Friends Provident International

Using IPME+ to reduce IHT liability

FOR FINANCIAL ADVISERS ONLY

This guide looks at how an IPME+ product could be used to help an individual cover a potential UK inheritance tax (IHT) liability when making gifts.

What is IHT?

IHT is a one-off tax payable on the value of an estate of an individual who has died.

Anyone who is treated as a UK long term resident is subject to UK IHT on the value of his or her worldwide estate.

Key IHT Figures	
£325,000	The nil-rate-band (NRB), up to which no IHT is chargeable.
40%	The amount that IHT is payable above the NRB.
6 Months	The period in which the IHT bill must be paid.

Statistics published by HM Revenue & Customs (HMRC) revealed that £7.5bn was collected from UK IHT receipts for the 2023/24 tax year.

Gifting

A gift (unless exempt) from one individual to another is a 'potentially exempt transfer' (PET). There is no tax to pay when the gift is made nor is there a limit on how much can be gifted.

- If the donor survives the PET by seven years, the gift is exempt and will be outside of the donor's estate for IHT.
- If the donor dies within seven years the PET will fail and will become a chargeable transfer.

A gift could be anything for example: cash, a property or a policy of life assurance/capital redemption.

IHT on failed PET

IHT is charged at 40% above the available NRB. Where a failed PET was made more than three years before the death of the donor, the amount of IHT payable on the gift could be reduced by 'taper relief'*.

It is the recipient of a gift that is liable for paying any IHT on a failed PET.

* Taper relief would not be available if the failed PET were to fall within the NRB.

Case study

Mr Smith is aged 55, he currently meets the definition to be treated as a UK long term resident. He would like to make a gift of £150,000 to both his son and daughter to help purchase a house. Mr Smith has recently undertaken trust planning and has no NRB remaining.

The gifts would be a PET with the value (£300,000) remaining inside of the his estate for seven years from the date the gift is made.

Should Mr Smith die immediately after making the gift, the IHT liability on the gifts would be as follows:

£120,000 (£300,000 x 40%) with each of his children liable for **£60,000** (£120,000 / 2).

IHT liability

Year	IHT rate	Taper relief	IHT liability
1	40%	0%	£120,000
2	40%	0%	£120,000
3	40%	0%	£120,000
4	32%	20%	£96,000
5	24%	40%	£72,000
6	16%	60%	£48,000
7	8%	80%	£24,000

The responsibility for paying the tax on the failed PET would fall on the son and daughter who were the recipients of the gifts. This could mean the recipients having to either:

- sell the house that they purchased to raise funds for the IHT bill,
- delaying the purchasing of the house by up to seven years until the gift is exempt
- borrowing money to cover the IHT liability

Mr Smith is looking for a product that could protect his children from any IHT liability linked to the gifts.

Potential solution

The highest amount of IHT due on the PET whilst it remains inside of the estate would be **£120,000** (£300,000 x 40%).

Mr Smith could take out an IPME+ with a term of seven years. For a fixed monthly premium throughout the term of the policy, the policy could provide a fixed lump of £120,000 that would cover the maximum IHT liability if the gift was to become a failed PET.

Year	IHT Liability*	Total Premium Paid	IPME+ Cover
1	£120,000	£1,234	£120,000
2	£120,000	£2,467	£120,000
3	£120,000	£3,701	£120,000
4	£96,000	£4,934	£120,000
5	£72,000	£6,168	£120,000
6	£48,000	£7,402	£120,000
7	£24,000	£8,635	£120,000

The above is based on a male, non-smoker, aged 56, UK national and resident in the UAE paying a monthly premium of £102.00

* The total IHT liability is reduced each year after year 3 due to taper relief being applied.

Impact

If Mr Smith were to die in year four, the gift of £300,000 would be a failed PET. With taper relief applied, his son and daughter would each be responsible for paying IHT of **£48,000** (£96,000 / 2). This must be paid with six months following the end of the month of the date of death.

With the IPME+ policy in place an amount of £120,000 would be paid out, which has only cost the donor £4,934.

A payment of £120,000 could be made to the client's son and daughter to use against the IHT liability.

Consideration

- It's strongly recommended that the IPME+ be placed into a suitable trust. This would ensure that the lump sum is not added back into the deceased's estate.

In the above example, an extra £120,000 added back to the estate could result in £48,000 (£120,000 x 40%) less being available to cover the IHT liability meaning that only £72,000 (£120,000 - £48,000) would be available.

- A trust would also void requirements for Isle of Man probate and allow any funds to be distributed more quickly.
- The individual that deals with your estate will need to work out total gifts made in the 7 years before death. Detailed records of the following should be kept:
  - What gift was given and to whom,
  - the value of the gift
  - when it was given.

This option may not be suitable for everyone. Careful consideration needs to be given as to when gifts have been made. This planning opportunity may not be required where the PET falls within the NRB.

Important notes

For financial advisers only. Not to be distributed to, nor relied on by retail clients.

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our current understanding of the relevant law, as at April 2025.

You should note however, that we cannot take on the role of an individual taxation adviser and independent confirmation should be obtained.

FPI cannot accept any responsibility for any action taken or refrained from being taken as a result of this information.