2026

INHERITANCE TAX

AND

ESTATE PLANNING

GUIDE

FTA

FINANCIAL & WEALTH MANAGEMENT

Introduction

Estate and Inheritance Tax planning has been an increasingly popular topic with our clients in recent years. We have seen recent government changes to inheritance tax, importantly for most the introduction of inheritance tax on personal pension pots, and our clients are generally looking to plan ahead and make use of opportunities to put their families in the best position possible.

Nobody wants to pay inheritance tax. This is deemed by most a ‘double taxation’, taxing wealth accrued (net after tax) again on death. Whilst some may consider inheritance tax ‘avoidable’, there are always pros and cons to any planning conducted and it often isn’t wise to simply reduce your estate to an inheritance tax free position in one swoop. We cannot predict the future, so we must remain flexible with our approach to planning for it. Considered and long-term planning gives the best results.

We often get asked about Trusts and other ‘clever’ ways to plan for inheritance tax. Whilst various strategies can work very well for certain situations, we often guide clients to look first at the obvious methods:

- Spending - will your desired retirement spending erode your wealth so inheritance tax is less of a concern?

- Cash gifting – i.e helping children with expenses such as house purchase – if this is planned in future will this also alleviate your concern about inheritance tax?

The simple ways, like above, are often the most effective and beneficial to yourselves and the family short-term and long-term. That said, a significant proportion of our clients still have inheritance tax concerns even after accounting for these methods.

We should first start with an assessment of your current estate and inheritance tax liability. This can then be forecast ahead and account for spending/gifting to establish a potential future position. Whilst this cannot tell you your exact future inheritance tax liability (rules may change in future for example), it can help to establish affordability for gifting or spending plus establish whether other suitable inheritance tax planning methods should be considered.

This guide will run through explanations of inheritance tax itself and planning options. The most popular methods, which we provide advice to our clients on, are summarised below:

- **Pension tax-free lump-sums or income withdrawn to gift/spend**

With inheritance tax applying to pension pots from April 2027, clients have started looking at whether pension capital can be withdrawn tax-efficiently and used now.

- **Gifting to absolute trusts - investments for grandchildren**

Grandchildren of any age have their own tax allowances, so often investments can grow very tax efficiently. By gifting into trust earlier you also start the 7-year clock to get full inheritance tax relief now, as opposed to gifting when they have grown up and you have concerns about living for 7 years. The trust can be used for school fees or other expenses when they are minors, or held until they are older, you remain in control.

- **Business Property Relief Investments**

Specialist investment providers offer products which qualify for business property relief after 2 years of holding. These are popular with clients who wish to keep ownership of capital, but want to reduce inheritance tax. Note these products and underlying investments are considered higher risk strategies, so may not be suitable or desirable for all.

- **Whole of Life Insurance**

A clear, simple and low risk method of inheritance tax planning. Whole of life insurance guarantees a lump sum payout into trust which is inheritance tax free, as long as premiums are paid for the lifetime of the policy holder.

We run through the above methods alongside others in this guide.

If you require further information, or would like to request discussions and planning, please contact us and we can arrange with you soon.

Yours Sincerely,

Adam Brookbanks DipFA
Managing Director

What is Inheritance Tax?

Inheritance tax (IHT) is a tax charged on a family's estate on death.

Your estate is essentially everything you own. This can include your main residence, investments, jewellery and cash deposits. On your death, your legal personal representatives submit a report of the total value of your estate to HM Revenue & Customs (HMRC). The rate of IHT is currently 40%. However, you won't pay this on the whole estate. Every individual has access to a nil-rate band, where no IHT is payable. Some may also benefit from the 'residence nil-rate band' (see below).

Only if the value of your estate exceeds these nil-rate bands is the excess taxable. The tax rate on the excess is 40%. This is settled to HMRC via probate calculations on death, where applicable. In usual circumstances, on death of a married person, their assets are passed fully to the surviving spouse. There is no IHT applicable on first death in these usual circumstances, IHT is usually payable on second death.

There are now limited options for assets which qualify for inheritance tax relief, with personal pension pots being included from April 2027 onwards. We will talk about the other options later in this guide.

The nil-rate band (NRB)

This is a band of up to £325,000 available to all individuals, which can be used to reduce your taxable estate. The amount may be reduced if you have made gifts within seven years before your death (see examples below). You may also have an additional NRB transferred to you if you have been predeceased by a spouse or civil partner (see below).

