Your guide to Inheritance Tax

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AFH wealth management

You don't have to be rich to have an Inheritance Tax liability

It's said that death and taxes are the only two certainties in life, and Inheritance Tax (IHT) means your loved ones could be dealing with both of them at the same time. As such, your family may have to cope with a significant IHT demand at an already difficult and distressing time.

While you may think that your estate is unlikely to be exposed to IHT, it may be more likely than you realise. This is because the amount you're allowed to have in your estate before the tax is charged has remained at £325,000 per person since 2009. This allowance is known as the nil-rate band (NRB).

Furthermore, the NRB has been frozen at £325,000 until April 2031. This means your estate could become more exposed to IHT if your assets continue to grow in value while the NRB remains static.

According to figures from the **UK House Price Index**, in May 2009 the average price of property in England was £145,550. By May 2025 however, it had soared to £268,652. This increase means the value of your property alone could use up a sizeable portion of your NRB and expose your estate to IHT, even if you don't consider yourself to be 'rich'.

You might be able to have £1 million in assets before IHT is charged

While the NRB is per person, if you're married or in a civil partnership when you die, any unused element of it can be passed to your spouse or civil partner. This means the surviving spouse's NRB could have a combined total value of up to £650,000.

If you leave your home to a direct descendant, which includes children, grandchildren, stepchildren and adopted children, you may also be able to claim the residence nil-rate band (RNRB). This provides a further £175,000, which means your NRB could rise to £500,000 if you are single.

If you are married or in a civil partnership, the combined total is up to £1 million. Please note that if your estate is £2 million or higher, the RNRB reduces by £1 for every £2 above this amount until it's lost at £2.35 million. If you live with your partner but have decided not to marry, you cannot pass any unused portion of your NRB to them.

Your pension could soon be exposed to Inheritance Tax

Historically, pensions were seen as a source of retirement income and an effective shelter from Inheritance Tax (IHT). This is because they were not typically liable to the tax as they fell outside of estates for IHT purposes.

That changed in October 2024, when the Government announced that as from April 2027 any unused portion of your pension will fall into your estate. This could significantly increase you estate's exposure to IHT in the future.

As such, your pension is unlikely to offer a tax-efficient way to pass your wealth to loved ones after this date. Because of this, using your pension as part of your intergenerational wealth plan may not be appropriate, which is why you should speak to a financial adviser.

They will be able to explain any other options that may be available to you to mitigate any exposure to IHT and provide a succession plan that works for you and your loved ones.

Enjoying life could be an effective IHT mitigation strategy

Spending your money could be an effective way to reduce the value of your estate, and with it any liability to IHT. Furthermore, spending your wealth is an excellent opportunity to enjoy life as you could treat yourself to luxury holidays or eating out regularly with friends.

It's important to remember that maintaining your lifestyle in retirement can often be expensive. This means that if you live to a ripe old age, you could reduce the value of your estate just by meeting your normal expenditure. A financial adviser can confirm whether your wealth will support your lifestyle without inadvertently depleting your funds earlier than expected.

If you do deplete your wealth you may need to reduce your standard of living.

Gifting can help to reduce your IHT liability

Another way you could reduce the value of your estate and any potential IHT charge is by gifting. In 2026/27, you are allowed to make the following gifts that immediately fall outside of your estate for IHT purposes:

- £3,000 to one person or split between many. You can also use any unused amount from the year before, meaning you might be able to gift up to £6,000 in a tax year
- unlimited gifts of up to £250 per person
- £1,000 wedding gift to anyone, £2,500 to grandchildren or great grandchildren, £5,000 wedding gift to your children
- regular gifts of any amount from income as long as it doesn't reduce your standard of living. As strict rules apply to this, always speak to a financial adviser to confirm whether it's the best option for you.

You can give your child £5,000 as a wedding gift...

...which will fall outside of your estate for IHT purposes as soon as you make it.

You can also gift any amount to anyone - although there's a catch

If you want to make a more substantial gift, you can do so. This is because the Government allows you to gift any amount you like to as many people as you want. That said, you should always speak to a financial adviser before doing so, to ensure it doesn't put your long-term financial security at risk.

