may be aggregated for IHT purposes rather than benefiting from their own NRB. It's important that trusts are set up on different days and that large amounts are not added to the trusts on the same day.

- **Clear documentation:**

It's really important to maintain clear records of trust creation dates and policy assignments to avoid future challenges.

If your clients require a large amount of cover and their annual premiums might exceed the NRB during their lifetime, it could really make sense to consider structuring their cover using the Rysaffe principle.

Navigating IHT planning when one life is uninsurable

When your clients need joint life second death cover for IHT planning, but one life is uninsurable, you might assume insurance isn't an option. However, Aviva offers a solution.

Key solution: Joint life second event cover when one life is uninsurable

Even when one life is unable to get cover, IHT protection doesn't have to be out of reach. Aviva's joint life second event cover will base its rates on the healthy life, to provide a practical solution for couples facing this challenge.

This approach ensures that protection is still in place to meet future IHT liabilities, without the risks and complications of relying on single life policies.

It's a smart way to safeguard your clients' legacy — even when circumstances aren't straightforward.

Key limitations to consider:

Our standard joint life second event policies are still available, but the premium will instead be based on our rates for the healthy life.

This applies to both our joint life second event term and whole of life products.

Why it helps:

This can help you still put protection in place for your clients to cover future IHT liabilities, even if one life is unable to get cover.

Risks of using a single life policy instead

If only a single life policy is used and that person dies first:

- The payout must be invested until the second death, which introduces investment risk and potential tax liabilities (income tax and capital gains tax).
- Trustees may face administrative burdens, including:
  - regular investment reviews
  - trust registration with HMRC
  - possible IHT periodic and exit charges
- There's also a risk that the funds may be used for other purposes instead of settling the IHT bill.

Whole of life vs Joint life term: IHT planning comparison

	Whole of life cover	Joint life second event term cover
Payout guarantee	Guaranteed to pay out whenever death occurs	Pays out only if death or terminal illness occurs during the policy term
IHT planning suitability	Highly suitable – ensures funds are available whenever IHT liability arises	Suitable – aligns with IHT liability timing but limited to term duration
Cost	Typically higher due to lifetime coverage	Can be more affordable – ideal for clients with limited liquidity
Flexibility	Permanent cover with options for increasing benefits	Term-based cover with options for increasing benefits
Use in gifting strategies	Can be used with trusts and Rysaffe planning to mitigate periodic charges	Supports taper relief with gift inter vivos benefit and term structuring
Cover for uninsurable lives	Joint life second death can be set up even if one life is uninsurable	Joint life second event can be set up even if one life is uninsurable
Long-term estate planning	Ideal for clients with large estates and long-term IHT concerns	Best for clients with shorter-term needs or gifting strategies in place
Additional benefits	Includes IHT legislation benefit, inheritance safeguard, and free cover during underwriting; can be split across trusts using Rysaffe principle to avoid charges	Includes IHT legislation benefit, inheritance safeguard, and free cover during underwriting

Summary

Whole of life is best for clients who want guaranteed protection against IHT liabilities, regardless of when they arise. It's especially valuable for larger estates, long-term planning, and trust structuring.

Joint life second event offers a cost-effective alternative for clients who need IHT protection for a specific period and as part of a gifting strategy.

Helping clients leave a legacy, not a liability

IHT planning is no longer just for the ultra-wealthy — it's a growing concern for many families.

With the right advice and tools, you can help your clients take control of their legacy and ensure their wealth is passed on efficiently and tax-effectively.

Whether it's through whole of life cover for guaranteed protection, joint life second event term cover for cost-effective planning, or gift inter vivos solutions to support lifetime gifting strategies, Aviva offers a range of flexible options to suit different client needs.

By combining smart trust planning, tailored cover, and innovative features like the IHT legislation benefit and inheritance safeguard, you can help your clients turn a potential tax burden into a well-planned gift for future generations.

Let's make sure your clients leave behind more than just memories — let's help them leave behind financial security.

For further information, please speak to your account manager or visit our hubs:

- High Value Protection hub
- Protection Trust hub

Need this in a different format?

Please get in touch if you'd prefer this brochure (**PT151662**) in large print, braille, audio or in a different colour.

Aviva Life & Pensions UK Limited. Registered in England and Wales No. 3253947. Registered Office: Aviva, Wellington Row, York, YO90 1WR. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number 185896. Member of the Association of British Insurers.

aviva.co.uk

PT151662 08/2026