

Life insurance in trust

Synopsis: 5 good reasons why people should currently be using protection life policies in trust.

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Business owners will, from 6 April 2026, face inheritance tax liabilities on business assets worth more than £1 million that pass to their children on death. The same will be the case for farmers owning agricultural property. Whilst inheritance tax might be paid in 10 annual interest free instalments, this can create severe hardship for the business.

- Solution: Whole of life/term policy in trust for the beneficiaries of the shares on business owners death.

A number of business owners will be making large gifts of business interests in the run up to the end of the current fiscal year. If the donor dies after 5 April 2026 and within 7 years of the gift, the gift will be re-tested under the new rules on business relief with the £1 million restriction on business relief at 100% and 50% on the balance. An inheritance tax liability is likely to arise with taper relief reducing the tax by 20% per annum if the donor dies more than 3 years after the gift.

- Solution: Decreasing term assurance to cover a liability beginning on death after 5 April 2026 and reducing over the following years (maximum 7) for the benefit of the recipients of the gifted shares.

Business owners who have set up share protection plans (where co-shareholders buy the deceased's shares from the estate on death), will find that inheritance tax can arise on those shares on death. This will be the case where the shares are valued at more than £1 million and they pass to somebody other than the surviving spouse.

- Solution: Whole of life policy in trust for recipients of shares under shareholder's Will

From 6 April 2027, pension scheme assets will be subject to inheritance tax on the death of the scheme member if the pension passes to somebody other than the deceased's spouse. Although the personal representatives will be primarily liable for the inheritance tax, the current draft rules (which could change) envisage that pension scheme beneficiaries will be jointly liable once they become entitled to death benefits. Where the pension scheme holds illiquid assets, life assurance in trust will provide those beneficiaries with liquidity to help meet the inheritance tax bill should they need to.

- Solution: Whole of life plan in trust for people who will benefit from the pension death benefits.

In cases where the pension scheme is subject to inheritance tax, that pension scheme will use a part of the deceased's nil rate band and so increase the

inheritance tax on the estate. This may well slow down the probate process for the personal representatives of the estate. To enable the personal representatives to more easily cope with an increased inheritance tax liability and more easily obtain probate, pension scheme members should effect life assurance in trust for the benefit of the estate beneficiaries. They can then lend this cash to the executors of the estate.

- Solution: Whole of life plan in trust for the benefit of the beneficiaries under the pension scheme member's estate.

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