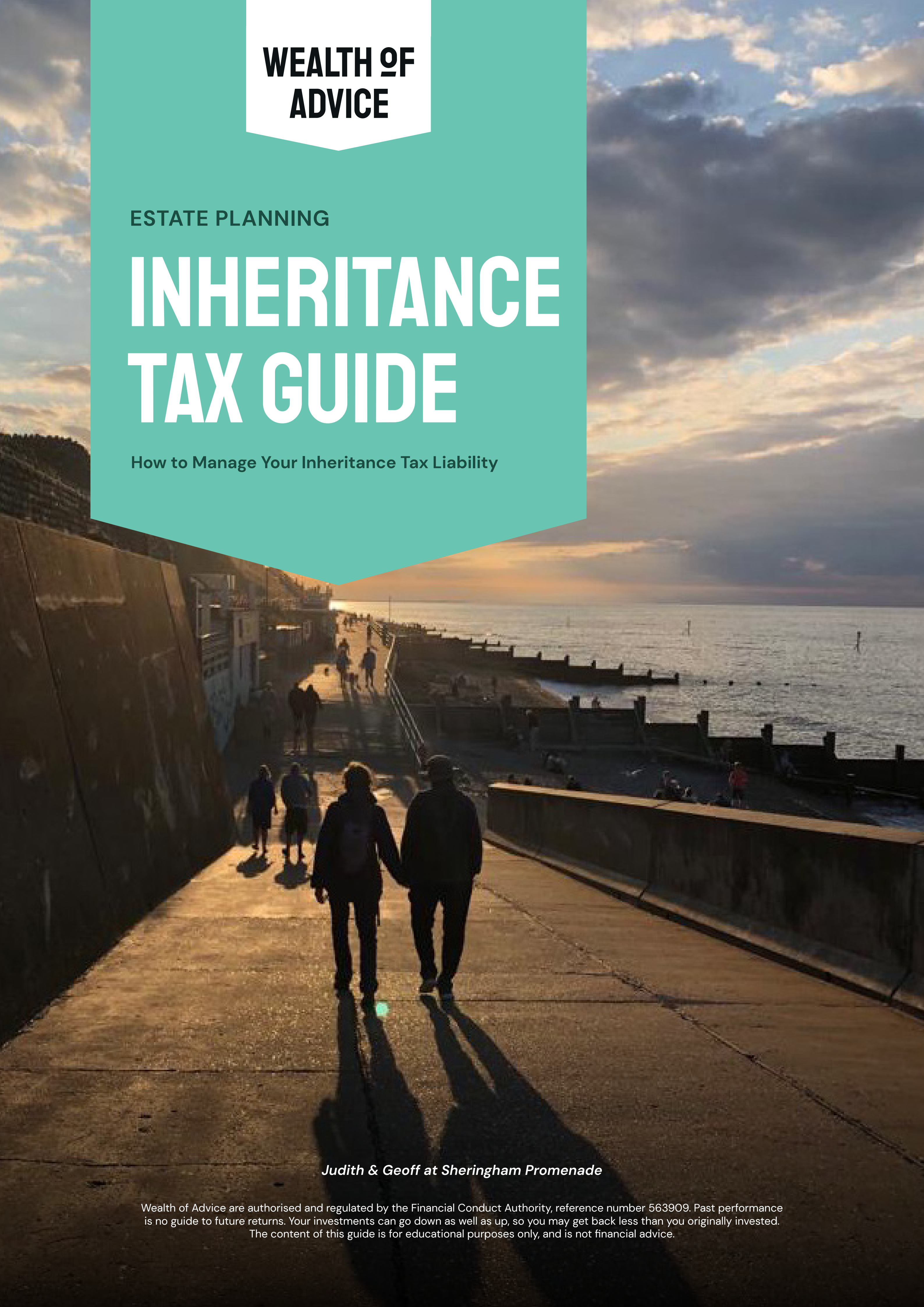
WEALTH OF ADVICE

ESTATE PLANNING

INHERITANCE TAX GUIDE

How to Manage Your Inheritance Tax Liability



Judith & Geoff at Sheringham Promenade

INHERITANCE TAX

Inheritance Tax is on the estate of someone who has died.

It applies to everything you own - your net assets - which is payable when you pass away. While you may think this wouldn't apply to you, your assets could end up being more extensive than you think.

They could include the following:

- Your home or any other property you own
- Your investments
- Any insurance policies you have which are not written in trust
- Items such as your home contents, antiques and other collectables, cars, furniture and valuables like jewellery
- Gifts you've made during the last seven years
- Assets in trust from which you still benefit
- The value of your pension fund (from April 2027)

INHERITANCE TAX CHANGES

Inheritance tax is currently charged at 40% on your estate that is above the nil rate band (£325,000) and, if applicable, the residential nil rate band (£175,000).

The residential nil rate band will only be available if your property is left to direct descendants, such as children and/or grandchildren. It remains available even if you have downsized your property in later years. The residential nil rate band does reduce by £1 for every £2 your estate exceeds £2 million.

WHO PAYS INHERITANCE TAX CHARGES AND ON WHAT?

If you are UK domiciled your estate has to pay inheritance tax on your worldwide assets. If you're classified as non-UK domiciled, you will only be liable for inheritance tax on your assets in the UK.

HOW EXEMPTIONS & RELIEFS COULD REDUCE YOUR TAX LIABILITY

In certain cases, assets can be exempt from inheritance tax (IHT), or the liability may be reduced by reliefs.