The residence nil-rate band (RNRB)

This additional nil-rate band was introduced in 2017. The first £175,000 of the value of your main residence (per person) will be free of IHT if you leave your home to your 'direct descendants', this includes children and grandchildren. Some may also have additional RNRB transferred to you if you have been predeceased by a spouse or civil partner, meaning you could benefit from a total £350,000 RNRB (see below).

If your net estate is over £2 million, you begin to lose this relief at a rate of £1 for every £2 over £2 million. This means the RNRB is completely lost once your net estate is worth £2,700,000.

Clients should consider their proximity to the thresholds where the RNRB is reduced, as spending/gifting to reduce estate value and regain RNRB can make a double tax saving.

Transferring nil-rate bands to your spouse or civil partner

Anything you leave to your UK spouse or civil partner is free from IHT at the time of your death and will not use your NRB or RNRB. However, keep in mind those assets now form part of their estate and may be subject to IHT on their death. To help with this, any NRB and RNRB you don't use is transferred to your surviving spouse or civil partner for use on their death. This currently gives a potential combined NRB & RNRB of £1 million when combined together.

Example 1

John & Sarah

- Married
- Four children
- Have written mirror Wills, so on first death all assets are passed to surviving spouse and on second death all assets are passed to the children in equal shares.
- Total estate is worth £1,600,000 which includes a £750,000 home.
- No gifts made prior to death, so they have full transferable NRB & RNRB available.

On second death

The taxable estate is £600,000, after the deduction of 2 x £325,000 NRB and 2 x £175,000 RNRB (£1,000,000 total).

£1,600,000 - £1,000,000 = £600,000

Taxed at 40%, that's an IHT bill of £240,000.

After IHT is deducted, the balance of the total estate is £1,360,000

When divided equally between their four children they each get £340,000

Example 2

Effect of the tapering of the Residence Nil Rate Band

Keith & Diane

- Married
- Four children
- Have written mirror Wills, so on first death all assets are passed to surviving spouse and on second death all assets are passed to the children in equal shares.
- Total estate is worth £2,600,000 which includes a £750,000 home.
- No gifts made prior to death, so they have full transferable NRB & RNRB (tapered) available

On second death

They can offset 2 X NRB (£325,000 each) but the RNRB will be tapered as per the calculation below.

2 x £175,000 = £350,000 - ((£2,600,000-£2,000,000)/2) = £75,000 RNRB available to offset

Total estate £2,600,000 – NRB (£650,000) – RNRB (£75,000) = £1,875,000

Taxed at 40%, that's an IHT bill of £750,000

After IHT is deducted, the balance of the total estate is £1,850,000

When divided equally between their four children they each get £462,500

Wills

Writing a Will means you can specify exactly how you would like your assets to be distributed after your death and allows you to name your Legal Personal Representatives (Executors/Trustees) as well as the guardians for your minor children. It can also be used to reduce your tax bill.

Even if you have a Will, it should be regularly reviewed to ensure it is up to date and reflects your wishes, assets and current tax position. Marriage, civil partnership, divorce or dissolution can all have an impact on an existing Will.

If a person dies without having made a Will, then they are said to have died 'intestate'. The assets are then distributed to individuals according to the intestacy rules rather than to those chosen by the deceased.

Intestacy Rules	
Scenario	
Not married or in a civil partnership, with no children or grandchildren	In order of preference: – Parents – Siblings – Children of siblings – Step siblings – Children of step siblings – Grandparents – Parent's siblings – Children of parent's siblings – Parent's step siblings – Children of parent's step siblings – The Crown (or Duchy of Lancaster or the Duke of Cornwall).
Married or in a civil partnership, no children	Surviving spouse/civil partner takes the whole estate.
Not married or in a civil partnership, but with children	Estate is split equally between all living children.
Married or in a civil partnership, with children	Surviving spouse/civil partner gets: – The first £322,000 – All personal possessions 1/2 of the remaining estate. The remaining 1/2 split between the children of the deceased.

How you choose to distribute your estate in your Will can affect if, and when, the NRB and RNRB can be used. This in turn will affect how much IHT will be paid by your estate.

For example, if you leave your entire estate to your surviving spouse or civil partner then there will be no IHT payable on your death and your NRB and RNRB will be transferred to the survivor to be used on their death.

This means the surviving partner may have up to £1 million (2 x £325,000 and 2 x £175,000) available to them on their death. Though this could increase or decrease if the UK government changes the bands in the future or if the estate does not qualify for the RNRB.

