

Technical Post

August 2024

For financial advisers only



Clients with unit linked investment bonds may be unaware that on death any exit tax deducted from the bond pay-out is allowed as a credit against any Inheritance Tax arising on value of the bond inherited.

In this Technical Post, Retirement Solutions highlight how this offset can significantly reduce the effective Inheritance Tax (IHT) rate on the bond value taken by the deceased's children.

Exit tax offset against Inheritance Tax

Example

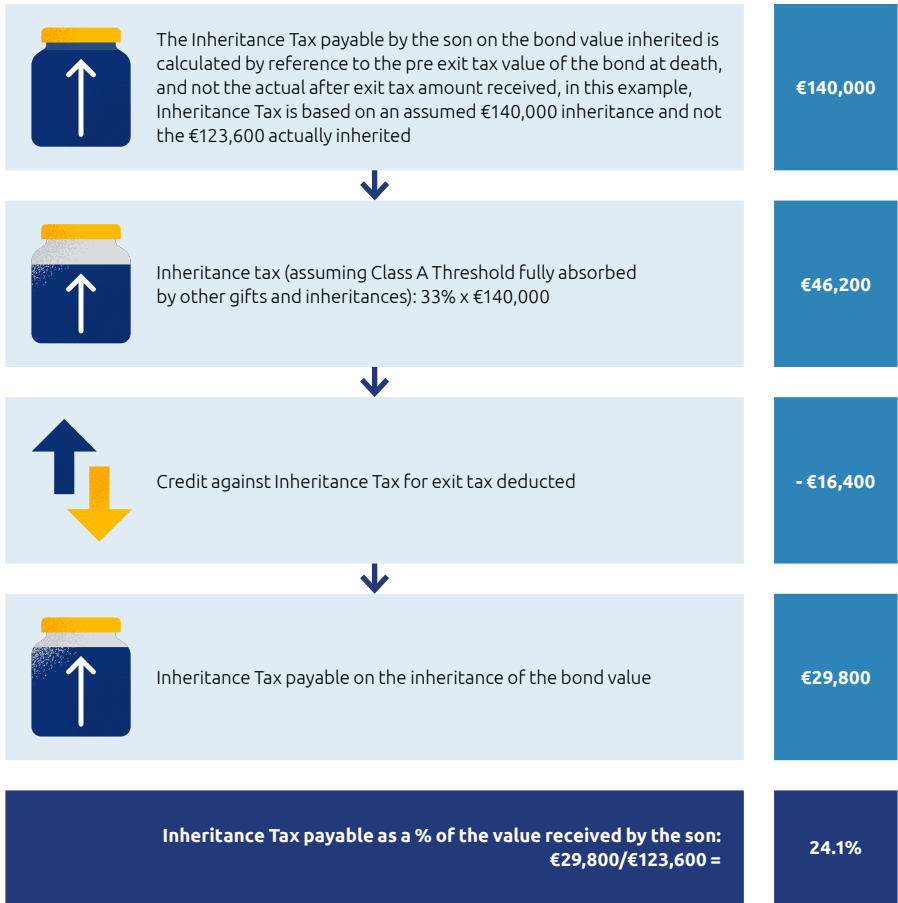
An investor invests **€100,000** in a unit linked investment bond. Seven years later, when the bond is worth **€140,000** before exit tax deduction, the investor dies and leaves all his estate to his son, who we will assume has already used up his Class A CAT Threshold with other gifts and inheritances.

The exit tax deducted from the bond is assumed to be

$$**41\% \times €40,000 = €16,400**$$

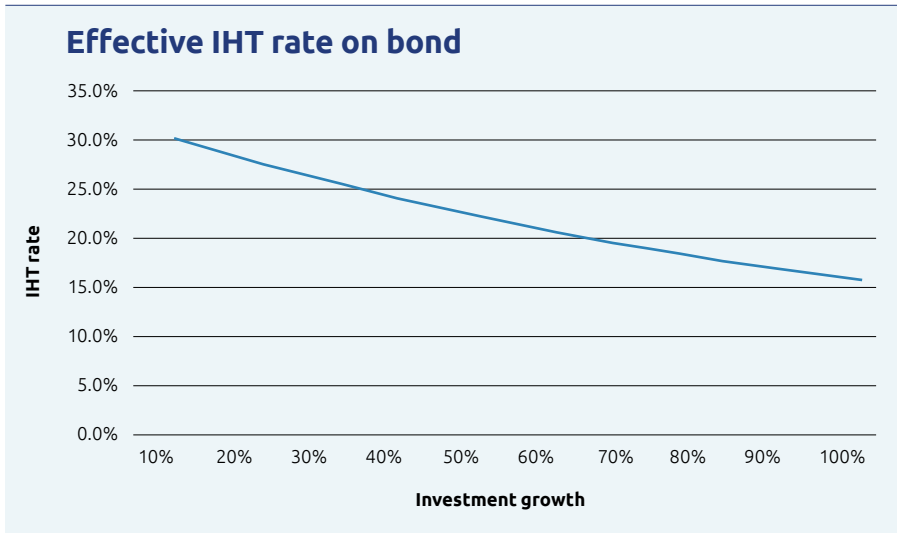
so that the net payout on death is **€123,600** which his son inherits.

The exit tax offset relief against Inheritance tax works as follows:



The higher the growth achieved by the unit linked bond to the date of death, and hence the higher the exit tax applying on death, the lower the effective rate of Inheritance Tax applying to the value of the bond inherited.

This chart uses the same example above but with different levels of assumed investment growth to the date of death from 10% to 100%, and shows the effective rate of Inheritance Tax on the net (after exit tax) bond value received:



If the investment growth of the bond (before exit tax) at the date of death was 70% instead the 40% assumed above, the effective Inheritance Tax rate on the bond value received on death would fall from 24.1% to 19.4%.

Therefore the higher the investment growth achieved, the lower the Inheritance Tax on the bond value inherited, because of the benefit of being able to offset the exit tax deducted against the Inheritance Tax liability.

Standard Life International dac is regulated by the Central Bank of Ireland.
Standard Life International dac is a designated activity company limited by shares
and registered in Dublin (408507) at 90 St Stephen's Green, Dublin D02 F653.

TP2 V02 0824 © 2024 Phoenix Group Management Services Limited. All rights reserved.
SCOZ0824101284-001