The main exemptions are:

- Spouse exemption, which is gifts made or assets left to a UK-domiciled spouse
- Gifts to charities or political parties
- Annual gift exemption of £3,000 per tax year to any individual
- Small gifts exemptions up to £250 per tax year to as many individuals, but not the individual benefiting from the annual gift exemption
- Regular gifts from income which does not impact your standard of living
- Gifts for marriage / civil partnership of £5,000 from each parent, of £2,500 from each grandparent, of £1,000 from any other person.

AGRICULTURAL PROPERTY RELIEF

From April 2026, the first £2.5 million of qualifying agricultural property is exempt from inheritance tax with the remainder benefiting from a reduced tax rate of 20%.

Married couples can transfer qualifying agricultural property on first death to the surviving spouse, increasing the allowance on second death to £5 million.

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BUSINESS RELIEF

From April 2026, the first £2.5 million of qualifying investments are exempt from inheritance tax with the remainder benefiting from a reduced tax rate of 20%.

Married couples can transfer qualifying business assets on first death to the surviving spouse, increasing the allowance on second death to £5 million.

AIM Shares

From April 2026 business relief on AIM shares has been reduced from 100% to 50% – an effective 20% inheritance tax. AIM Shares do not benefit from the £2.5million allowance.

PENSIONS

From April 2027, pension funds will be included in an individual's estate for Inheritance Tax (IHT) purposes.

Benefits being passed to a spouse or civil partner will qualify for spousal exemption.

Death-in-service benefits, dependants' scheme pensions, survivors' pensions under joint life annuities and death benefits to qualifying charities will not be included.

We appreciate inheritance tax can seem very long and confusing, but that's what we're here for!

If you need any help with planning your estate and making sure you get the most out of your assets, then we would highly recommend seeking professional financial advice.

www.wealthofadvice.co.uk

HOW EXEMPTIONS & RELIEFS COULD REDUCE YOUR TAX LIABILITY

WHOLE OF LIFE INSURANCE

Life insurance can be a useful way to pay any IHT liability as premiums are exempt, and the insurance will pay out a lump sum whenever death occurs to pay the tax bill.

Advantages

- Insurance payouts are not subject to Inheritance Tax
- Plan provides beneficiaries with funds to pay your IHT liability without having to use their inheritance
- Cover is provided until death with a guaranteed premium

Disadvantages

- Failure to pay premiums will end your cover
- If you are in poor health, premiums may be more expensive
- This is a long-term commitment, and you must be able to afford the premiums for the rest of your life

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TRUST PLANNING

There is an array of different trust options available for you to help reduce your IHT liability. Put simply, you are able to gift up to £325,000 into a trust which will fall out of your estate after 7 years with no liability to IHT.

Advantages

- The investment into a trust will fall outside of your estate after 7 years
- There is no immediate IHT liability if the gift doesn't exceed £325,000
- You will retain control over the trusts in your lifetime and can decide how the funds are distributed

Disadvantages

- There are limits of how much you can invest into a trust without immediate IHT liability
- Once you have gifted funds into the trust you are unable to access the funds in your lifetime or they could become subject to IHT
- If you pass away within 7 years, the value of the gift is subject to IHT

BUSINESS RELIEF QUALIFYING INVESTMENTS

As mentioned previously, certain products can benefit from Business Relief which currently provides a 50% exemption to IHT after holding for two years. These products are unlisted (AIM) shares which are not on the Main FTSE All-Share stock market.

Advantages

- Potential for 50% IHT business relief to reduce your tax liability
- Investors can access the investments at any time (subject to liquidity)
- Regular withdrawals can be set up from the investment

Disadvantages

- Investments into AIM shares are high-risk compared to larger, more established companies
- IHT relief can not be guaranteed, tax legislation could change in the future
- To benefit from IHT relief you would need to remain invested for at least 2 years

LIFE INSURANCE

Before you start thinking about funeral plans and how to say goodbye, it's important to get the paperwork sorted.

Life insurance is essential for anyone with a mortgage, kids, debts or the main earner with no substantial amount of savings. The payout from your life insurance could be a lifeline for your loved ones when you die.

With life insurance, you make a monthly payment to an insurer and in return they agree to pay out a set amount to your dependants in the event of your untimely death.

Life insurance can remove the worry for a surviving loved one to meet ongoing financial commitments, such as a mortgage, raising children and meeting ongoing bills. It can also provide a nest egg for your family to support their lifestyle or a means of meeting potential estate management and tax costs.

So how much cover will you actually need? Generally, the answer is as much as you need to fill any financial gap left by your death. It's important to make sure that your existing debts would be paid off, that your loved ones are financially provided for and your children are supported.

Speaking to a financial planner can be valuable. We can look at your personal situation and assess what kind of cover would suit your needs. What you pay depends on your age, lifestyle, health, policy length and the amount of money you want to cover.

TRUSTS

Make sure the right people benefit from your estate with a Trust.

Placing your assets intro Trust can help you make sure that the right people benefit from your estate at the right time.

A Trust allows you to indicate who you would like to see benefit from your estate – you choose specific people who will benefit, defining how and when they are able to receive payment from the Trust.

A Trust can also give you the flexibility to amend the people who will benefit, allowing the trust to adapt to changes.

A Trust may also reduce your Inheritance Tax liability. Once assets are placed in Trust during your lifetime, if you survive seven years the value of that asset and subsequent growth does not form part of your estate. Inheritance tax becomes payable on taxable assets over £325,000 (frozen until 2031).

The trustees will manage and distribute the assets in line with the trust deed and your expression of wishes. The Trust assets are distributed to your nominated beneficiaries.

If you would like to learn more about Trusts and setting up your own, please get in touch.

TALK TO US AT

WEALTH OF ADVICE

ENQUIRIES@WEALTHOFADVICE.CO.UK

WWW.WEALTHOFADVICE.CO.UK

0191 384 1008

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