The catch, however, is that these gifts do not become exempt from IHT straight away.

Typically, they will remain within your estate for seven years, meaning you need to live for this amount of time for it to fall outside of your estate for IHT purposes.

If you die within the seven years, the gift will be deducted from your NRB. If the gift uses up all of your NRB, the excess will become liable to IHT, which might need to be paid by the person you left it to.

As the below table reveals, making larger gifts earlier in life, if you can afford it, is often a better strategy, as your chances of surviving seven years is greater.

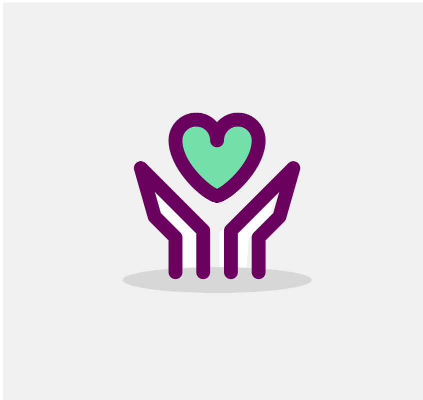
Average life expectancy beyond the age of:	Male	Female
65 years	18.5 years	21 years
70 years	15 years	17 years
80 years	9 years	9 years
90 years	3.8 years	4 years

Four other clever ways to deal with an IHT liability

Aside from gifting your wealth, there are other ways you could reduce or negate an IHT tax charge. Let's look at four that you may want to consider:

1. Consider life cover

A life cover payment can be used to settle an IHT demand without your beneficiaries having to dip into their inheritance. It's important to ensure the payment does not fall into your estate, as it will be liable to IHT if it does. One way to ensure this is to set the life policy up within a trust.



2. Give to charity

Any gifts made to good causes are IHT-free. In 2026/27, if you leave more than 10% of your estate that's exposed to IHT to charity, your overall tax charge drops from 40% to 36%.

3. Create a trust

A trust is a legal entitiy that is a useful way to protect assets for your loved ones in the future. Furthermore,it can be helpful in reducing future IHT liabilities.

4. Use Business Relief

In certain situations, assets could be passed to beneficiaries IHT-free using Business Relief (BR) or Agricultural Property Relief (APR).

The relief is available on qualifying business assets that have been owned by the transferor for two years or more. Relief at 100% is restricted to £2.5 million.

A surviving spouse can potentially claim Business Relief on up to £5 million of assets before IHT is charged and this is available to a widow/er even if their spouse passed away prior to the introduction of this increased allowance.

Assets that exceed these amounts will become liable to IHT at an effective rate of 20%.

Intergenerational wealth plans are more than IHT mitigation

While reducing or negating your estate's exposure to IHT should be central to your inter-generational wealth plan, there are other considerations you'll need to think of. For example, ensuring that your wealth is passed to loved ones as smoothly and quickly as possible, and that your beneficiaries know how to get the best from their inheritance when they receive it.

Research published in **This is Money** suggests that half of Britons would not know what to do with investments once they inherited them. Worse still, many would make common mistakes that could cost them dearly.

By creating a long-term working relationship with a financial adviser, who can also help your beneficiaries, you'll have peace of mind that your gift will provide the financial security you want it to.

This is especially true with AFH's financial advisers, who are all licensed estate planners.

Always consider the long-term risks

If you're going to create an intergenerational wealth plan, remember the following:

Sideways disinheritance

Most people, on their death, would want their children or grandchildren to benefit from their estate.

However, many couples on first death leave their assets to their partner. Future events such as remarriage can result in those assets being passed outside of their bloodline.

This is because the new spouse may then pass your wealth on to someone other than your children or grandchildren.

If you gift your wealth to others to reduce your IHT liability, you lose the right to access the assets further down the line. One reason you may need those assets could be to pay for your care if your mobility, or health, deteriorates.

A financial adviser can help you reduce your estate's exposure to IHT, while ensuring you have enough money for any future care needs.

