

A smarter way to reduce Inheritance Tax

Rysaffe planning and life insurance



 AVIVA

A smarter way to reduce Inheritance Tax using Rysaffe planning and life insurance

Some people use separate trusts and life insurance to help manage Inheritance Tax. This approach - often referred to as Rysaffe planning - must be set up carefully to work as intended.

This is a general guide only and doesn't constitute financial or tax advice. Tax rules can change, and their impact will depend on your individual circumstances. If you're unsure about anything, consider speaking with a financial adviser.

What is the Rysaffe principle?

The Rysaffe principle is a legal and tax estate planning strategy in the UK that can be used to help you remove or reduce Inheritance Tax (IHT) charges by maximising the use of your nil-rate band (NRB) when life insurance policies are placed into separate discretionary trusts on different days.

It's named after a court case (Rysaffe Trustee Co (CI) v Inland Revenue Commissioners 2003) where HM Revenue & Customs (HMRC) tried to treat several trusts as one — but the court ruled that because they were created on separate days, each trust was treated individually. That meant each one could use its own tax-free allowance.

Important:

Rysaffe planning can be effective, but it is not automatic. The availability of a NRB for each trust depends on how and when trusts are set up, how premiums are paid, and wider IHT rules at the time. Professional advice is essential.



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.

Why it's useful

Discretionary trusts are subject to periodic 10-year charges. The periodic charge is based on the value of the trust every 10 years, with the maximum rate being 6%.

If a 10-year periodic charge leads to tax being payable, there can also be an exit charge of up to 6%.

Whole of life policies are generally used as part of IHT planning and tend to have higher premiums. If the total premiums paid at each 10-year point exceed the NRB, a periodic charge could be payable.

Therefore, using smaller policies under separate trusts, which benefit from their own NRB, can really help to reduce the impact of tax and help you to pass on more to your loved ones.

Smaller term life insurance policies held in trust are unlikely to have a value at each 10-year point and therefore can avoid these charges.




Here's an example...

...of how the Rysaffe principle could help you:

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 you 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.



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.

For illustrative purposes only; actual charges depend on values at 10 year anniversaries, premium payer, trust set up, and tax rules at the time.

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 inheritance tax charge would apply**.

	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

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.

Things to consider

There are some key things you need to bear in mind when using the Rysaffe principle, which your adviser will be able to help you with:

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.

Professional advice is essential:

Missteps can lead to unintended tax consequences.

If you require a large amount of cover and annual premiums might exceed the NRB during your lifetime, it could really make sense to consider talking to your adviser about the Rysaffe principle. If you don't have a financial adviser you can find one at unbiased.co.uk. You may need to pay for this advice.


You can find more information on paying **Inheritance Tax on the Government's website**.




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