Whilst this approach is suitable for some, it may not be suitable for everyone. For example, if you were already a widow or widower of a previous marriage or civil partnership, you may already have access to their transferred unused NRB and RNRB. For example you may wish to leave assets to other family members on first death.

There is a limit to how much transferred NRB and RNRB can be used by a person (currently an extra £325,000 NRB and £175,000 RNRB), so if your current spouse or civil partner transfers more to you, some bands may go to waste. For this reason, some people may choose to make bequests to beneficiaries, other than their spouse or civil partner, in order to use the bands, rather than transfer them.

How a Will can affect the residential nil rate band (RNRB)

The RNRB is available to your executors for use on your main residence. However, there are some important restrictions you need to know about, including:

- If the value of the property on death (after deducting any outstanding mortgage) is less than £175,000, then the amount of RNRB will be lower.
- The property must be left to your 'direct descendants'. This covers children, grandchildren or greatgrandchildren and includes adopted, fostered or stepchildren. If you do not have any direct descendants, or do but don't wish them to benefit, then the RNRB will not be available.
- The property must be one that was your main residence and therefore excludes investment properties. If you sell or downsize your property, then your estate may still be able to claim the RNRB on other assets in your estate left to your direct descendants.
- If your property passes to a discretionary trust, then the RNRB cannot be used – even if your direct descendants are the beneficiaries of the trust. Where property has been left to a discretionary trust on death, but it would be preferable to claim the RNRB, it's possible to unwind the trust by paying the trust assets to the beneficiaries. This appointment under section 144 IHT 1984 must be done within two years of death. The property will then be treated as directly inherited by the beneficiaries and the RNRB can be claimed.
- If you do not use the RNRB, it can be transferred to a spouse or civil partner for use on their death. However, all the same restrictions apply to their estate.

When seeking support in drafting your Will, it is vitally important that you ask your legal adviser how your Will impacts the availability of the RNRB.

Interest in possession trust - commonly referred to Immediate Post Death Interest Trust.

This can be used to ensure the surviving spouse or civil partner can benefit from assets for the rest of their lives but protects the assets for the eventual beneficiaries (usually children).

If assets are passed to the spouse absolutely (no trust) and they remarry the assets could be passed to the new spouse on death via a new Will or via intestacy. Alternatively, if the new marriage ended in divorce, the assets would form part of the divorce settlement. Putting the assets into the trust protects these assets as they will be owned by the trust.

Similarly, if the surviving spouse was subject to long term care fees or bankruptcy in the future, these assets can be protected.

For IHT purposes, a life tenant (surviving spouse) will be seen as inheriting the trust assets on death. If the trust runs for the life tenant's life, the trust assets will be seen as part of their taxable estate for IHT purposes on their death.

For properties to be able to be passed into an IPDI they would need to be held as tenants in common.

There are a variety of trusts available which can protect your assets from financial predators, such as divorce, remarriage, bankruptcy, loss of benefits, and long-term care costs. You can also protect against the loss of valuable business relief by use of suitable business trusts. As always, the best arrangements will be bespoke for your situation and objectives.

A well written will is extremely important for estate planning and can provide inheritance tax planning benefits. You should work with an expert will writer alongside your financial planner to establish your will.

Susan Delahunty is our resident will writer and estate planner.

If you would like to discuss updates to your will with her, please contact us to arrange a meeting.

How can I reduce my IHT bill?

Spending

You should work out how much you are planning to spend in retirement and establish whether this will bring you close to or below inheritance tax thresholds. Of course you cannot predict the future, both with expenditure, health, and rule changes in future, so you cannot be entirely accurate with calculations. That said, your adviser can work with you to forecast various scenarios to establish potential positions of capital, wealth and IHT throughout your life. This is usually in the form of cashflow forecasting, a service we offer to our clients.

It is especially important to ensure that you have enough capital for a comfortable retirement. If you go ahead and gift away substantial sums to children, trusts, or others early in retirement, it could potentially leave you with less liquid capital later in life than is required.

Spending and enjoying the money you have worked so hard for is key to our estate planning with clients.

Gifting

When you make a gift, you are reducing the value of your estate and therefore the amount of IHT your estate pays on your death. Some gifts you make are 'exempt' which offer an immediate IHT saving. For all other gifts, you will need to survive a period of seven years for the IHT saving to apply.

