

FREE Guide

2026 Edition

Inheritance Tax Planning



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What is Inheritance Tax?

Inheritance Tax, or IHT, is becoming increasingly relevant for more families. It is estimated that around 10,500 additional estates (roughly 1.5% of UK deaths annually) will become liable for Inheritance Tax where this was not previously the case, and a further 38,500 estates are expected to pay more tax than before. This reflects ongoing changes and frozen thresholds bringing more estates into scope.

Inheritance Tax is a tax charged on the value of a person's estate when they die, and in some cases on certain gifts made during their lifetime. Your estate usually includes property, savings, investments, personal possessions and, depending on the circumstances, some gifts made in the seven years before death. It is normally paid from the estate before the remaining assets are passed to beneficiaries.

For the 2026/27 tax year, the standard nil-rate band remains £325,000. This band was set in the tax year of 2009-2010. In addition, the residence nil-rate band remains £175,000 where the conditions are met. These thresholds are frozen to 5 April 2030. That means more estates are likely to be brought into scope over time as asset values rise.

The headline IHT rate is 40%, but it applies only to the value above available allowances and after any exemptions or reliefs have been taken into account.



2 When does Inheritance Tax apply?

A common misunderstanding is that once your estate goes above £325,000, 40% applies to the whole amount. That is not how the tax works. IHT is charged only on the taxable value above the available threshold. So if an estate is worth £425,000 and no further reliefs apply, the taxable slice is £100,000 and the tax at 40% would be £40,000.

Your available threshold may be higher than £325,000. If you leave a qualifying residential interest to direct descendants, the residence nil-rate band may also apply. If you are widowed or bereaved and your late spouse or civil partner did not use all of their nil-rate band or residence nil-rate band, the unused percentage can usually be transferred to your estate. For some couples, that can mean a combined allowance of up to £1 million, though the full amount is not available in every case.

If at least 10% of the net estate is left to charity, the IHT rate on the taxable part of the estate can be reduced from 40% to 36%. Gifts to qualifying charities are themselves generally exempt from IHT.



3 Nil-rate band and spousal exemption

The nil-rate band is the core IHT allowance and is currently £325,000 per person. It applies to the whole estate, not just the family home. If unused on the first death of a married couple or civil partners, it can usually be transferred to the survivor.

There is also a full exemption for most transfers between spouses and civil partners, both during lifetime and on death, meaning assets can often pass free of IHT on the first death.

However, your relationship must be legally recognised in the UK. Religious ceremonies alone are not always valid under English law. For example, an Islamic marriage conducted without a civil ceremony or in a non-registered venue is generally not recognised as a legal marriage. In these cases, couples may be treated as cohabiting, and the spouse exemption would not apply. This can be resolved by validating the marriage legally through a recognised document or ceremony.

Leaving everything to a spouse may also only defer IHT until the second death, when the combined estate could be larger. Planning should consider how allowances and reliefs apply across both estates.



4 Residence Nil Rate Band

The residence nil-rate band, or RNRB, is an additional inheritance tax allowance of up to £175,000 per person. It applies where an individual leaves a qualifying residential interest, such as a home, to direct descendants including children, step-children, adopted children or grandchildren. It is important to note that the allowance is not available simply because you own a property; it must be passed on in a qualifying way.

A qualifying residential interest generally means a property that has been your home at some point. The relief can still apply even if you have downsized or sold your home, provided certain conditions are met and assets of an equivalent value are left to direct descendants. The RNRB is applied in addition to the standard nil-rate band of £325,000. Where the full conditions are met, a married couple or civil partners may be able to combine two nil-rate bands and two residence nil-rate bands. This means that, in some cases, up to £1 million can be passed on free of inheritance tax.

The allowance is also transferable between spouses or civil partners. If one partner does not use their RNRB on first death, the unused percentage can usually be claimed by the surviving partner's estate. However, the availability of the RNRB depends on how the property and wider estate are structured, and the relief only applies to the value of the qualifying residential interest being passed on.



5 Restrictions and traps on the RNRB

The residence nil-rate band is often lost because of will drafting or ownership structures. The property must usually pass directly to lineal descendants, and **some trust arrangements can prevent the relief from applying**, particularly where beneficiaries are not absolutely entitled in the right way. This is one of the reasons **wills and trust clauses need to be reviewed carefully by a qualified solicitor, rather than assumed to be tax-efficient**.

The allowance is also capped by the value of the qualifying residential interest. In simple terms, you cannot claim more residence nil-rate band than the value of the home interest that is actually being left in a qualifying way.

The RNRB also tapers away for larger estates. The taper starts once the estate exceeds £2 million, and the allowance is gradually reduced. For every £2 of your estate over £2m, the RNBR is reduced by £1. That means some estates with valuable homes still lose the relief altogether if the overall estate value is too high.

