

SUCCESSION  
WEALTH

YOUR GUIDE

# Inheritance Tax (IHT)

Planning ahead to protect more of what you've worked for

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# Introduction

When you've worked hard to build up your wealth, you'll want to decide who benefits from it – whether that's family, friends, or causes close to your heart.

Inheritance Tax (IHT) can significantly reduce what's passed on, but with the right planning, you can often minimise or even remove the bill entirely.

The amount of IHT paid by UK families has risen sharply over the past decade, more than doubling from £3.8 billion in 2014/15 to an estimated £8.25 billion in 2024/25.<sup>1</sup>

This is partly due to rising property, investment and savings values, combined with frozen IHT thresholds. It also reflects the fact that many people don't put plans in place early enough.

An extra allowance introduced in 2017 can help some people pass on more of their wealth tax-free, but the rules are complicated and it's not always easy to qualify.

**This guide takes you step-by-step through:**

- What IHT is and when it applies
- How the rules are changing from April 2027
- How to work out if you have a potential liability
- The strategies and allowances that can make the biggest difference
- The value of regular reviews with an adviser

<sup>1</sup> [www.statista.com/statistics/284325/united-kingdom-hmrc-tax-receipts-inheritance-tax](http://www.statista.com/statistics/284325/united-kingdom-hmrc-tax-receipts-inheritance-tax)



# What is Inheritance Tax?

Inheritance Tax is a 40% tax on the value of your estate above certain allowances. Your estate includes property, savings, investments, possessions and certain gifts you've made in the last seven years.

## Current allowances

An allowance is the portion of your estate you can pass on without paying IHT. Anything over and above your allowance is usually then taxed at 40%.

The main allowance is the nil-rate band, which is £325,000 for the 2024/25 tax year. Everyone is entitled to this, and it applies to the total value of your estate.

You may also be entitled to the residence nil-rate band (RNRB), currently £175,000. This is available if you leave your main home to a direct descendant, such as a child or grandchild. The RNRB is reduced for estates worth more than £2 million and only applies to one property that has been your main home.

Together, these allowances determine how much of your estate can be passed on tax-free. Married couples and civil partners can combine unused allowances, potentially passing on up to £1 million without paying IHT.

## Current IHT allowances (2024/25 tax year)

Allowance type	Maximum amount	Who it applies to	Key conditions
<b>Nil-Rate Band</b>	£325,000	Everyone.	Applies to the total value of your estate. Anything above this may be taxed.
<b>Residence Nil-Rate Band</b>	£175,000	Homeowners leaving their main residence to direct descendants.	Reduced for estates over £2 million. Only applies to one property that has been your main home.
<b>Combined total (per person)</b>	£500,000	Those eligible for both allowances.	Couples can combine allowances, potentially passing on up to £1 million tax-free.