Sometimes people get hung up on the 7-year rule, thinking "if I can't guarantee I live for 7 years then I won't gift", thinking they will be in a position of detriment if they don't. In most cases, gifts will provide a tax-saving even if you die within 7 years, as from the date of the gift all growth/returns on that capital is outside your estate. You should of course seek advice on substantial gifts being made so you have full understanding of the rules and implications.

When gifting, transactions are counted individually (each individual has their own allowance) so it is important to consider this with planning. Usually a gift made from a joint account may be considered 50% from each person.

Inheritance Tax Taper Relief

There is a potential tapering of IHT on gifts made within 7 years before death, meaning a lower rate of IHT applicable. This applies only to gifts made in the 7 years previous which are not exempt and exceed the Nil Rate Band (£325,000 per person currently). After 3 years of gifting the IHT rate applicable tapers down by 20% each year until it reaches 0 by 7 years from date of gift.

Rates based on current tapered rates shown below:

Years 0-3	Full – 40% IHT
Years 3-4	20% reduction – 32% IHT
Years 4-5	40% reduction – 24% IHT
Years 5-6	60% reduction – 16% IHT
Years 6-7	80% reduction – 8% IHT
Years 7+	No IHT

- For example if £200,000 gifts made in 7 years before death - the NRB inherited by the surviving spouse would be reduced from £325,000 to £125,000.

- For example if £400,000 gift made 5 ½ years before death – the first £325,000 uses up the NRB and none inherited by spouse. The excess £75,000 has a reduced inheritance tax rate of 16% applicable.

Exempt Gifts

Annual Exemption

- You can give away up to £3,000 in each tax year per person, to whoever you wish. If the allowance is not used, then it can be carried forward a maximum of one year. This means a couple who are married or in a civil partnership could give away a combined £6,000, or £12,000 if the previous year's allowances were unused.

Small gift exemption

- You can give away up to £250 as stand alone gifts to any number of people in a tax-year. This cannot be used in conjunction with another exemption.

Spouse/Civil partner exemption

- There is no IHT to pay on transfers between most married couples or civil partners living in the UK*, whatever the amount. However, this gift increases the estate of the spouse or civil partner, so effectively defers any IHT until their death and means usually no IHT saving. However gifting of assets between spouses can provide other tax savings (income tax/capital gains tax) in certain instances, so this strategy is a useful one to use when appropriate.

* For those married to a non-UK long-term resident spouse/civil partner living in the UK, exemption is limited to £325,000.

Marriage or civil partnership gifts exemption

Gifts made in consideration of a marriage or civil partnership may be exempt.

- Parents can gift up to £5,000 & Grandparents can gift up to £2,500. All other people can gift up to £1,000.

Normal expenditure from excess income

Any gifts you make from your excess income may be exempt if they're a part of a pattern of gifting and making the gift does not affect your standard of living. There's no limit to this exemption. However, there are rules governing what is counted as income. We will explore this later.

Gifts for charitable purposes

- Gifts to registered charities may also be considered exempt.

Non-Exempt Gifts (PETs and CLTs)

If you want to gift away larger sums which are not covered by one of the exempt transfers listed above, you'll need to make a non-exempt gift. For these you will need to survive a period of seven years before it is considered outside your estate and no IHT applicable.

Any non-exempt gifts you make will either be Potentially Exempt Transfers (PETs) or Chargeable Lifetime Transfer (CLTs), depending on how you make your gift. These definitions cover cash gifts, gifts of assets, and gifts into trust.

Clients will often consider making substantial non-exempt gifts, to help children buy houses, or to put a sum of money away for benefit of a grandchild, or just to aggressively reduce estate and inheritance tax. These can be very effective to reduce inheritance tax and if considering this as an option you should seek advice to establish a suitable strategy which satisfies your objectives best.

Potentially Exempt Transfer (PET) – Gifts made directly to individuals or to a bare (absolute) trust will be treated as a PET. – There's no immediate IHT liability at the time you make the gift. – There are no restrictions to the amount you can gift as a PET, or how many PETs you can make in your lifetime. There is no tax applicable in a PET when made. There would only be immediate tax considerations if an asset gifted creates a tax liability (like gifting an investment property to children – capital gains tax applies as if a disposal).

Chargeable Lifetime Transfer (CLT) – Gifts made to discretionary trusts for example are treated as CLTs. You can give an amount equivalent to the NRB (£325,000) in total during a rolling seven years. This may be a single gift every seven years, or spread over a series of smaller gifts. – If you exceed £325,000 there will be an immediate IHT charge known as the 'entry charge' if you do. The charge is 20% of the value over the available NRB. For example, a gift of £500,000 into a CLT will attract an entry charge of 20% x £175,000 = £35,000. If you do die within seven years of making a CLT, this is recalculated and charged at 40%, subject to any tapering available as discussed previously. Any lifetime IHT paid on entry can be used to offset.

