

Mind the gap, Inheritance Tax

The 40% Problem.

Note from editor: As a new regular contributor to Swealthy Magazine, we're proud to name Southcote Financial our trusted financial advice business - a collaboration with a shared mission to empower clients, protect legacies, and deliver transparent, jargon-free financial advice.

Every issue will detail topical financial areas our readers have to increase financial knowledge and empower our devoted readership to making informed and successful financial decisions.

Southcote Financial: Your Trusted Partner in Financial Wellness

At Southcote Financial Ltd, planning your financial future isn't just a job - it's a responsibility we carry close to heart. Guided by Managing Director Will Kiely, the team crafts tailored plans that protect your wealth, help secure your lifestyle, and honour your legacy. Whether it's saving, pension-ready strategies, or structuring your estate, Southcote combines deep technical expertise with a warm, approachable service ethos.

NAVIGATING INHERITANCE TAX

One of the major concerns of many families is Inheritance Tax (IHT) - a 40% death tax on estates above certain allowances. This article is designed to dis-spell some myths and provide some factual knowledge around an ever-changing tax landscape.

Structuring assets and gifts in a tax-efficient way is imperative, so you keep more of your wealth for loved ones. We list the top seven areas of understanding

1. Nil Rate Band (NRB)

Every individual in England has a tax-free IHT allowance of £325,000. Estates above this threshold face a 40% tax on the balance. Couples can double the benefit by transferring unused allowance, meaning up to £650,000 can pass tax-free between spouses.

2. Residence Nil Rate Band (RNRB)

Leaving your main home to direct descendants (children, grandchildren), and each person can claim an additional £175,000, increasing the tax-free band to £500,000 or £1 million

for couples. Be aware though: estates over £2 million see a tapered reduction in this allowance.

3. Gifting Allowances

Well-structured gifting downsizes your taxable estate. Key allowances include:

- Annual Exemption: Up to £3,000 per year (carried forward by one year if unused).
- Small Gifts: Unlimited gifts up to £250 per person, per year.
- Wedding Gifts: £5,000 for a child's wedding; £2,500 for a grandchild; £1,000 for others.
- Normal Expenditure Rule: Regular gifts from surplus income (e.g., school fees, gifts) are exempt, if your living standard isn't impacted.
- Spousal Exemption: Transfers between UK-domiciled spouses/civil partners are unlimited and fully exempt.

4. Potentially Exempt Transfers (PETs)

Larger gifts beyond the above allowances become Potentially Exempt Transfers. If the giver survives seven years, they're tax-free. But if death occurs earlier, taper relief applies:

| Years before death | IHT 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% |

5. Charitable Donations

Gifting 10% of your net estate to charity not only avoids tax on that portion it also reduces the IHT rate from 40% to 36% on the remainder.



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STRATEGIC WEALTH MANAGEMENT

6. Trusts and Other Reliefs

You can set up trusts to manage and pass on assets more tax-efficiently. You can seek advice on using Business Property Relief, which can offer up to 100% relief on qualifying assets. However, be aware upcoming reforms cap these at £1 million of relief from April 2026.

7. Insurance and Liquidity Planning

Setting up life insurance policies in trust to ensure enough cash is available to pay IHT, without the proceeds themselves being taxed as part of your estate.

MAKING THE MOST OF ALLOWANCES

With assets increasing and tax free thresholds frozen until at least 2028 or beyond, strategic IHT planning is no longer a luxury, it's essential. Consider the following:

- Use annual and small gift exemptions diligently.
- Plan PETs early, allowing time for taper relief or exemption.
- Coordinate spousal transfers to maximise combined allowances.
- Consider charitable giving for financial and social returns.
- Use trusts and reliefs to shelter significant assets.
- Secure insurance in trust for IHT liquidity.
- Review and adjust with your adviser as rules, values, and families evolve.

FINAL WORD

In the evolving landscape of wealth and inheritance, clarity and foresight matter. Southcote Financial's compassionate, expert-led approach ensures that inheritance tax isn't just a problem to solve - it's a legacy to protect. At Swealthy, we're proud to feature Southcote as our trusted advice partner: clear, consistent, and committed to keeping your family's future secure.



For a no-pressure introductory conversation about protecting your estate and legacy, visit southcotefinancial.co.uk or call 0121 661 7014.

Business Property Relief Schemes (BR) invest in assets that are high risk and can be difficult to sell such as shares in unlisted companies. The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested, even taking into account the tax benefits. Tax treatment varies according to individual circumstances and is subject to change.

This article is for financial education, not financial advice. Before making any financial decisions, we recommend you seek professional financial advice.