

The right to receive payments under a pension or retirement annuity or under a purchased life annuity can end when the person receiving them dies. But in some cases the annuity may be guaranteed for a fixed period. If the person receiving the payments dies before the end of that period the payments may continue to be paid to the estate until the fixed period comes to an end. The value of the right to receive the rest of the payments should be included as an asset of the estate.

This calculator will estimate the open market value of the guaranteed annuity payments which are to be paid to the estate in straightforward cases. HMRC considers that the values produced represent reasonable estimates of the open market values, although you may send us your own alternative valuation if you wish. If you send us your own calculation you must also explain how you calculated the value.

You should use this form if

- the amount paid each year is constant, or
- the amount increases each year by a fixed percentage, and
- there is no option to have a lump sum paid instead of the future instalments (often called a commuted value).

Do not use this form if

- the amount paid each year varies, but the increase or decrease is not a fixed percentage each year, (for example, it is an index-linked, or a 'with-profits' annuity), or
- you consider that higher rate tax, rather than basic rate tax should be accounted for in the calculation.

If there is an option to receive a lump sum instead of the future instalments, the value of this lump sum should be included in the IHT400 and on

- form IHT409 if it is a pension or retirement annuity, or
- form IHT410 if it is a purchased life annuity.

Annuity Calculator

Enter the dates and figures in the boxes below. When you have entered all the figures click on the calculate button. The notes below explain what should go into each box.

Name	Date of death (dd/mm/yyyy)
<input type="text"/>	<input type="text"/>
Date of next payment due after death	1 <input type="text"/>
Date of last guaranteed payment	2 <input type="text"/>
Number of payments made per year	3 <input type="text"/>
Is this a pension/retirement annuity? (Y/N)	4 <input type="text"/>
Is this a purchased life annuity?	5 <input type="text"/>
Gross annual amount of annuity	6 <input type="text"/>
Annual amount subject to Income Tax	7 <input type="text"/>
Annual rate of increase	8 <input type="text"/>

Notes

Enter the dates and figures in the white boxes. The notes below explain what to put in each box.

1. Date of next payment due immediately after the date of death – this is date that the next payment is actually due following the date of death. In many cases there is a short delay in payments being made while the insurance company registers the change of ownership, but that does not affect the date the next payment becomes due.

Example

Payments are due monthly on the 28th of the month. Mr Anderson dies on 1 June 2010. The insurance company is told about the death and does not make a payment on 28 June 2010. After registering the change of ownership the insurance company starts making payments again on 28 July 2010, including the backdated payment from 28 June 2010. The date of the next payment immediately after the date of death is 28 June 2010 and this date should be entered on the form.

2. Date of last guaranteed payment – this is the date the final payment will be made.
3. Number of payments made per year – if the annuity is paid monthly, there are 12 payments a year; if the annuity is paid quarterly there are 4 payments a year, and so on.
4. Is this a pension/retirement annuity? – Enter Y for yes or N for no. The full amount of any payments made under a pension or retirement annuity is treated as income for income tax purposes. If the policy documents or any letters from the insurance company refer to a capital element, you are dealing with a purchased life annuity, not a pension or retirement annuity.
5. Is this a purchased life annuity? – This will automatically be set to N or Y, depending on the answer you gave at box 4.
6. Gross annual amount of annuity – this is the gross annual amount being paid as at the date of death.
7. Amount subject to income tax – if the annuity is a pension or retirement annuity the entire gross annual amount will be subject to income tax and you should enter the value again in this box. If the annuity is a purchased life annuity, the insurance company should have provided you with a value which is treated as capital and a value treated as income for Income Tax purposes. This will often be on the policy document itself. You should enter the annual amount treated as income for Income Tax purposes in this box.
8. Annual rate of increase – enter the rate at which the annuity increases each year, as a percentage. If the annuity does not increase leave this box blank or set it to 0%.

Annuity Calculator

Name	<input type="text"/>	Date of death	<input type="text"/>
Purchaser's yield net of basic rate Tax	<input type="text"/>		
Annual rate of increase in annuity	<input type="text"/>		
Net effective rate	<input type="text"/>		
Date of next payment due after death	<input type="text"/>		
Date of last guaranteed payment	<input type="text"/>		
Number of payments made per year	<input type="text"/>		
Total number of payments left	<input type="text"/>		
Annuity factor	<input type="text"/>		

Calculation

Gross annual sum paid	<input type="text"/>
Annual amount subject to income tax	<input type="text"/>
Income tax at basic rate	<input type="text"/>
Net annual annuity	<input type="text"/>
Multiplied by annuity factor	<input type="text"/>
Discount for non-assignability	<input type="text"/>
	<input type="text"/>
Less purchaser's costs	<input type="text"/>
Estimated Open Market Value	9 <input type="text"/>

9. The 'Estimated Open Market Value' is the price that it is considered might be paid for the right to receive the remaining annuity payments. This figure should be entered on

- form IHT409 at box 7 - if the annuity is a pension or retirement annuity, or
- form IHT410 at box 8 - if it is a purchased life annuity.

You should also attach a completed copy of this calculation to the IHT400.