Will IHT apply to my CLT/PET when I die?

Regardless of whether your gift is a PET or CLT, your gift will be outside your estate and free from IHT, if you survive for a period of at least seven years from the date of the gift. If you die within seven years of making your gift, then it is said to have 'failed' and becomes 'chargeable'. Firstly, failed gifts are set against your available NRB (including any transferred to you). If you have more than one failed gift, they are taken in the date order in which you made them. Gifts that fall within your available NRB have no IHT payable. However, it does mean your estate will have less NRB to offset against your other assets. Any excess over your NRB will have Inheritance Tax applicable, rates subject to potential taper relief.

Example

Effect of gifting and death within 7 years on IHT

Ben & Holly

- Married
- Four children
- Have written mirror Wills, so on first death all assets are passed to surviving spouse and on second death all assets are passed to the children in equal shares.
- Total estate is worth £1,600,000 which includes a £750,000 home.
- Gifts made prior to death - £100,000 to each child = £400,000, made as joint gift (so classed as £200,000 each), made 5 years before first death, but 9 years before 2nd death. Reduced NRB transferred, see below.

On second death

NRB inherited by surviving spouse = £125,000 (£325,000 minus £200,000 gifts made within 7 years before death of 1st spouse)

NRB available for surviving spouse = full £325,000 – as their own gifts were made more than 7 years before death

The taxable estate is £800,000, after the deduction of £450,000 NRB and 2 x £175,000 RNRB (£800,000 total).

£1,600,000 - £800,000 = £800,000

Taxed at 40%, that's an IHT bill of **£320,000**.

After IHT is deducted, the balance of the total estate is £1,280,000

When divided equally between their four children they each get £320,000

Gifts out of normal expenditure – Exempt Gifts

We are commonly asked about these gifting allowances, especially since the announcement pension pots will soon be subject to IHT. Use of these allowances, where circumstances allow, can mean reassurance of gifting substantial sums and having immediate IHT relief. Record keeping, analysis and careful planning are crucial when using these allowances and to give the best chance of ensuring they are considered exempt.

Three conditions must be met for gifts to qualify as a 'gift out of normal expenditure':

1. It forms part of the individuals (settlor's) normal expenditure
2. It was made out of their income
3. It doesn't cause a reduction in their standard of living

We will explore the definitions of these below.

Income	
Income can include	Income doesn't include
• Dividends from investments • Income from UK Pensions, including payments from flexi-access drawdown. • Earned Income • Interest from bank accounts	• Capital from existing savings and investments • Regular withdrawals taken from "non-income producing" investments e.g. (5% withdrawals from bonds)

Reduction in Standard of Living

The individual's normal standard of living is assessed at the time of the gift(s). If we refer to the previous dictionary definition used by HMRC, standard, regular, typical, habitual or usual, it would need to be demonstrated that the pre and post standard of living was not impacted by the gift claiming the exemption for.

Gifts will not qualify for the exemption if the individual has to resort to capital to meet their normal living expenses.

It is important to calculate net income after tax, to establish what you have left to spend.

Then calculate as best you can your annual expenditure. You could take the last 2-3 years expenditure figures to get an approximation.

This may leave a figure of ‘excess income’ which you could then justify can be a gift out of normal expenditure.

Gifts made using this exemption need to be regular, structured and consistent.

As the exemption is claimed after death by your personal representatives it would be prudent to keep a full record of any payments for which you intend to claim the ‘normal expenditure out of income’ exemption.

If all these conditions are met, then there is potentially no limit on the amount which can be gifted and immediately exempt. However, most people will be spending their income plus using some of their capital in retirement, which means this exemption option may not apply for them.

Pension Drawdown – Using for ‘gifts out of normal expenditure’

Taxable income from a pension can certainly be included in calculations for gifting out of normal income. This could be a useful tactic to use for certain people, as long as by taking the income it does not cause adverse income tax which may somewhat offset the benefit of gifting.

Trusts

How do trusts work?

A trust allows you (the settlor) to entrust your assets to a group of people (the trustees). The trustees become the legal owners of the assets and manage them for the benefit of the trust's beneficiaries. You can put different assets into a trust, including cash, investments and life assurance policies. The value of the assets you place into trust will be a gift and will be treated either as a PET or CLT, unless covered by an exemption. The value of the gift you make will usually be considered outside your estate for IHT if you survive for a period of seven years.

