

Avoiding uncertainty with IHT planning

For advisers only. Not for use with customers.

Q What's the difference between tax evasion and tax avoidance?

A Tax evasion is illegal, tax avoidance is not.

Although not illegal, tax avoidance is becoming less acceptable in the UK where 'loopholes' are exploited, with the government continually investigating and closing down schemes.

The ability for the UK government to identify and investigate how a piece of planning works and the advantages it professes to offer has been assisted by the introduction of anti-avoidance legislation, in particular, the Disclosure of Tax Avoidance Schemes (DOTAS) provisions.

If a scheme is investigated and ultimately closed down, the user can be placed in an untenable financial position due to the ability of HMRC to issue Advanced Payment Notices and significant financial penalties.

Disclosure of Tax Avoidance Schemes (DOTAS)

The DOTAS regime was designed originally to enable HMRC to keep up to date with what types of tax avoidance schemes are in circulation. By requesting that promoters make a disclosure, HMRC would be given the opportunity to review and if necessary amend legislation to block any scheme which the government considers aggressive and unfair.

Changes to the legislation in 2016, have significantly broadened the application of DOTAS to Inheritance Tax and as a result it is likely to capture more tax planning strategies.

Is any type of planning acceptable now?

FPIL have a number of Inheritance Tax (IHT) planning strategies that can be used with its products. These trust-based solutions are considered by HMRC to be recognised, unoffensive and legal ways of mitigating IHT.

Which FPIL trusts offer IHT planning opportunities?

Gift Trust

The Gift Trust represents the simplest form of IHT planning. The settlor (the person who creates the trust) passes an FPIL policy by way of a gift to the trustees for the benefit of chosen beneficiaries. Individuals considering a Gift Trust should only do so if they do not require access to the investment in the future.

Discounted Gift Trust (DGT)

FPIL's DGT allows individuals to gift an FPIL policy into a trust, receive a regular income and immediately reduce the value of their estate for IHT purposes.

Loan Trust

The Loan Trust enables the settlor to make a gift of the growth on a loan whilst still having unrestricted access to the original loan capital. The growth on an FPIL policy is outside the settlor's estate for IHT purposes. The trustees can pay back the loan by taking withdrawals from the policy.

For more information please view our Guide to Trusts.

Important notes

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Please note that every care has been taken to ensure that the information provided is current and in accordance with our understanding of current law and HM Revenue and Customs' (HMRC) practice as at April 2025.

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