A scenic photograph of a rural landscape. In the foreground, several large, round hay bales are scattered across a dry, golden-brown field. The middle ground shows a line of green trees and a small building. In the background, a blue body of water stretches across the horizon under a clear sky.

Helping you understand Inheritance Tax (IHT)



Introduction – Overview of IHT

Inheritance Tax (IHT) is a tax charged on the value of an individual's estate (everything they own) at the time of their death.

For married couples or civil partners, there is usually no IHT on the first death if assets are left to the surviving spouse or partner. Consequently, IHT is often only calculated and paid upon the second death.

Assets include an individual's share of the home, bank accounts, investments, and personal belongings. Following announcements in the Autumn Budget 2024, pension death benefits will form part of the estate for IHT purposes from April 2027.

IHT is charged on the value of an estate above the available tax-free thresholds, with any excess generally **taxed at 40%**.

IHT-Free Allowance – Nil Rate Band & Residence Nil Rate Band

1. Nil Rate Band (NRB)

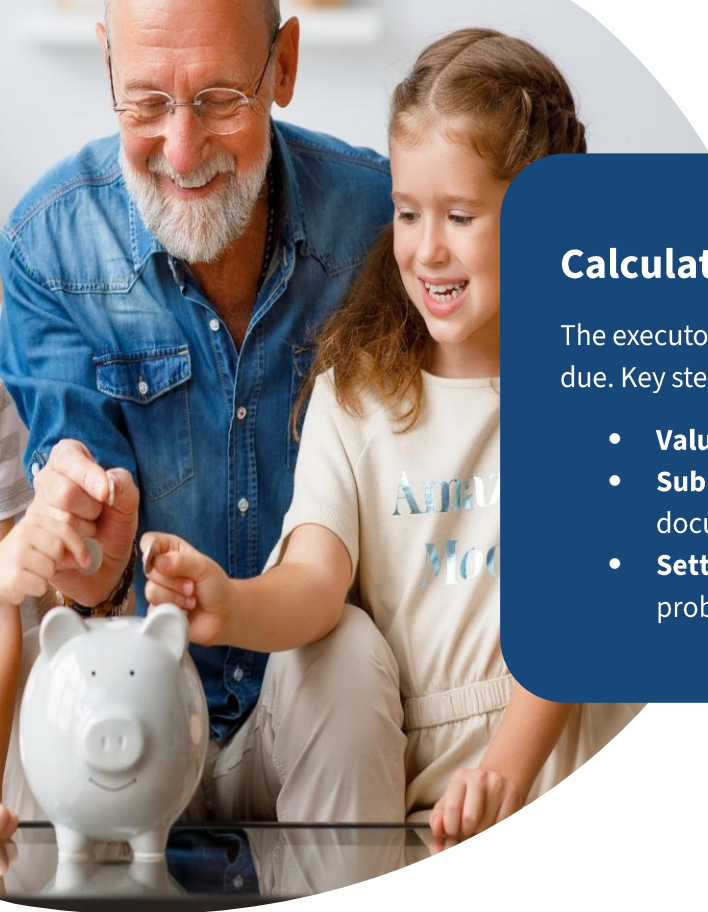
£325,000 per individual (£650,000 for a married couple). Any unused NRB can usually be transferred to a surviving spouse or civil partner.

2. Residence Nil Rate Band (RNRB)

An additional £175,000 per person when a main residence is left to direct descendants (such as children or grandchildren). This can increase the total tax-free allowance to £500,000 per individual (£1,000,000 for a married couple).

The RNRB may still be available where a property has been sold or downsized, subject to specific rules.

For estates exceeding £2,000,000, the RNRB is tapered at a rate of £1 for every £2 above this threshold and is fully lost once the estate exceeds £2,700,000.



Calculation & Payment of IHT

The executor of the estate is responsible for calculating and paying any IHT due. Key steps include:

- **Valuing the Estate:** Identifying all assets and liabilities.
- **Submitting Forms:** Completing relevant probate and IHT documentation.
- **Settling the IHT Bill:** IHT must be paid (at least in part) before probate is granted, which may require assets to be sold.

Strategies to Reduce IHT Exposure

1. Spending

Spending assets during lifetime can reduce the taxable estate but requires careful planning given uncertainty around life expectancy and future financial needs.

