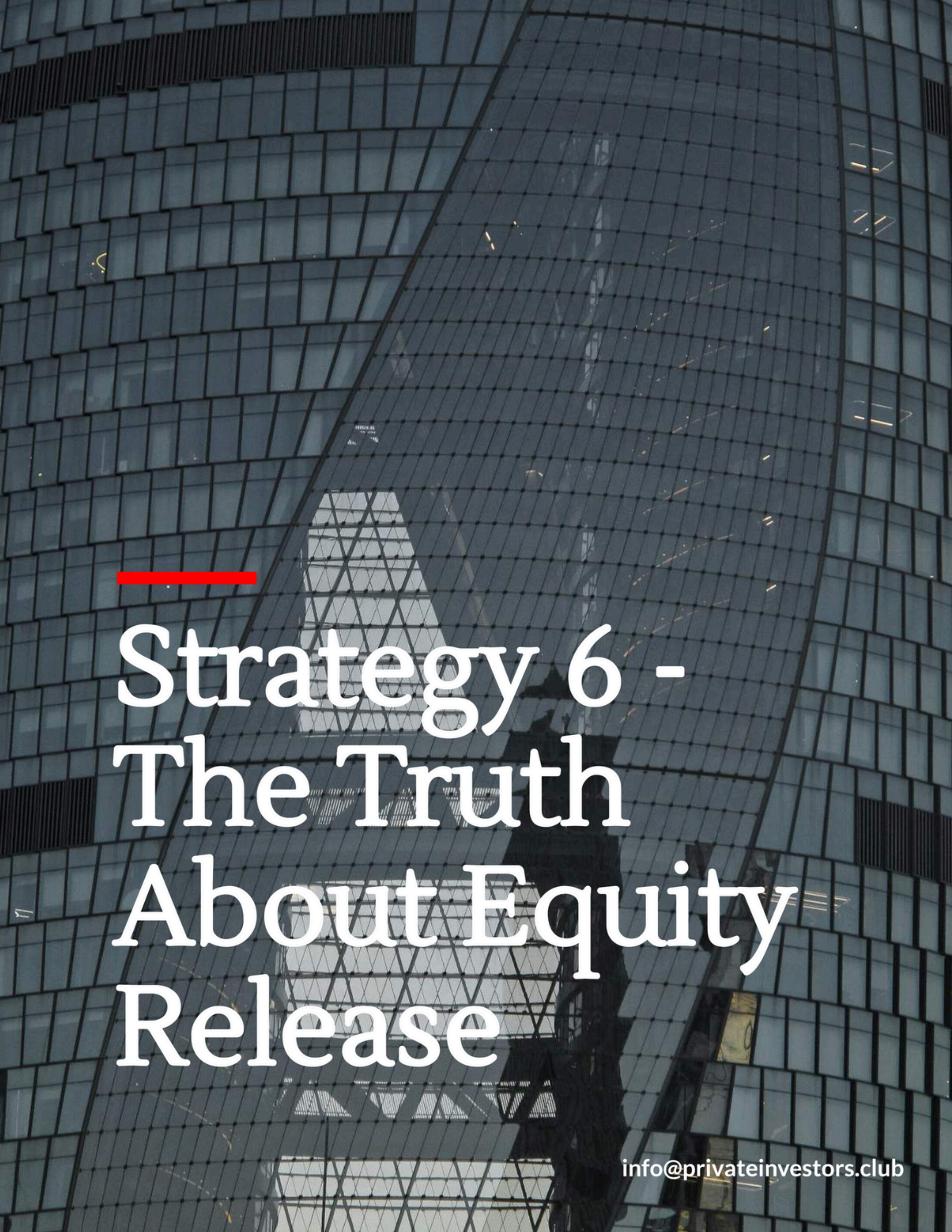

Strategy 6 - The Truth About Equity Release

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Why it used to be a brilliant inheritance tax strategy — and why it's not quite that simple anymore

For decades, equity release was seen as one of the cleverest ways to reduce inheritance tax. You could stay in your home, unlock its value, and legally shrink your taxable estate.

It sounded perfect. For many years, it was.

But as with every effective tax strategy in Britain, the government eventually caught on — and changed the rules.

Let's walk through what's true today, what's not, and how equity release still fits into modern inheritance planning if used the right way.

Your Home: The IHT Time Bomb

For most people, the family home is their biggest asset — and ironically, it's also the one that causes the most tax problems.

In London and the South East, homes worth £1–2 million are no longer unusual. Even modest properties have doubled or tripled in value since the early 2000s.

At the same time, the inheritance tax thresholds — the Nil Rate Band (£325,000) and Residence Nil Rate Band (£175,000) — have been frozen since 2020 and won't rise until at least 2028.

That means millions of ordinary homeowners are now dragged into the 40% IHT trap purely because their homes appreciated in value.

So while the government likes to pretend inheritance tax only affects the "rich," the truth is, it increasingly affects everyone who's worked hard and saved.

Equity Release: How It Works

Equity release is simple in theory. You take out a loan — usually called a lifetime mortgage — against your property.

You don't have to move out, and you don't make monthly repayments. The loan and interest are repaid when you die or sell the property.

Here's a simple example:

- Your home is worth **£1,000,000**
- You take out **£400,000** via equity release
- You continue living there, spending or investing that money however you wish

Because it's a loan, not income, it's tax-free.