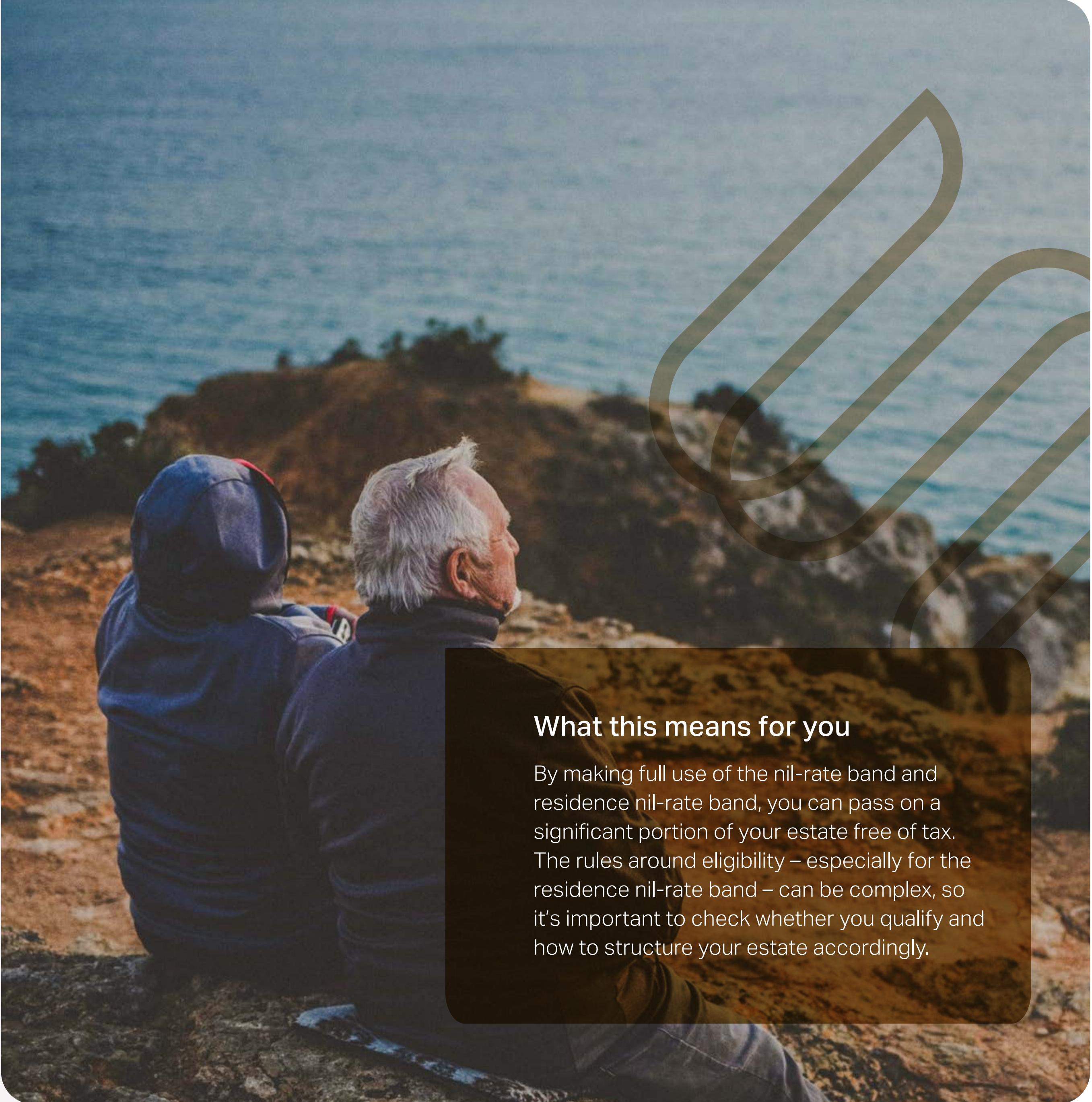
# An example in practice

Here's how the inheritance tax rules might apply to a typical couple, showing how allowances can help reduce or even remove a potential tax bill.

## What is Inheritance Tax?

Mr and Mrs Taylor have a home worth £600,000 and other assets worth £400,000, giving a total estate of £1 million. They leave everything to their two children.

- Each has a £325,000 nil-rate band and a £175,000 residence nil rate band.
- Combined, this gives the couple £1 million of allowances.
- As their total estate is £1 million, no IHT is payable.



## What this means for you

By making full use of the nil-rate band and residence nil-rate band, you can pass on a significant portion of your estate free of tax. The rules around eligibility – especially for the residence nil-rate band – can be complex, so it's important to check whether you qualify and how to structure your estate accordingly.



### What this means for you

If you have a significant pension pot, it's worth reviewing your plans now. The way your pension is structured, who it's left to, and how it's drawn could all affect the IHT bill your beneficiaries face.

## The 2027 pension change

At present, most defined contribution pensions can be passed on tax-free outside of your estate. From 6 April 2027, pensions that remain unused at death will be included in the value of your estate for IHT purposes.

This change means that, for many people, their estate value could rise significantly – potentially taking it over the IHT threshold.

 **Adviser tip:** Pension withdrawal strategies – and the timing of gifts or trust arrangements – need to be reviewed well before April 2027.

### Before and after example

Scenario	Estate value	Pensions included?	Taxable estate	IHT @ 40%
<b>Before 6 April 2027</b>	£1,000,000	No	£500,000	£200,000
<b>After 6 April 2027</b>	£1,300,000	Yes (£300k pension)	£800,000	£320,000

# Calculating your potential IHT liability

These examples show how inheritance tax can be calculated in different situations. The allowances and exemptions that apply will depend on your personal circumstances, but the steps here illustrate the principles behind the calculation.

