A Gift Inter Vivos policy is a specific type of life insurance designed to cover potential Inheritance Tax (IHT) liabilities on gifts given during one's lifetime, known as Potentially Exempt Transfers (PETs). If the gift-giver dies within seven years of making the gift, the recipient may owe IHT on the gift, and this policy provides a lump sum to cover that potential tax.

Key aspects of a Gift Inter Vivos policy:

* **Purpose:**

To mitigate the risk of Inheritance Tax (IHT) liability for the recipient of a lifetime gift if the donor dies within seven years.

* **Trigger:**

The policy pays out if the donor dies within seven years of making the gift (the "seven-year rule" for PETs).

* **Taper Relief:**

The IHT liability, and therefore the policy's payout, decreases over the seven years, often with a reduction of 20% per year after the third year.

* **Trust:**

It's common for these policies to be written in trust for the benefit of the gift recipient, to ensure the payout isn't part of the donor's estate for IHT purposes.

* **Donor's Perspective:**

The donor takes out the policy to protect the recipient from a potential IHT burden.

* **Example:**

If someone gifts £100,000 and dies within seven years, the policy would provide a lump sum to cover the IHT on that amount, which reduces over time as per taper relief.

In simpler terms:

Imagine someone gifts a large sum of money to their child. If the parent dies within seven years, the child might owe IHT on that gift. A Gift Inter Vivos policy ensures the child has the money to pay that tax, rather than potentially losing a portion of the gift.