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Inheritance Tax Planning

Understand Inheritance Tax (IHT)

Introduction

Inheritance Tax (IHT) is a tax on the value of your estate when you die. Your estate includes your property, investments, savings and other assets, together with any relevant gifts made during your lifetime. From April 2027, unused pension funds are expected to be included as part of your estate for IHT purposes

The amount of IHT payable depends on your individual circumstances, the value and nature of your assets and the available allowances at the time of your death.

This factsheet provides an overview of the key IHT allowances and considerations

How IHT Works

Spouse Exemption

For most people transfers between spouses or civil partners are normally exempt from IHT, meaning there is no limit on the value of assets that can pass between you without an IHT charge.

Any unused IHT allowances can usually be transferred to the surviving spouse or civil partner, allowing them to potentially benefit from the combined allowances.

Nil Rate Band (NRB)

Everyone has a standard IHT allowance known as the **Nil Rate Band (NRB)**. The current allowance is **£325,000**. This means you can leave assets up to this value to beneficiaries other than your spouse/civil partner or charity without an IHT charge.

Where the full allowance is available, a married couple or civil partners could potentially have a combined allowance of **£650,000**.

The NRB may be reduced if you have made certain lifetime gifts within seven years before your death.

Residence Nil Rate Band (RNRB)

There is an additional allowance known as the **Residence Nil Rate Band (RNRB)** where your main residence passes to your direct descendants e.g. your children. The current allowance is **£175,000 per person**.

When combined with the NRB, this means a couple could potentially pass on up to **£1 million** without an IHT charge, provided the relevant conditions are met.

The RNRB reduces if the surviving spouse's estate is over £2 million, tapering at £1 for every £2 above this amount. This means if both estates together are more than £2.7 million, none of this extra allowance will be available.

Lifetime Gifts

Gifts made during your lifetime can have an impact on your IHT position. Each person can currently give away **£3,000 per year** without this being added back into their estate for IHT purposes. Whilst gifts that exceed this allowance maybe become payable or reduce the value of your allowance if you die within seven years of making the gift.

Charitable Gifts

Gifts left to registered UK charities are exempt from IHT. In addition, if you leave at least **10% of your estate** to charity, the rate of IHT applied to the taxable estate can reduce from **40% to 36%**.

Charitable giving can therefore form part of wider estate planning, while also supporting causes that are important to you.

Business Relief

Some business assets may qualify for relief from IHT. This relief is known as Business Property Relief ("BPR") and can reduce the value of qualifying business assets when calculating IHT.

Under the current rules, qualifying business assets may benefit from 100% relief on the first £2.5 million of value, with 50% relief applying to qualifying assets above this amount. Different rules may apply depending on the type of business asset.

For further information, please refer to our separate **Business Property Relief factsheet**.

Regular Reviews

IHT planning should not be viewed as a one-off exercise. Your circumstances, family situation, asset values and tax rules may change over time. Regular reviews can help ensure your Will and wider estate planning continue to reflect your objectives.