## Example 1 Individual with a £1M estate

Step	Calculation	Amount
1	Total estate value	£1,000,000
2	Less nil-rate band	(£325,000)
3	Less residence nil-rate band	(£175,000)
4	Taxable estate	£500,000
5	<b>IHT at 40%</b>	<b>£200,000</b>

## Example 2 Married Couple and Civil Partners with a £1.8M estate

Step	Calculation	Amount
1	Total estate value	£1,800,000
2	Less combined nil-rate band	(£650,000)
3	Less combined residence nil-rate band	(£350,000)
4	Taxable estate	£800,000
5	<b>IHT at 40%</b>	<b>£320,000</b>



## How it could work

The following illustrations show how allowances and upcoming rule changes can have a significant impact on the amount of IHT payable.

The good news is that there are steps you can take to reduce, or in some cases remove, the bill altogether. The right approach will depend on your personal circumstances, your priorities, and who you want to benefit from your estate.

Over the following pages, we outline some of the most common planning strategies – from making gifts during your lifetime, to using trusts or leaving part of your estate to charity – and how this might work in practice.

## Illustration: Pauline

Pauline, 75, is widowed. She owns her home outright and has some investments and cash savings. She also has a pension she hasn't accessed yet.

### Before 6 April 2027

	<b>Home:</b> £500,000
	<b>Investments &amp; Savings:</b> £300,000
	<b>Pension:</b> £200,000 (excluded from IHT calculation)
	<b>Total estate for IHT:</b> £800,000

Pauline can use her nil-rate band (£325,000) and her residence nil-rate band (£175,000), giving her a total allowance of £500,000.

That leaves a taxable estate of £300,000. At 40%, her IHT bill would be £120,000.

### After 6 April 2027

	<b>Home:</b> £500,000
	<b>Investments &amp; Savings:</b> £300,000
	<b>Pension:</b> £200,000 (now included)
	<b>Total estate for IHT:</b> £1,000,000

Pauline's allowances are unchanged, so with the pension now included, her taxable estate increases to £500,000. At 40%, her IHT bill will increase by £80,000 to £200,000.



## Illustration: David & Margaret

David and Margaret are both 72 and married. They own their home jointly, have a mix of investments and savings, and each has a pension.

### Before 6 April 2027

	<b>Home:</b> £600,000
	<b>Investments &amp; Savings:</b> £500,000
	<b>Pension:</b> £400,000 (excluded from IHT calculation)
	<b>Total estate for IHT:</b> £1,100,000

As a couple, they have two nil-rate bands (£650,000), and two residence nil-rate bands (£350,000), giving a total combined allowance of £1 million.

That leaves a taxable estate of £100,000. At 40%, their IHT bill would be £40,000.

