Financial protection

Web update 2: 10 July 2020

Please note the following update to your copy of the 2020-21 edition of the **R05** study text (changes are in **bold**):

Chapter 5, section E2, page 5/19

Example 5.11

Let us look at an example of a single person who is leaving their entire estate to their children in 2020/21 to see how this could work:

	£
House	400,000
Contents	15,000
Car	10,000
National Savings	20,000
Bank account	5,000
Building society deposit	15,000
Shares and other investments	95,000
Total estate	560,000
£560,000-£325,000 - **£175,000** = **£60,000** × 40% = **£24,000**	
Tax liability	**24,000**

- The tax could, in theory, be met by selling some of the investments and withdrawing the money from the various savings accounts, but the legal personal representatives cannot do this without the grant.
- However, if the deceased had effected a life policy for **£24,000** under trust for their children with their legal personal representatives as trustees, they would be able to obtain this cash very swiftly, enabling them to pay the tax, obtain their grant and release the rest of the estate.
- Payment of each premium by the deceased is a transfer of value but is usually within the annual exemption. It could also qualify as exempt under the normal expenditure from income exemption provided the three conditions for this exemption are met.

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If we look back to example 5.11, the family might wish to keep the house, perhaps because some of them are still living in it. Again, the answer would have been to have effected a life policy under trust for **£24,000**. This would provide enough money to pay the tax and would mean that the family house and assets could be preserved intact. For this reason, many individuals who wish to preserve individual items for their beneficiaries take out life policies under trust for those beneficiaries in order to pay the tax on the assets concerned.