The Settlor – Makes the gift and establishes the trust, outlining the Trust Property, Trustees, Trustees Powers & Beneficiaries. You can have more than one settlor if a trust is set up with a joint gift for example.

The Trust - The rules for how the trust will operate and the powers given to the trustees are defined in a 'trust deed'.

The Trustees – The trust is managed by your chosen trustees. It is common for the settlor to also be a trustee to retain some control.

The Beneficiaries - The settlor nominates their chosen beneficiaries in the trust deed. They can be named individually or named as a class of beneficiaries – such as "my children".

Two main types of Trust

Bare (Absolute) Trust

A simple, clear and effective trust which has a defined purpose.

The settlor explicitly names the beneficiaries in the trust deed.
Neither the beneficiary nor their share can be changed.

Pros	Cons
A gift into an absolute trust is classed as a PET and therefore there is no immediate IHT charge, regardless of the value gifted. Certainty over the beneficiaries and their share. No IHT periodic or exit charges apply. Income tax and Capital Gains Tax assessed on the beneficiary. The trust itself does not need to account for it's own tax. This can be particularly beneficial for minors who are likely to have their full allowances available.*	No flexibility to add/ change beneficiaries in the future. E.g. Further grandchildren or family disputes. Beneficiaries could legally request their share of the trust fund from age 18 if they are of sound mind and all beneficiaries have been identified and agreed. A beneficiary's share in the trust fund may be considered in divorce and bankruptcy proceedings against them.

Our clients often choose to set up absolute trust gifts for their grandchildren (rather than their children) for the following reasons:

- If the grandchildren are under 18 the assets can be held in trust for the benefit of them. This is both tax efficient and also protects the capital for suitable use.

- They have often already helped their children with cash gifts and may consider more helpful for children (who often have mortgages, childcare costs etc) to receive cash gifts to use now as opposed to a sum held in trust for the future.

- Their children may now be successful in their own right, and tax position on returns similar or higher than their parents.

- Their children may also have an Inheritance Tax liability, and any further gifts would only increase this issue for the future.

- Gifts can be used to benefit the children at any stage, for example, to pay for school fees or to wait to help buy a home.

The most common planning we help clients with is a cash gift to an absolute trust for grandchildren, then investing to grow over the longer term. This allows the '7 year clock' to start when the settlor is young and in good health, but retains the control to pay out money to help the grandchildren at their discretion in future.

There are lots of other scenarios where absolute trusts can be used also. If you are not setting up an investment portfolio through us within the trust, then you would require a solicitor to set up a trust.

Discretionary Trusts

A flexible trust which can provide profound benefit for family wealth planning and inheritance tax saving, especially on larger sums of capital and/or when planning to move assets into trust (like properties).
This flexibility comes at a cost, with additional caveats, reporting, taxes, charges etc.

The settlor defines 'potential' beneficiaries by name or 'classes'. For example, 'my grandchildren', which includes all current and future grandchildren.

The trustees have full discretion over how and when to distribute the trust fund among the potential beneficiaries. For example, they could use the trust fund to pay school fees/university costs for one beneficiary, while making ad hoc lump sum payments to another beneficiary to fund childcare costs.

Pros	Cons
Flexibility to adapt to a change in circumstances You can provide a letter of wishes to help guide the trustees over who and when you would like to benefit. The beneficiary cannot demand their share of the trust. The trust property is protected against divorce or bankruptcy of the beneficiaries. This is because until capital is decided to be paid out the trust to beneficiaries it is not legally theirs. 'Holdover Relief' allows settlors to defer paying capital gains tax when gifting an asset, such as an investment property, to a discretionary trust.	May be subject to an IHT entry charge if total CLTs exceed the value equal to the NRB in a seven-year period. See gifting section for details. Potential IHT periodic charges (10-yearly) and exit charges. Typically, a maximum of 6% on the value over the available NRB. Assets within a trust are taxed, and this is at high rate (45% income tax and 24% Capital Gains Tax for example). The trust has small tax-free allowances.

We often have enquiries about discretionary trusts, these are the 'trust' that most people imagine when thinking of their function (flexibility, protecting capital down the bloodline, etc). However very few clients then eventually set up these trusts because of the onerous reporting requirements, fees, taxes etc. For certain scenarios and objectives these trusts can work brilliantly and be very effective, it is just very important to consider the pros and cons and whether it suits your specific requirements.