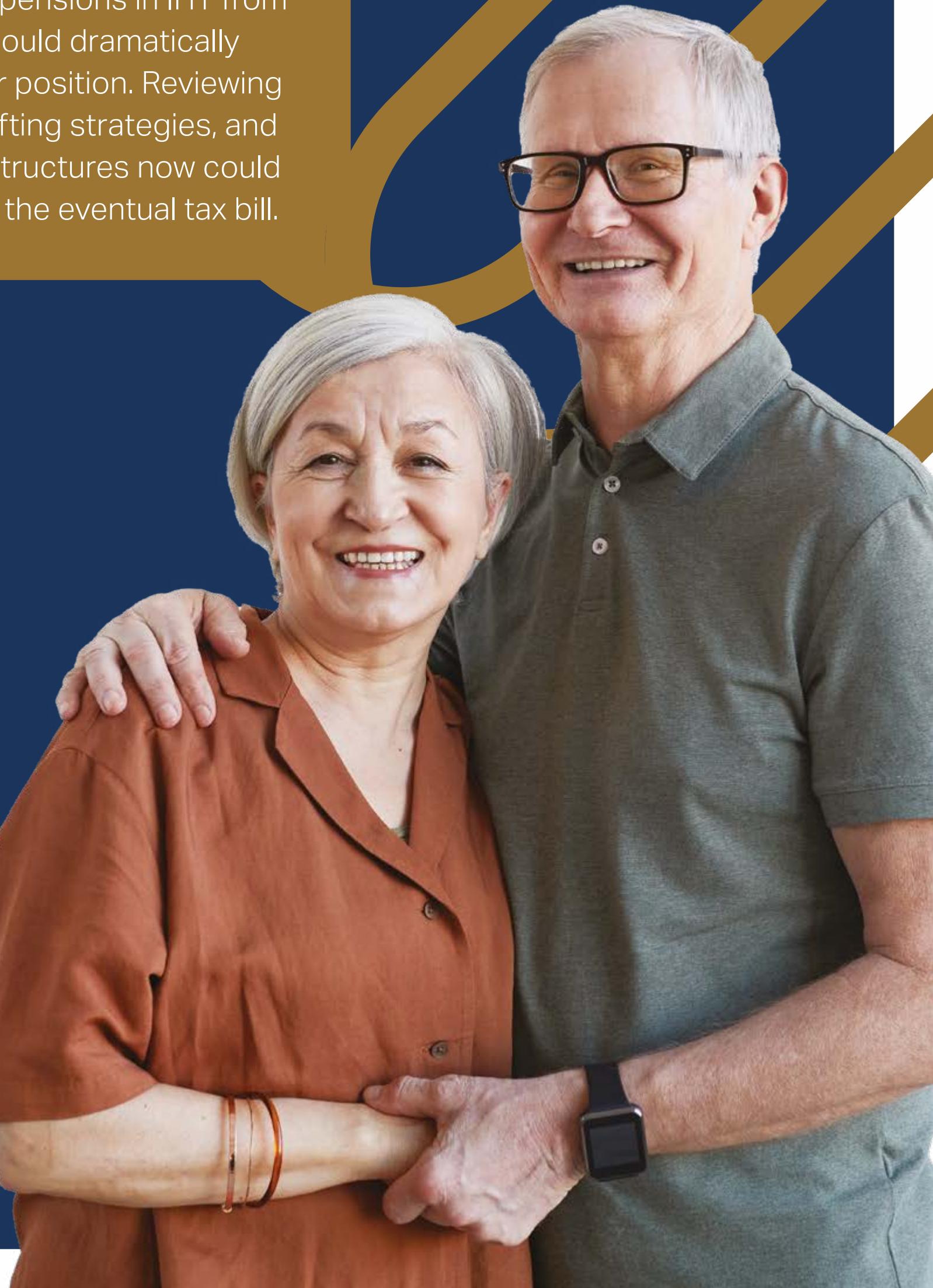
### After 6 April 2027

	<b>Home:</b> £600,000
	<b>Investments &amp; Savings:</b> £500,000
	<b>Pension:</b> £400,000 (now included)
	<b>Total estate for IHT:</b> £1,500,000

David & Margaret's allowances are unchanged and remain at £1 million, so with the pension now included, their taxable estate increases to £500,000. At 40%, their IHT bill will increase by £160,000 to £200,000.

### What this means for you

Couples like David & Margaret can make good use of transferable allowances, but the inclusion of pensions in IHT from April 2027 could dramatically change their position. Reviewing pensions, gifting strategies, and ownership structures now could help reduce the eventual tax bill.



# Planning ahead for your legacy

Inheritance Tax planning isn't only about the numbers; it's about making sure more of your wealth reaches the people and causes that matter most to you.

## Gifting during your lifetime

You can give money or assets during your lifetime to reduce the size of your estate. Some gifts are immediately free of IHT, while others become exempt if you live seven years after making them.

