

A Simple Guide to Inheritance Tax

Inheritance Tax can be complicated, and the rules that apply will depend on your individual circumstances.

This guide provides a **simple, general introduction to Inheritance Tax** and some of the main allowances and exemptions that may be available. It is for general information only and should not be relied upon as a substitute for professional financial, tax or legal advice.

Tax rules and allowances can change. The information in this guide has been checked against HMRC and GOV.UK guidance and is correct as at **September 2026**.

If you think Inheritance Tax may affect you or your family, or you are considering making significant gifts or changing the way your assets are held, you should speak to a suitably qualified financial, tax or legal professional before making any decisions.

1. What is Inheritance Tax?

Inheritance Tax (IHT) is a tax that may be payable on a person's estate after they die.

Your estate generally includes your **property, money and possessions**, less certain debts.

Whether Inheritance Tax is payable depends on the value of the estate and the exemptions, allowances and reliefs that apply.

The standard rate of Inheritance Tax is **40%**, but it is normally charged only on the part of the estate above the available tax-free thresholds.

2. The £325,000 nil-rate band

The standard Inheritance Tax threshold, known as the **nil-rate band**, is currently **£325,000**.

In simple terms, this means an estate can usually pass on up to £325,000 before Inheritance Tax becomes due, although exemptions, reliefs and certain gifts made during someone's lifetime can affect the calculation.

3. An additional allowance for your home

Some estates can benefit from an additional allowance called the **residence nil-rate band**.

This can provide an additional allowance of up to **£175,000** when a qualifying home is left to direct descendants, such as children or grandchildren.

When combined with the standard £325,000 nil-rate band, this could allow an individual to pass on up to **£500,000** without Inheritance Tax becoming due.

However, not every estate will qualify for the full residence nil-rate band.

For estates worth more than **£2 million**, the residence nil-rate band is gradually reduced by £1 for every £2 the estate exceeds £2 million.

4. What about married couples and civil partners?

Assets left to a spouse or civil partner are normally exempt from Inheritance Tax, subject to the relevant conditions.

If someone dies without using all of their nil-rate band, the unused percentage can generally be transferred to their surviving spouse or civil partner.

The residence nil-rate band can also potentially be transferred.

This means that, in the right circumstances, a surviving spouse or civil partner's estate could eventually have combined tax-free thresholds of up to **£1 million**.

This isn't an automatic £1 million allowance for every couple. The amount available will depend on the circumstances and whether the estate qualifies for the relevant allowances.

5. Giving money or possessions away

There are several Inheritance Tax exemptions for gifts made during your lifetime.

The £3,000 annual exemption

You can give away a total of **£3,000 each tax year** without the gift being added to the value of your estate for Inheritance Tax purposes.

If you don't use all of your annual exemption, you can carry the unused amount forward for **one tax year only**.

Small gifts

You can make as many gifts of up to **£250 per person per tax year** as you like, provided you haven't used another gifting allowance for the same person.

Weddings and civil partnerships

You can also make tax-free gifts for a wedding or civil partnership of up to:

- **£5,000** to a child
- **£2,500** to a grandchild or great-grandchild
- **£1,000** to anyone else

Regular gifts from income

Regular gifts made from your normal income can also be exempt from Inheritance Tax if the relevant conditions are met, including being able to maintain your usual standard of living after making them.

6. The seven-year rule

You may have heard that you need to survive for seven years after making a gift for it to be free from Inheritance Tax.

The rules are more complicated than this, but as a general principle, **some gifts that aren't covered by an exemption can fall outside your estate for Inheritance Tax purposes if you live for seven years after making them.**

If you die within seven years, Inheritance Tax may be payable depending on the circumstances.

In some cases, **taper relief** can reduce the tax payable on gifts made between three and seven years before death.

There are important exceptions to these rules. For example, different rules can apply to gifts involving trusts.

It's also important to remember that simply giving something away doesn't necessarily remove it from your estate if you continue to benefit from it. For example, giving your home to your children but continuing to live there rent-free could mean it is still treated as part of your estate for Inheritance Tax purposes.

For significant gifts, it's sensible to get professional advice first.

7. Keep a record of gifts

If you make gifts, it's a good idea to keep a simple record of:

- what you gave
- who you gave it to
- its value
- the date you gave it

After your death, the person dealing with your estate may need this information to work out whether any Inheritance Tax is due.

8. Leaving money to charity

Gifts left to qualifying charities in your Will are generally exempt from Inheritance Tax.

If you leave **10% or more of the relevant net value of your estate to charity**, the Inheritance Tax rate applying to the relevant part of your estate may be reduced from **40% to 36%**.

The calculation can be complicated, so professional advice may be helpful if you are considering this.

9. Trusts

Trusts can be useful in some estate-planning situations, but they are **not simply a way of avoiding Inheritance Tax**.

Inheritance Tax can sometimes arise when assets are put into a trust, while they are held in the trust, or when they leave it.

There are many different types of trust, and their tax treatment varies, so professional advice is strongly recommended before setting one up.

10. Business and agricultural assets

Certain qualifying business and agricultural assets can receive **Business Relief or Agricultural Relief**, which can reduce the amount of Inheritance Tax payable.

The rules changed from **6 April 2026**.

For deaths on or after that date, the combined value of qualifying agricultural and business property that can generally receive 100% relief is limited to **£2.5 million**. Qualifying value above the available allowance will generally receive **50% relief**.

Unused allowance may also be transferable between spouses or civil partners.

These rules can become complicated very quickly, so anyone with significant business or agricultural assets should seek specialist professional advice.

11. Life insurance

If you have life insurance, it may be worth checking whether your policy is **written in trust**.

Depending on how the policy and trust have been set up, the payout may be able to pass to the trustees for your chosen beneficiaries rather than forming part of your estate.

This can also mean the money may be available without waiting for probate and could potentially help towards an Inheritance Tax bill.

If you're unsure how your policy is set up, ask your insurer or financial adviser.

12. Paying Inheritance Tax

Inheritance Tax is normally paid from the estate by the person responsible for dealing with it — usually the executor if there is a Will.

Beneficiaries don't normally pay Inheritance Tax themselves simply because they have inherited something, although different rules can apply in certain circumstances, including some lifetime gifts.

There is a deadline for paying Inheritance Tax, and HMRC can charge interest when tax is paid late.

In certain circumstances, including some property, business and agricultural assets, it may be possible to pay Inheritance Tax in instalments.

A final thought

Inheritance Tax can look complicated, but you don't need to understand every rule.

For many people, a useful starting point is simply to have a rough idea of **what you own, what it is worth and who you would like to leave it to**.

If your estate may be affected by Inheritance Tax, or you're considering making significant gifts or changing how your assets are held, speak to a suitably qualified professional before taking action.

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