2. Gifting

Certain gifts are exempt from IHT, including:

- Up to £3,000 annually per individual (with the ability to carry forward one unused year).
- Small gifts of up to £250 per recipient.
- Wedding gifts (£5,000 to children, £2,500 to grandchildren & £1,000 to others)
- Gifts from surplus income (see 'Helping you understand Inheritance Tax planning and gifting from surplus income')

Gifts made more than 7 years before death (Potentially Exempt Transfers or PETs) are generally outside of the estate. If death occurs within 7 years, taper relief may reduce the IHT payable on those gifts after year 3.

3. Gifting to Trusts

Trusts can provide control over how funds are distributed to beneficiaries.

- Bare Trusts: Fixed beneficiaries who can access funds at age 18 (or 16 in Scotland).
- Discretionary Trusts: Trustees retain flexibility and control over distributions.

4. Charitable Giving

If at least 10% of the net estate is left to charity, the IHT rate on the remaining taxable estate may reduce from 40% to 36%.

4. Insurance

Whole of Life insurance policies written in trust can be used to help cover an expected IHT liability.

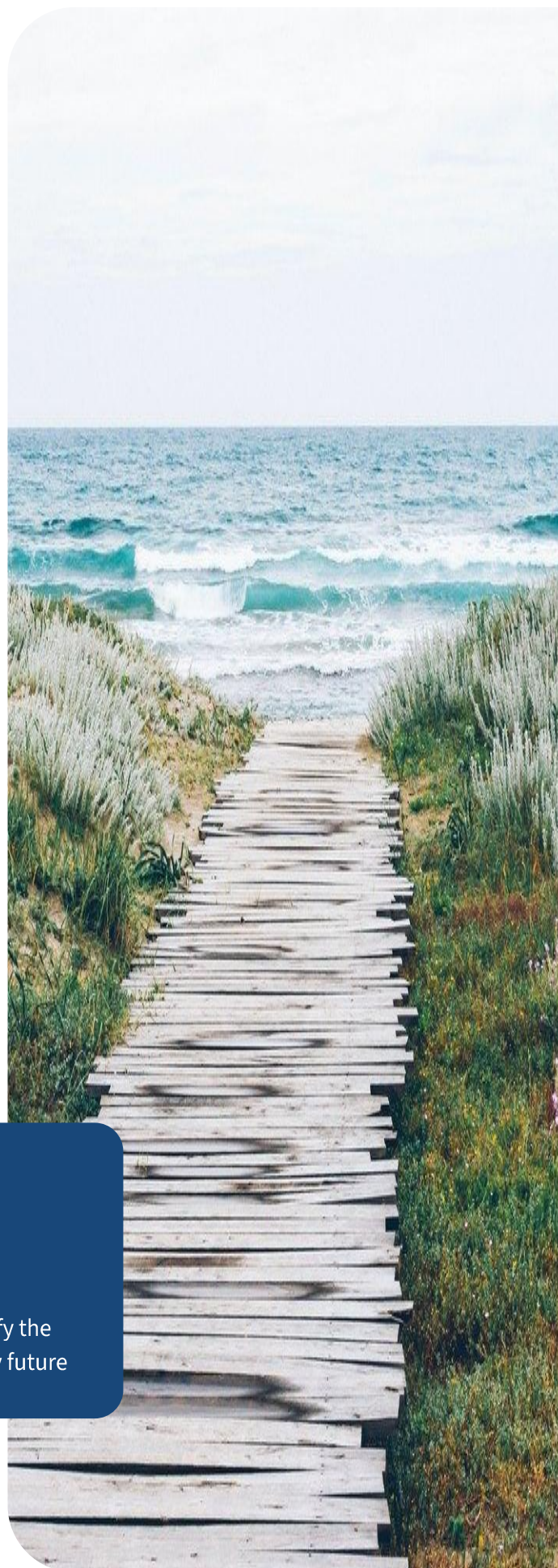
5. Business Relief

Certain qualifying business assets may receive 50% or 100% Business Relief after two years of ownership, subject to eligibility and ongoing qualification.

Summary

This document provides a high-level overview of IHT, how it is calculated, and potential strategies to reduce exposure.

A personalised review of your financial situation can help identify the most appropriate steps to protect beneficiaries and manage any future



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