### Example: Using the annual exemption

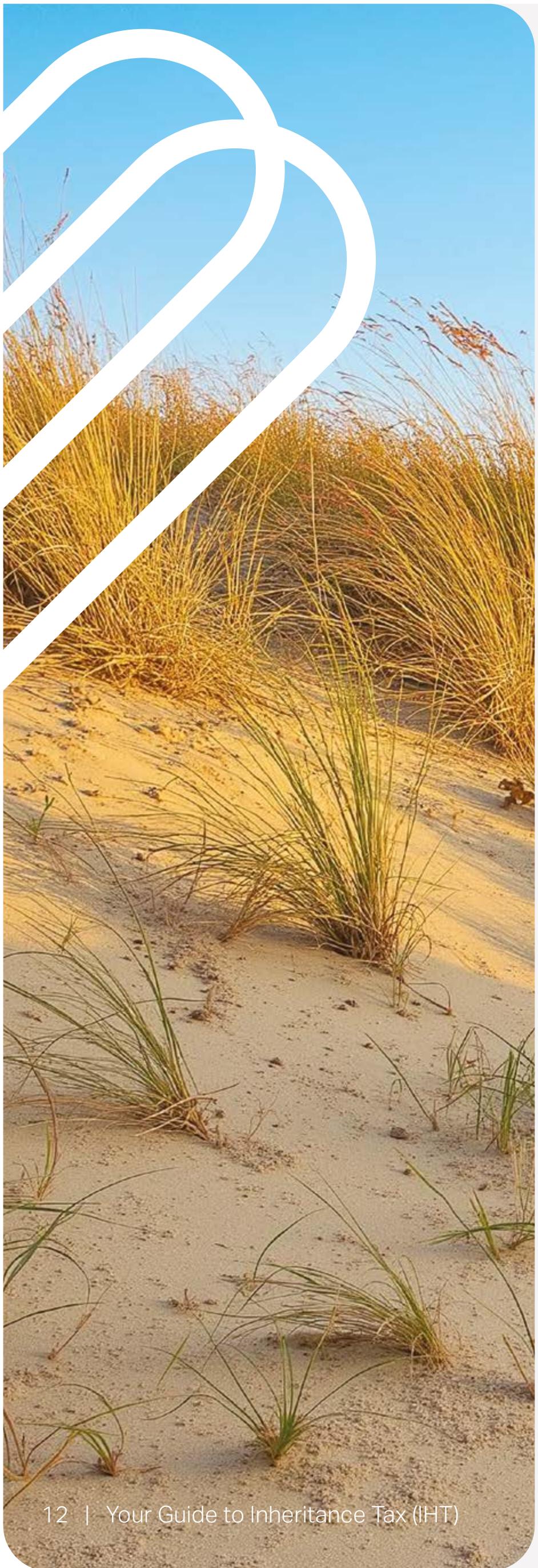
If you and your spouse each give away £3,000 per year, you could transfer £60,000 over ten years without it forming part of your estate for IHT purposes.



**Adviser tip:** Regularly using your gifting allowances can gradually reduce your estate's value without affecting your lifestyle. Keep clear records of what you give and when – your executors will need this for HMRC.

## Common gifting allowances

Allowance	Annual limit	Details
<b>Annual exemption</b>	£3,000 per tax year	You can give away up to £3,000 each year without it counting towards your estate for IHT purposes.
<b>Small gifts exemption</b>	£250 per person	You can give up to £250 to as many people as you like each year, provided they don't also receive part of your £3,000 annual exemption.
<b>Gifts on marriage/civil partnership</b>	£5,000 to a child £2,500 to a grandchild £1,000 to others	Must be given before or on the date of the wedding or civil partnership ceremony.
<b>Regular gifts from income</b>	No fixed limit	Must be from surplus income, not capital, and must not affect your normal standard of living.



## The seven-year rule

Gifts outside your allowances are known as 'potentially exempt transfers' (PETs). If you live seven years after making such a gift, it becomes exempt from IHT. If you die within seven years, it may be subject to IHT, but the rate reduces on a sliding scale after three years.

Years between gift & death	Tax rate on gift
0-3 years	40%
3-4 years	32%
4-5 years	24%
5-6 years	16%
6-7 years	8%
7+ years	0%

### Example: Taper relief in action

John gives his niece £200,000. He dies five years later. The gift is still above the nil-rate band, but instead of being taxed at 40%, it's taxed at 16%, reducing the IHT bill from £80,000 to £32,000.



**Adviser tip:** The seven-year clock starts from the date of the gift, so early action gives you more time to benefit from taper relief.



## Using trusts

Trusts can be used to remove assets from your estate while keeping some control over how and when they are used. There are several types, each with different tax treatments.

### Common trust types

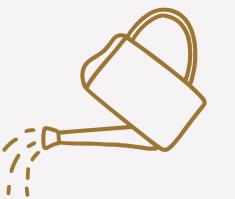
Trust type	Key features	IHT position
<b>Bare trust</b>	Assets go to a named beneficiary who becomes entitled at 18 (16 in Scotland)	Treated as a gift; may be subject to the seven-year rule
<b>Discretionary trust</b>	Trustees decide how and when assets are distributed among a group of beneficiaries	Subject to potential entry, periodic and exit charges
<b>Interest in possession trust</b>	A beneficiary has the right to income (or use of an asset) for life, with capital passing to others later	Value may remain in your estate for IHT purposes

### Example: Protecting family wealth

Susan puts £200,000 into a discretionary trust for her grandchildren. If she lives for seven more years, the value falls outside her estate, reducing her potential IHT bill by £80,000.



