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How to Reduce Inheritance Tax with a Life Insurance Contract

What Is Inheritance Tax?

When a person dies, they often leave behind wealth that they have accumulated during their lifetime; otherwise known as their "estate".

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ESTATE PLANNING

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This not only includes their property, but also stocks and shares, bonds, personal possessions and any cash that they own at the time of their death.

It is customary for a deceased person's estate to be distributed among their beneficiaries. This process can be enacted in a number of ways: by forced heirship, a will, or any other applicable regulations (i.e. matrimonial). However, before this happens, the government takes a portion of the estate in the form of a one-off payment known as "inheritance tax".

As Benjamin Franklin once quoted in 1789: “Nothing can be said to be certain, except death and taxes.”

What Is Inheritance Tax Planning?

Estate or succession planning is a very personal matter and should therefore be approached with caution. If you wish to pass on the maximum amount of your wealth to your loved ones it is vital to have an understanding of how inheritance tax is calculated and the methods that can be put in place to mitigate it. This is known as “inheritance tax planning”.

Life Insurance Contracts & Their Value as a Succession Planning Tool

When people reference insurance they generally refer to general insurance.

This is when an insurance policy is taken out to insure a car, a house, a painting, lost luggage, a flood, death, a disability claim etc. This type of insurance is generally known as a “term insurance”, where a calculated risk is insured against.

A claim is only requested when needed, otherwise there is no value to a general insurance contract.

What a lot of people are unaware of, however, is that there is a different type of insurance.

This type of insurance contract is known as “whole of life” or “unit linked” insurance and includes an investment component.

As such, it possesses tangible "market value"; intertwined with its regular insurance characteristics. This presents the insured with a plethora of options; some of which can be used benevolently in the processes of succession planning.

Although "whole of life" or "unit linked" insurance contracts cannot alleviate all of the complexities of succession planning, they are extremely effective estate planning tools that can be used pre-emptively to mitigate the burden of inheritance tax and provide the contract holder with liquid assets.

But how can they be used?

How Can a Life Insurance Contract Help You to Plan Your Estate?

Retaining as much capital as possible and reducing the tax burden associated with the transition of wealth at death are the main objectives of succession planning. But how can these objectives be realised whilst still respecting jurisdictional taxation and inheritance laws?

Let us examine the possibilities.

A life insurance policy can be taken out by single or joint applicants; a functionality which provides continuity for couples.

Clients are free to decide which named person (or persons) will receive the invested capital at the time of their death, with their "beneficiaries" commonly including children, grandchildren or significant others. Of course, it should be noted that inheritance rules and duties will also apply in accordance with the jurisdiction in which the deceased's residence is located.

In some circumstances it may also be possible to use a life insurance contract to 'gift' assets. By underwriting the insurance contract, the donor can pass the value of the contract signed by the beneficiary, to the beneficiary.

The Key Benefits of Life Insurance Contracts When Used for Estate Planning

In summary, there are a variety of ways to incorporate a client's parameters, that satisfy all local, social & tax regulations, when using a life insurance contract as an estate planning tool. Let us examine some of the key benefits.

Flexibility

A life insurance policy allows you to designate who will benefit from the capital held in the policy at the time of your death. As the policyholder, you can also change the named beneficiaries over time.

However, it should be noted that an insurance policy cannot bypass forced heirship regulations should they apply.

Adaptability

A life insurance policy is highly adaptable, in that it allows you to use the nest egg you have built up during your lifetime, whilst also allowing you to keep control of your assets and the income they generate.

It should also be noted that Insurance contracts are one of the few commonalities of the EU internal market that are both tax efficient and fall within the legal framework of several member states. This also gives them a high degree of portability.

Transmissibility

Think of a life insurance policy as an effective way of protecting the transition of your wealth to your beneficiaries upon your death; subject to jurisdictional rules and regulations.

The delays and pitfalls commonly associated with the transition of family wealth can (in the main) be avoided by using a life insurance policy. This is because there is no need to wait for your estate to be closed by a notary before your capital is transferred. Inheritance tax will, of course, be due on your estate... but it can be effectively mitigated by prudent estate planning.

Talk to Us

We understand that estate planning is both a complex and sensitive area of wealth management.

As a brokerage specialising in the preservation & transition of family wealth, Monnet Capital BV can help you navigate the intricacies of inheritance tax planning.

Please click the button below now to contact us if you require assistance with your succession planning.

You are under no obligation and we do not charge for an initial conversation.

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