RNRB Taper - Estate Value	RNRB Taper - £ Remaining
Up to £2,000,000	(full allowance) £175,000
£2,050,000	£150,000
£2,100,000	£125,000
£2,150,000	£100,000
£2,200,000	£75,000
£2,250,000	£50,000
£2,300,000	£25,000
Over £2,350,000	£0



6 Lifetime gifts and the 7-year rule

The 7-year rule is one of the most important areas in IHT planning. Many outright gifts made during lifetime are potentially exempt transfers, often called PETs. If you survive for seven years after making the gift, it normally falls outside your estate for IHT purposes. If you die within seven years, the gift may still be taken into account.

A key point people often miss is that the gift does not automatically create a separate 40% charge. First, the gift uses up the nil-rate band available at death. Only the value above that available band becomes taxable. That means earlier gifts can reduce the amount of nil-rate band left to shelter the death estate.

Taper relief does not reduce the value of the gift. It reduces only the tax payable on the part of the gift that is taxable. Under HMRC's scale, gifts made have the following effective tax rates:

- Up to 3 years at 40%
- 3 to 4 years at 32%
- 4 to 5 years at 24%
- 5 to 6 years at 16%
- 6 to 7 years at 8%

Once 7 years have passed, the PET normally drops out altogether.



7 Gift exemptions you should not overlook

Not every lifetime gift has to rely on the 7-year rule. There are several useful exemptions. The annual exemption allows you to give away up to £3,000 each tax year. If you did not use the previous year's exemption, it can usually be carried forward for one year only. You can also make small gifts of up to £250 per person each tax year, provided no other exemption is used for the same person.

In addition, gifts made out of normal surplus income can be exempt if they form part of your usual expenditure, are made out of income rather than capital, and do not reduce your standard of living. These can be particularly effective for IHT planning when properly documented. Regular gifts for birthdays or Christmas may also fall within this exemption if they are made from surplus income.

There are also specific exemptions for gifts made on marriage or civil partnership: up to £5,000 for a child, £2,500 for a grandchild or great-grandchild, and £1,000 for anyone else, provided the gift is made on or shortly before the ceremony and the marriage or civil partnership goes ahead. In some cases, this exemption can be used alongside other allowances, although it cannot be combined with the small gifts exemption for the same person.

Other exemptions can apply in more specific circumstances. Gifts between spouses and civil partners are generally exempt, and certain payments for the maintenance, education or training of children, or for the care of a dependent relative, may also fall outside the scope of IHT. Because these rules are fact-sensitive, it is important to take advice where larger or ongoing gifts form part of your estate planning.



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Gifts your home and reservation issues

Giving away your home, or a share of it, is often presented as a simple way to reduce Inheritance Tax. In practice, it is **one of the most misunderstood planning areas**. If you give away an asset but continue to benefit from it, HMRC may treat this as a **Gift with Reservation of Benefit (GWROB)**. A common example is gifting your home but continuing to live in it without paying full market rent. In these cases, the gift is effectively ignored for IHT purposes and the property remains part of your estate on death, even if more than seven years have passed.

For a gift to be effective, you must give up all benefit from the asset. In the context of property, this often means paying a full market rent to the new owner and maintaining a clear separation of financial responsibility. This can create practical and tax implications, including income tax for the recipient and loss of control over the asset, which now legally belongs to someone else. The same case remains for other assets you gift, such as legally transferring a car but continuing to use it as a primary driver.

There are also wider risks to consider. Transferring your home may expose it to issues such as divorce, creditor claims or disputes involving the new owner. In addition, if a local authority considers that the transfer was made to avoid care fees, it may be challenged as deprivation of assets.

This is a complex area where the technical rules and practical risks overlap, and it is important to take advice before taking any action.



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Charities and Charitable Donations

Leaving part of your estate to charity can reduce the amount of Inheritance Tax payable. Gifts to qualifying UK charities are generally exempt from IHT, which means that money, property or other assets left to charity are deducted from the estate before the tax is calculated. This can be a useful way of supporting causes that matter to you while also reducing the taxable value of your estate.

There can also be a further tax advantage where charitable giving reaches a certain level. If at least 10% of the net value of the relevant part of your estate is left to charity, the IHT rate on the taxable portion of that part of the estate can usually be reduced from 40% to 36%. The calculation can be technical, as it is based on the net estate after certain deductions and allowances, rather than the headline value of everything you own, so proper drafting is important.

It is also important to make sure that the recipient is a qualifying charity for IHT purposes. HMRC's guidance states that, from 1 April 2024, transfers to bodies outside the UK do not qualify for the charity exemption. As a result, if charitable giving forms part of your estate planning, your will should be reviewed carefully to ensure that the gift is structured correctly and that the intended organisation qualifies for relief.



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Pensions and the Major Change in 2027

One of the biggest confirmed upcoming changes is that, from 6 April 2027, most unused pension funds and death benefits will be brought within the value of a person's estate for Inheritance Tax purposes. This is a significant shift, as pensions have traditionally been one of the most tax-efficient assets to pass on, often sitting outside the estate.

