



A Quick Client Guide to: **Inheritance Tax**

Please note:

The information contained in this document is for guidance only. It does not constitute personal financial advice.



Further sources of information and guidance:
The Money Advice Service: www.moneyadvice.service.org.uk
HMRC: <https://www.gov.uk/inheritance-tax>

OVERVIEW

Inheritance Tax (IHT) is payable upon an individual's death if the total value of their assets (their estate) exceeds a threshold known as **the Nil Rate Band (NRB)**.

The tax is applied to the value of assets above this threshold, but it can potentially be reduced through various **Allowances** and **Reliefs**.

This guide aims to provide an overview of these matters. For further information or personalised advice, please contact your **Intelligent Pensions financial planner**.

The Nil Rate Band (NRB)

The current NRB is £325,000 and has been fixed at this rate since 2009.

Estates which fall below this value will not be subject to IHT, and it is also possible to pass on any unused NRB to a spouse. As a result, the full allowance of £650,000 available to a married couple may be applied on the death of the surviving spouse.

The value of an estate may also include the value of gifts made during your lifetime, particularly if they were made within a few years of your death. Currently, most pension funds are exempt from IHT, although this exemption is set to change starting from the 2027 tax year.

IHT is charged at 40% on the excess value of the estate above the NRB.

Residence NRB (RNRB)

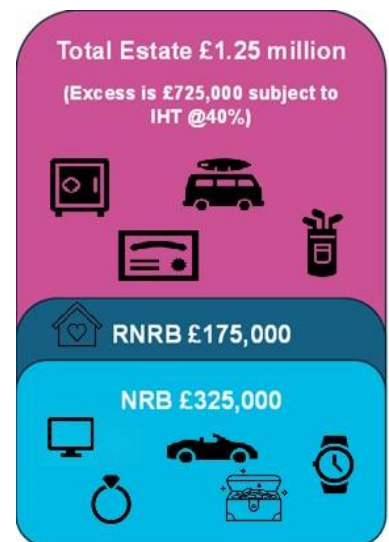
Where a home (principal residence) is left to direct descendants (children / grandchildren) on death, an additional NRB can be claimed. This additional Residence Nil Rate Band is £175,000, increasing the basic allowance from £325,000 to £500,000 per individual.

The RNRB may also be passed to a spouse so that a total of £1 million is available to be offset against the value of the estate on the second death.

For larger estates the RNRB is reduced at the rate of £1, for every £2 of assets above £2 million.

Example:

Estate value on death = £2.2 million → Excess above £2 million = £200,000
Amount lost from RNRB = £200,000/2 = £100,000 → Remaining NRB = £900,000



Once the total value of an estate exceeds £2.35 million, for a married couple, the additional Residence NRB is completely lost and reverts to the standard figure of £325,000 each.

Exemptions and Reliefs

Exemptions, or allowances, apply to gifts made during your lifetime whereas reliefs apply to transfers of property on death.

EXEMPTIONS

Transfers between Spouses	Assets transferred between you and your spouse or civil partner are exempt from IHT. For many married couples therefore, it is likely that IHT will become due on the 2nd death.
Annual Gifts exemption	You may gift up to a total of £3,000 in each tax year without incurring a potential IHT charge. This may be divided between one or more recipients, and if unused can be carried forward by one year providing a total potential exempt gift of £6,000.
Gifts on Marriage	You can make a gift of up to £5,000 to your children, £2,500 to grandchildren in each year, or up to £1,000 to anybody else.
Small gifts exemption	You may gift up to £250 p.a. to an unlimited number of people.
Gifts to charity	Gifts to charities or political parties, including museums, universities and some sports clubs are exempt from IHT.
Gifts from normal expenditure	You can make unlimited gifts out of your regular income providing it does not adversely impact on your standard of living.

You may also make larger cash gifts during your lifetime to reduce the value of your estate. The gifts (known as Potentially Exempt Transfers (PETs)) could be exempt from IHT if you live at least 7 years after the gift is made:

1. Making lump sum gifts to family members or friends

This approach can be effective; however, you will lose control of the money, and the recipients are free to use it as they wish, potentially diverging from your original intentions.

2. Making gifts into a trust

This option allows you to retain control of the money through your trustees. However, gifts made into a discretionary trust are considered lifetime transfers and may still be included in the value of your estate. For this reason, **seeking financial advice is highly recommended.**

RELIEFS

Certain assets, such as business or agricultural property qualify for reliefs which reduce the rate of tax due on death. A common planning strategy is to invest in assets which qualify for Business Relief, although it is worth remembering that these are often high risk investments and taking advice is likely to be beneficial.



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