An IHT strategy could reduce stress for loved ones at an already difficult time

Broadly speaking, an IHT liability has to be paid within six months of the estate holder's death to avoid extra charges. This could create stress for your loved ones at a time when they're already coping with grief.

Creating a strategy to deal with an IHT liability means that your loved ones will not need to worry about settling a tax charge on your estate. This provides you with peace of mind that you'll be looking after your loved ones both emotionally and financially after your death.

AFH advisers are licensed estate planners and can help you to create your will. This makes the process more convenient and means we can ensure that your wishes dovetail into your wider wealth plan.

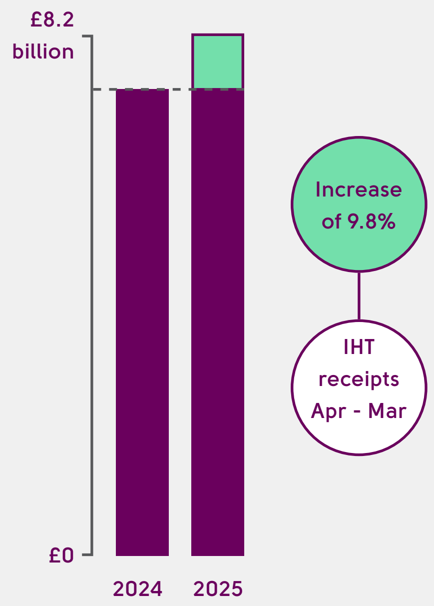
Additionally, as we're looking after your will and financial affairs, we'll make it easier for your family to deal with your estate when the time comes.

When it comes to estate planning, let us take the strain

With our extensive financial expertise as well as AFH Trust and Estate Planning Services, we'll provide peace of mind that your assets will be passed to your loved ones as smoothly and tax efficiently as possible.

We can also create trusts to make sure your wealth goes to your future bloodline, no matter what the future holds for them.

Our commitment to creating long-term working relationships with clients and their families also means that we'll help your loved ones get the most from the gifts you leave them.



According to **FT Adviser**, the Government recieved £8.2 billion in IHT receipts betwen April 2024 and March 2025 - an increase of £800 million on the same period the year before.

As such, creating an estate plan could be a very shrewd financial strategy.

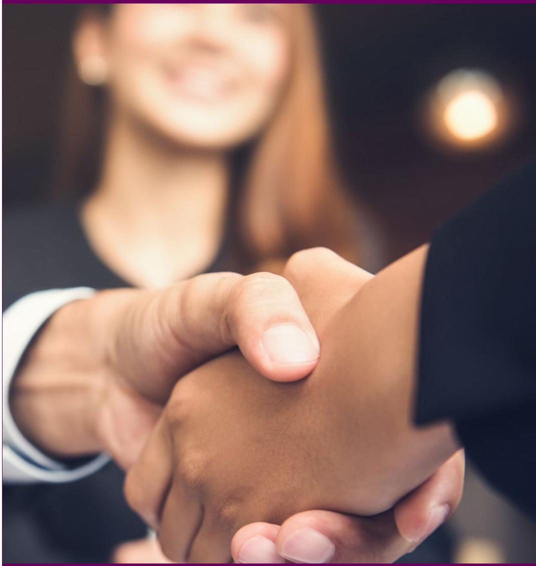
Get in touch

AFH Wealth Management is one of the UK's leading wealth management firms, with more than 200 independent financial advisers.

Formed in 1990 to provide excellent advice and service to clients, we have gone from trength-to-strength and continues to do so. Today, we're one of Britain's largest independent financial advice companies with Group client assets of £11bn*.

Because we're committed to providing truly independent advice, we can access the whole market to find the best solution for you. This, together with our AFH Trusts and Estates Planning Services, means our independent financial advisers are here to help you every step of the way.

*Assets under Management and Assets under Influence combined for AFH Financial Group companies, accurate at January 2026. Figure is rounded to the nearest billion.



If you'd like to discuss an IHT liability or your intergenerational wealth plan, please contact us on mail@afhgroup.com or call on **01527 577775.**

Please note: this guide does not constitute financial advice. Please speak to a financial adviser to confirm whether trust and estate planning is right for you.

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