**Adviser tip:** Trusts can be powerful tools for IHT planning, but the rules are complex. Professional advice is essential to choose the right structure and avoid unexpected tax charges.



## Charitable giving

Leaving part of your estate to charity can reduce your IHT bill, and support causes close to your heart. Gifts to UK-registered charities are exempt from IHT. If you leave at least 10% of your net estate to charity, the IHT rate on the rest drops from 40% to 36%.

### Example: Reducing your rate

Alan's taxable estate is £500,000. He leaves £50,000 (10%) to charity. The remaining £450,000 is taxed at 36%, cutting the IHT bill from £200,000 to £162,000.



**Adviser tip:** Charitable giving can be part of your legacy planning, benefiting both your chosen causes and your beneficiaries.

## Agricultural property

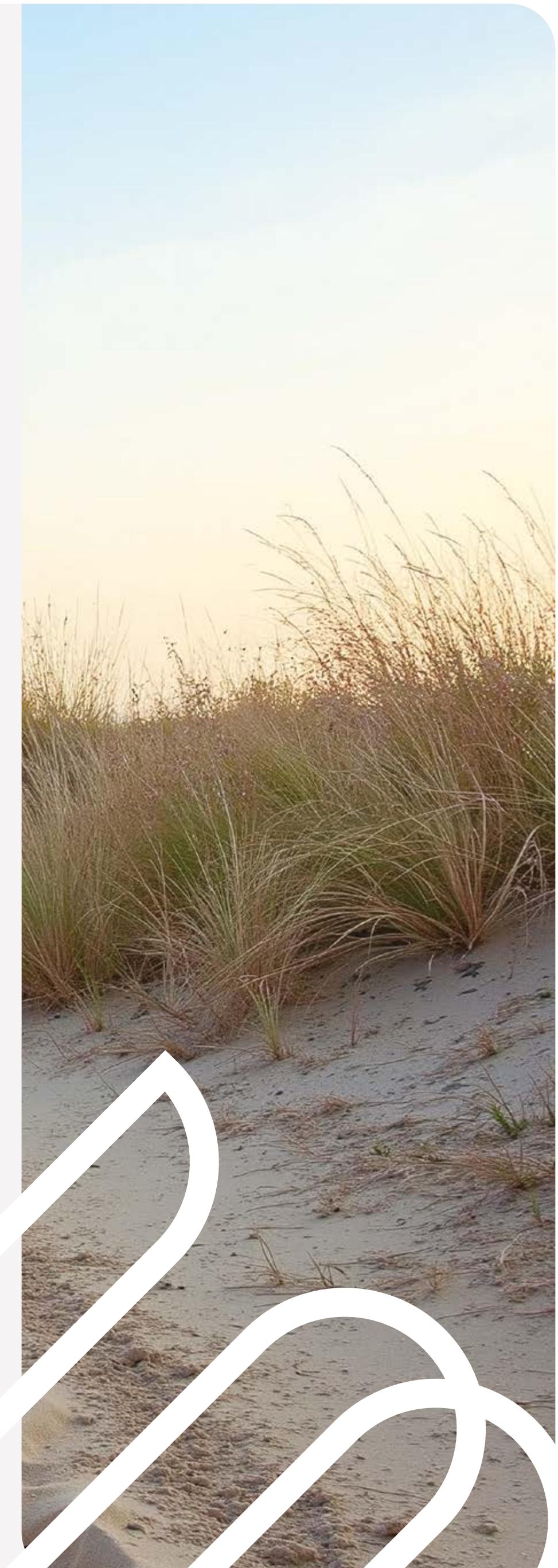
If you own farmland, farm buildings, or certain agricultural assets, you may be entitled to Agricultural Relief. This can reduce the taxable value of the agricultural part of your estate by up to 100%.