We can provide further details about the full discretionary trust rules at your request.

Other types of trust specialist trusts offered by providers

Whilst most trusts set up will be absolute or discretionary, there are also a wide range of other trusts available in the market. These can offer different features, such as to allow capital access options in future. We have summarised a few examples of alternative trusts available below.

Lifestyle Trust (Quilter)

You make a gift through investing in an investment bond on the Quilter platform, which can then be placed into the Lifestyle Trust. This gift would be classed as a chargeable lifetime transfer (as this trust is effectively a type of discretionary trust). This particular trust enables you to access a pre-agreed proportion of the trust fund for your own use if required. When creating the trust, you specify the amount and frequency of the entitlement. At each date you can choose to defer or waive the payment if you do not need the money. You can also choose to assign the entitlement to another beneficiary at the agreed annual date.

You must survive 7 years after making the gift for it to be considered outside of your estate for Inheritance Tax purposes. If you defer the entitlement at the plan anniversary it will be deemed that you still made the gift from the beginning. If you receive your entitlement then this capital is of course back within your estate.

This can be a beneficial way of making a gift whilst still retaining access to some of the funds.
Note that investment bonds effectively have 20% tax rate on gains applied automatically, and gains realised on sale (including entitlements withdrawn) may have further tax applicable if the gain (chargeable event) pushes you into 40% tax.

Note - There are other providers offering forms of ‘lifestyle trust’ which we can also consider for clients.

Loan Trust

You make an interest-free loan to your chosen trustees. The trustees invest the money with the aim of generating growth. Any investment growth is immediately outside your estate for IHT. Your loan remains within your estate and you can recall it from the trustees at any time, either as ad hoc or regular payments.

Excess Income Trust

Using a combination of the normal expenditure exemption and a discretionary trust, many providers offer an “excess income trust”. This allows the settlor to regularly invest in an Investment Bond an amount which is deemed to fall within the normal expenditure exemption rule. If this is the case each gift will be immediately outside of the estate for Inheritance Tax purposes.

There are many trust options for clients and the correct choice will depend on their exact circumstances and objectives. We can provide further information on all trust types at your request and advise you accordingly. As noted previously, we may suggest clients also consult a specialist estate planning solicitor for trust planning.

Assets or investments which qualify for Business Property Relief

Business property relief (BPR) is available for transfers of business property during life or on death. The relief reduces the value for IHT of the business asset transferred. The business property must usually have been owned throughout the two years prior to the transfer. BPR is given at different rates depending on the asset.

100% relief is available for:

- a business or interest in a business (includes sole traders and partnerships) However, a business will not qualify for any BPR if it is regarded by HMRC as consisting, wholly or mainly, of making or holding investments. For example - a Buy-to-let property company.
- a holding of shares in an unquoted company
- EIS investments

50% relief is available for:

- controlling holding of shares in a quoted company (more than 50% of the voting rights)
- land or buildings, machinery or plant used wholly or mainly for the purposes of the business carried on by a company or partnership
- Alternative Investment Market (AIM) shares where death or transfer is made after 6 April 2026

From 6 April 2026 there will be a new £2.5 million limit to the combined assets qualifying for 100% Business Property Relief. Assets exceeding this £2.5 million threshold will receive 50% relief.

Any unused amount of the £2.5 million can be transferred to a surviving spouse or civil partner from 6 April 2026. If the first death was before 6 April 2026, it will be assumed the entirety of the £2.5 million allowance will be available for transfer to the surviving spouse or civil partner.

Shares which are not listed on a recognised stock exchange, including AIM shares, will be subject to relief at 50% on the entire holding and will not count against the £2.5 million allowance.

Investments we can help set up for clients which qualify for BPR

- **AIM ISAs and portfolios**

These invest in shares on the AIM exchange, and are smaller UK based companies (like companies invested within Venture Capital Trusts). These strategies are considered higher risk, due to the smaller companies invested. You can hold these shares within specialist ISAs or outside of ISAs. If clients are wanting to transfer some or all of their ISAs to aim for some inheritance tax-relief, and retain access to the capital and the option to change strategy in future, these products can be suitable.

These products give 50% inheritance tax savings after holding for 2 years.

- **Inheritance Tax Portfolios**

You can invest in portfolios provided by specialist investment providers which hold business assets qualifying for full business property relief. Again, this allows larger sums to be contributed, and/or ISA funds to be maintained in general investment strategies. Again, these strategies are considered higher risk, due to the nature of the underlying investments.