And in theory, it reduces the size of your taxable estate — because what you owe should offset what you own.

That's how it used to work.

The Pre-2013 Glory Days

Before 2013, equity release was an incredibly popular IHT reduction strategy.

People would take a big lifetime mortgage against their home, withdraw say £500,000, and invest that money into Business Property Relief (BPR) qualifying shares.

The beauty was in the numbers:

Item	Before 2013
Home	£1,000,000
Loan	£500,000
BPR Investment (IHT-free)	£500,000
Taxable estate	£500,000
IHT @ 40%	£200,000

That strategy effectively halved the inheritance tax bill and was completely legal.

But — as always happens in the UK — when something works too well, the government eventually calls it "aggressive tax planning" and shuts it down.

The 2013 Rule Change: The HMRC Clampdown

In the Finance Act 2013, the Treasury rewrote the rules on debts and deductibility.

The new rule was simple but devastating for equity release planning:

You can only deduct a loan from your estate if the money borrowed is still within your taxable estate or has been used to buy assets that are themselves taxable for inheritance purposes.

That changed everything.

If you used your equity release to:

- **Buy BPR investments**,
- **Gift money to your children**, or
- **Place funds into trust**,

the loan could no longer be deducted from your estate value.

HMRC called it "double dipping" — borrowing against a taxable asset to buy an exempt one and claiming both benefits.

So that old structure (equity release + BPR) no longer works for IHT reduction.

What Still Works Today

Now that you understand what changed,here's what still works:

Use of Loan	Tax Treatment	Loan Deductible?
Leave money as cash in your bank	Still taxable	✅ Yes
Spend on lifestyle or home improvements	Still taxable	✅ Yes
Buy taxable assets (e.g., second home, stocks)	Still taxable	✅ Yes
Gift to children or others	Gift leaves estate	❌ No
Buy BPR-qualifying shares or trusts	Exempt asset	❌ No
Buy life insurance in your own name	Still taxable	✅ Yes
Buy life insurance written in trust	Outside estate	❌ No

So yes — if you spend the money or keep it in cash, the loan still counts as a debt against your estate.
But if you use it for tax-free or exempt investments, it doesn't.

The Life Insurance Question

Many people ask: "Can I take out equity release and use it to buy life insurance to pay the IHT bill?"

Technically, yes — but you have to understand the trade-off.

If the life policy is in your name, it's part of your estate (so the loan still counts), but the insurance payout itself will be taxed at 40%.

If the life policy is written in trust, then the payout is IHT-free — but the equity-release loan no longer counts as a deduction.

In short, you can't win both ways. The two strategies work well individually but cancel each other when combined.

That's why it's smarter to treat them as separate tools — not one fused plan.

So Is Equity Release Still Worth It?

Yes — but not as a silver bullet for inheritance tax.

Used wisely, it's still a powerful liquidity tool:

- You can access tax-free cash to improve your lifestyle.
- You can spend that money in ways that genuinely reduce your estate (home improvements, living expenses, gifts within limits).
- You can fund other financial structures like life insurance or trusts — as long as you understand the tax interaction.

It's especially useful for retirees who are asset rich but cash poor — those with valuable homes but modest income.

And unlike gifting or trusts, it doesn't require giving up ownership of your home.

When It Goes Wrong

Unfortunately, I've seen equity release used badly — often by people sold the dream that "it will cut your inheritance tax."

It won't, unless structured correctly.

If you:

- Take the money out,
- Invest it in exempt assets, or
- Let it sit in a family member's account,

you've probably gained nothing and lost flexibility.

Worse, you've saddled your estate with a loan that isn't deductible.

So before signing anything, always sit down with someone who genuinely understands both inheritance tax law and mortgage structuring – not just a sales rep.

The Real Moral of the Story

Every time the government spots a planning route that works too well, it gets closed.

It happened with trusts in 2006, with pensions in 2027, and with equity release in 2013.

That's why inheritance tax planning isn't a one-off exercise. It's a moving target.

You need to review your strategy every few years, especially when laws change or your property value rises.

Final Thoughts

Equity release used to be one of the cleverest IHT strategies in Britain.
Today, it's a more cautious tool — still valuable, but only when used within the rules.

Think of it not as a tax trick, but as a flexibility tool — a way to access the wealth you've built, without selling your home, and with potential side benefits for inheritance planning if used correctly.

The golden rule is this:

If you don't understand how your loan, cash, and estate interact, speak to an expert before you act.

Because the only thing worse than paying too much tax is thinking you've avoided it — when you haven't.

Important Note

I'm not a qualified tax expert, and I'm not FCA regulated. Nothing in this report — or in any of the videos or materials in the Market Insider IHT series — should be taken as personal tax advice.

Everything here is purely educational, based on what I've personally seen work for families who want to protect their legacy.

If you'd like regulated guidance, I can connect you with one of our FCA-approved IHT specialists who can help you explore the best options for your situation.

This report — like all the others in the Market Insider IHT series — is designed to educate, not advise.

Strategy 6 -...

In "Strategy 6 - Equity Release," discover the truth behind what was once a brilliant inheritance tax strategy and why it's become more complex in today's financial landscape. This insightful guide navigates the pitfalls of equity release, revealing how to utilize it wisely for modern inheritance planning without falling prey to costly mistakes. Learn to access your home's value while understanding the evolving rules that impact your estate, ensuring your legacy is protected.