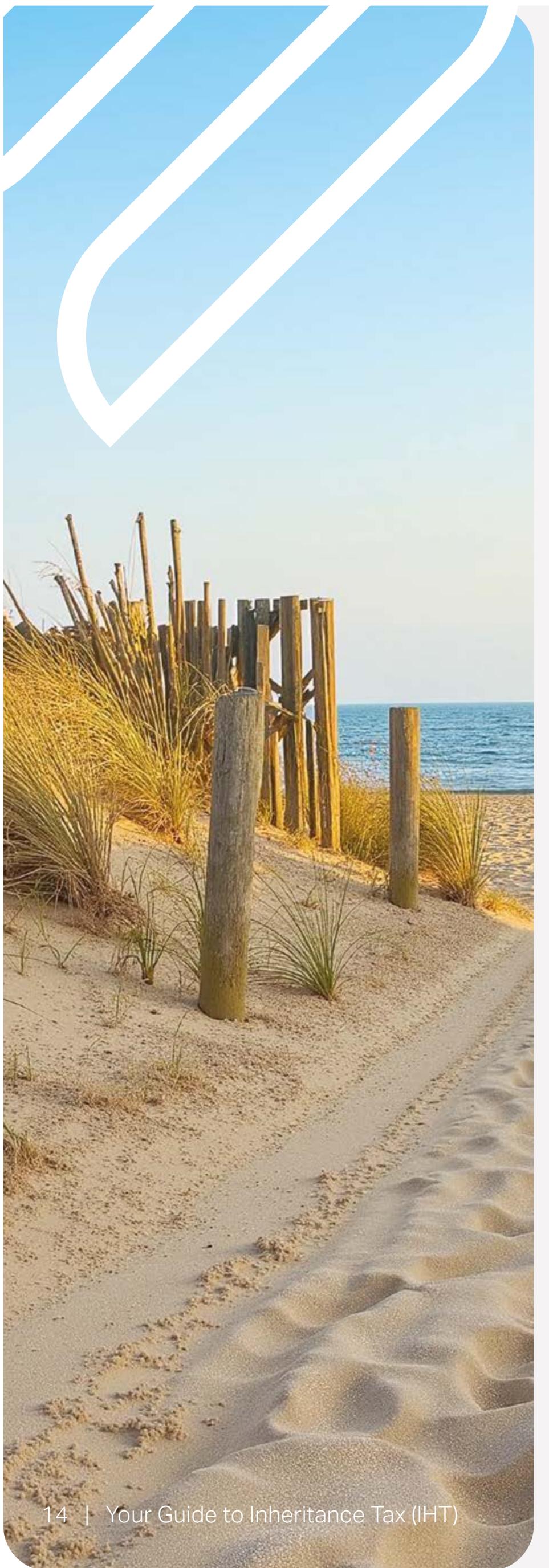
To qualify, the land or property must have been:

- Owned and occupied for agricultural purposes for at least two years; or
- Owned for seven years and occupied by someone else for agricultural purposes during that time.



**Adviser tip: Upcoming change (from 6 April 2026).** Agricultural Property Relief will be capped so that the first £1 million of combined qualifying agricultural and business assets receives 100% relief. Any value above this will qualify for relief at 50%. A review before 2026 could help ensure farmland and property are structured tax-efficiently. See our **Guide to Agricultural Property Relief** for more detail.





## Business assets

Business Relief (BR) can reduce the value of a business or certain business assets for IHT purposes by up to 100%, meaning they can be passed on tax-free.

You can claim BR on:

- A qualifying business or an interest in one
- Shares in certain unlisted companies
- Some AIM-listed shares

To qualify, you must usually have owned the asset for at least two years before your death, and it must still be trading (not mainly holding investments).

### Example: Passing on a family business

If you leave a qualifying family business worth £750,000 to your children, BR could reduce its taxable value to £0, saving £300,000 in IHT.



**Adviser tip: Upcoming change (from 6 April 2026).** Business Property Relief will be reformed so that the first £1 million of combined qualifying agricultural and business assets continues to receive 100% relief, with amounts above this reduced to 50%. In addition, shares in companies not listed on a recognised exchange (such as AIM) will qualify only for 50% relief. Early planning may be essential. See our **Guide to Business Property Relief** for more detail.



## Life insurance to cover IHT

Life insurance won't reduce your IHT bill, but it can provide your beneficiaries with a lump sum to pay it – ensuring they don't have to sell assets quickly to cover the tax. For IHT purposes, the policy should usually be written into trust so it's paid outside your estate.