These products give 100% inheritance tax savings after holding for 2 years.

- **Enterprise Investment Scheme and Seed Enterprise Investment Scheme**

Shares in a portfolio of unlisted (usually start up) companies. You not only receive BPR after 2 years of holding, but also receive income tax-relief on invested amount (30% for EIS and 50% for SEIS) and other tax breaks like capital gains tax exemption and loss relief against income tax or capital gains. These strategies are considered high risk.

These products give 100% inheritance tax savings after holding for 2 years.

If you are interested about setting up investments which qualify for Business Property Relief, please let us know and we can discuss with you.

Whole of Life Insurance

Some clients will look to offset prospective Inheritance Tax (IHT) liabilities by setting up a whole of life insurance policy, in trust for the benefit of the family. This can be set up individually, or can be set up on a 'joint-life, second-death' basis to align with when IHT would usually be due for married couples.

The family would receive a lump-sum death benefit, usually held in trust so there is no inheritance tax liability. This can be used to pay IHT liability on the estate, or kept back for family benefit. This provides obvious benefits, including liquidity to reduce the risk of needing to sell assets at cut costs to settle IHT.

These policies can have premiums guaranteed or on a reviewable basis. Guaranteed premiums can stay the same, reviewable premiums will start lower then increase later in life (usually reviewed after 10 years, then every 5 years thereafter).

Policies are available which just have insurance, and some policies can provide investment elements alongside the insurance. You can also inflation link the policies if desired.

Our clients are increasingly looking at these policies as a form of 'long term gifting' to their families, to reduce IHT, improve liquidity for IHT bills, and to provide some protection for early death. These policies provide obvious benefits as a planning strategy for clients who do not want to make a large capital commitment to IHT planning all at once, and do not wish to take higher risk with investments (to benefit from BPR).

It is important we look at the potential long-term cost of paying into the policies alongside the benefit. To benefit from the payout you must continue paying monthly premiums until death.

Below we have constructed 2 example sheets which show the forecast plan benefit and cost for a 40 year setting up a policy and a 60 year old setting up a policy. We can tailor your own forecast as part of our advice process. These forecasts assume £1million cover inflation linked and guaranteed (non-increasing) premiums, premiums quoted subject to underwriting. Comparing net WOL benefit vs retaining money inflation linked, 40% inheritance tax applicable.

Age 40 set-up

WOL Insurance					Capital Retained - Inflation Linked	
Age	**Family Benefit**	**WOL Cost**	**Net Benefit**		**Gross**	**Family Benefit net IHT**
40	£1,000,000	£8,623.80	£991,376.20		£8,623.80	£5,174.28
60	£1,000,000	£181,099.80	£818,900.20		£181,099.80	£108,659.88
80	£1,000,000	£353,578.80	£646,424.20		£353,575.80	£212,145.48
85	£1,000,000	£396,694.80	£603,305.20		£396,694.80	£238,016.88
95	£1,000,000	£482,932.80	£517,067.20		£482,932.80	£289,759.68

Age 60 set-up

WOL Insurance					Capital Retained - Inflation Linked	
Age	Family Benefit	WOL Cost	Net Benefit		Gross	Family Benefit net IHT
60	£1,000,000	£17,796.72	£982,203.28		£17,796.72	£10,678.03
80	£1,000,000	£373,731.12	£626,268.88		£373,731.12	£224,238.67
85	£1,000,000	£462,714.72	£537,285.28		£462,714.72	£277,628.83
95	£1,000,000	£640,681.92	£359,318.08		£640,671.92	£384,409.15

You can see that in certain instances, when living to very old age, you could potentially end up benefitting slightly from retaining the premiums and paying IHT. You can also factor in that the premiums can be used to invest to aim to get a return greater than inflation, and/or be used to inheritance tax plan in a different way. That said, whole of life policies provide an element of clarity to planning and a lot of our clients are concerned about early death causing further IHT issues, which is where whole of life insurance can provide valuable reassurance.

Please contact us to discuss if desired and we can provide you with a personalised quote.

This guide has run through information on estate planning and inheritance tax planning methods. It is not conclusive in its information on each topic, however we can provide further information and discussions on request. Every client is different and advice should be tailored to your exact circumstances. We may also refer clients to seek advice from a specialist estate planning solicitor if required.

Please contact us to arrange a conversation regarding estate planning and inheritance tax planning if desired. We will be happy to assist.

FTA Financial & Wealth Management