Under current rules, many individuals have prioritised spending other assets first and preserving pension funds for beneficiaries. In many cases, pensions could be passed on free from IHT, although income tax may still apply depending on the age at death and how the funds are accessed.

From April 2027, pension funds left to anyone other than a spouse or civil partner may be subject to IHT at up to 40%, as they will form part of the estate. Transfers to a spouse or civil partner will remain exempt on first death, but this may simply defer the tax issue. On second death, any remaining pension assets could then become taxable depending on the overall estate value.

There may be short-term planning considerations before April 2027, such as reviewing pension beneficiary nominations. In some cases, naming children directly may allow pensions to pass outside the estate if death occurs before the rule change, although this carries risks if a surviving spouse may still need access to the funds. It is also important to note that pension trustees retain discretion over distributions, and death-in-service benefits are expected to remain outside the estate for IHT purposes.



11 Business and Agricultural Property Relief

Another major area of change is relief for business and agricultural assets. Business Property Relief (BPR) and Agricultural Property Relief (APR) can currently reduce or eliminate Inheritance Tax on qualifying assets, in some cases at rates of up to 100%. BPR generally applies to trading businesses, including shares in unlisted companies, while APR applies to agricultural land and property in active use. Both reliefs are subject to strict conditions, including minimum ownership periods, and investment activities such as property letting will usually not qualify.

The government has confirmed reforms taking effect from 6 April 2026. A new combined allowance will apply to assets qualifying for 100% BPR and APR, with any value above that threshold receiving relief at a reduced rate of 50%. Following updates after Autumn Budget 2024, it was announced in December 2025 that this allowance will be set at £2.5 million, meaning a couple may be able to pass on up to £5 million of qualifying assets before other IHT allowances are considered.

This is a specialist area and the detailed rules matter, particularly for family companies, farms, AIM-type holdings and mixed estates. Anyone relying on the assumption that business or agricultural assets are fully exempt should revisit their planning for the 2026/27 tax year onwards.



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Relief changes from April 2026

To understand likely IHT exposure, you need a realistic estimate of the net estate. That means adding together the value of property, bank accounts, investments, business interests, vehicles, valuables and money owed to the deceased, then deducting liabilities such as mortgages, loans, credit cards and unpaid bills. Jointly owned assets are included only to the extent of the deceased's share.

You also need to review gifts made in the seven years before death, because they may use up the nil-rate band or generate tax in their own right. Any asset that was supposedly given away but from which the deceased still benefited may still need to be brought back into the estate.

Business Property Relief and Agricultural Property Relief are being combined under the same umbrella following April 2026, meaning that businesses and farms both come under the £2.5 million allowance.

Accurate valuation is especially important for estates close to £325,000, £500,000, £1 million or £2 million, because those levels can affect nil-rate band use, RNRB availability and tapering. For property-rich estates, even modest valuation differences can alter the tax result materially.



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What this means for planning in 2026/27

For the 2026/27 tax year, the core message is that IHT is becoming more relevant, not less. The nil-rate band and residence nil-rate band are frozen until 5 April 2030, the long-standing tax advantages of pensions are due to narrow from 6 April 2027, and reliefs for business and agricultural assets are being reshaped from 6 April 2026.

At the same time, the existing reliefs remain valuable. Spouse exemption, the residence nil-rate band, lifetime gift exemptions, gifts out of surplus income and charitable giving can still make a substantial difference when used properly. HMRC's own statistics show that the average effective tax rate paid by taxpaying estates is well below the headline 40%, which reflects the impact of exemptions and reliefs.

Estate planning involves more than just understanding inheritance tax. It requires careful coordination of your assets, wills and long-term intentions to ensure your estate passes as efficiently as possible.



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Wills and Estate Planning Structures

A valid will is a key part of estate planning. It allows you to control how your assets are distributed and who administers your estate. Without one, your estate is dealt with under intestacy rules, which may not reflect your wishes and can lead to unintended tax consequences.

It is also important that your will is legally recognised in the UK. Religious or informal arrangements alone may not be valid under English law. Without a properly drafted will, your estate could be distributed under intestacy rules rather than in line with your intentions.

Wills play an important role in tax planning. How assets are structured can affect entitlement to allowances, such as the residence nil-rate band, and how efficiently assets pass between family members. Poor drafting can increase the Inheritance Tax burden or limit available reliefs.

Other structures, such as trusts, can also be used to control how assets are passed on and protect wealth for future generations. Given the legal and tax implications, these arrangements should be set up with professional advice.



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Getting help with estate planning

At Tax Expert, we have extensive experience advising on inheritance tax and estate planning. We can help you assess your position, identify available reliefs and put together a clear, practical strategy tailored to your circumstances.

We also work alongside our in-house law firm, allowing us to both advise on the planning and carry out the legal work needed to implement it, including drafting wills and structuring your estate appropriately.

If you would like tailored advice, get in touch with Tax Expert to discuss your estate planning options.



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