### Example: Providing for the tax bill

David has an estimated IHT liability of £200,000. He takes out a whole-of-life policy in trust for the same amount. When he dies, the policy pays out directly to his beneficiaries covering the tax.



**Adviser tip:** A policy can give peace of mind, but premiums can be high in later life. It's often worth combining insurance with other IHT planning strategies.

# Key facts summary

This page brings together some of the key facts to keep in mind when planning for Inheritance Tax. In the table, you'll find a summary of the main reliefs and exemptions currently available. Below, we've set out practical steps advisers often recommend to help keep your estate plan on track.



## 2027 change

From 6 April 2027, unused pensions will be included in your estate for IHT purposes.

### Adviser recommendations

- ✓ Review your Will regularly and after major life events.
- ✓ Consider lifetime gifts early to maximise the seven-year rule.
- ✓ Assess the impact of the 2027 pension change on your estate.
- ✓ Explore trusts and other structures for control and tax efficiency.
- ✓ Keep records of gifts and asset valuations.

### Main reliefs & exemptions

- Annual gift allowance: £3,000
- Small gifts: £250 per person per year
- Wedding gifts: £5,000 child / £2,500 grandchild / £1,000 others
- Business Relief: up to 100%
- Agricultural Relief: up to 100%
- Charity gifts: exempt; 36% rate if  $\geq 10\%$  estate left to charity





## Estimating your potential IHT liability

The following worksheet can help you build a rough picture of what your estate might be worth for Inheritance Tax purposes.

**It's important to remember this is only an outline guide.** The actual calculation will depend on your personal circumstances, the use of allowances, and the impact of any gifts or planning strategies. A financial planner can help you work through the detail and explore ways to reduce your potential liability.

### Why both assets and debts matter

When working out IHT, HMRC looks at the overall value of your estate, not just what you own, but also what you owe. This means mortgages, loans, credit cards and other outstanding debts are deducted from the value of your assets. The result is the figure used to calculate whether IHT is due.

# Estimating your potential IHT liability

<b>(A) Total assets (what you own)</b>	<b>Estimated value</b>
Value of main home	£
Other properties, business property, land or buildings	£
Cars, caravans or boats	£
Cash, and money in banks and building societies	£
Household contents and personal items, including furniture, antiques, paintings and jewellery	£
Investments (stocks and shares, bonds, offshore accounts, ISAs)	£
Payments made on death, such as life insurance payments or lump sum death benefits from a pension	£
Interests in businesses such as sole trade businesses and partnerships	£
Amounts owed to you, for example, wages, tax repayments, refunds and loans made to other people	£
<b>Total assets £</b>	

<b>(B) Total debts (what you owe)</b>	<b>Estimated value</b>
Mortgages	£
Loans, credit cards and overdrafts	£
Household bills and bills outstanding for goods or services	£
Income Tax and Capital Gains Tax to the date of death	£
Reasonable funeral expenses may also be deducted	£
<b>Total debts £</b>	

<b>Calculating your IHT liability</b>	<b>Amount £</b>
(A) Total assets (what you own)	£
(B) Total debts (what you owe)	£
(C) Estate value for IHT calculation (A) - (B)	£
(D) Total nil-rate bands – Standard nil-rate band – Residence nil-rate band (if applicable) – Transferable allowance from spouse/civil partner	£
(See page 4 for help on nil-rate bands.)	
<b>Taxable estate subject to IHT (Estate value (C) – Total nil-rate bands (D))</b>	<b>£</b>

## Ready to talk?

Good estate planning can often reduce – and in some cases remove – the need to pay Inheritance Tax. While making the most of tax allowances is important, it's just as vital to ensure your wealth passes to the people and causes you care about most.

Our Independent Financial Advisers can help you explore your options, use the available allowances effectively, and create a plan tailored to your circumstances, giving you confidence and clarity as you plan your legacy.

If you'd like to review your IHT plans in more detail, or discuss any aspect of your wider financial strategy, we're here to help.

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The content was accurate at the time of writing, changes in circumstances, regulation and legislation after the time of publication may impact on the accuracy of the guide.

This information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change and tax implications will be based on your individual circumstances.

You should seek legal advice to ensure that your Will reflects your wishes and is legally binding.

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