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Inheritance Tax and Succession Planning

Clear, specialist advice when you need it

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Contents

04 Why Inheritance Tax planning is important
Maximising reliefs and exemptions

06 Making the most of lifetime gifting

08 What about trusts?
Making gifts to charity

09 Ensuring Wills are up to date

10 Family Investment Companies

11 Family businesses

12 Becoming UK resident
Moving overseas

13 Spouses with different Long Term Residence statuses
Pensions

15 Post-death planning
IHT planning checklist

Why Inheritance Tax Planning is important

A greater number of estates are being brought into the scope of Inheritance Tax (IHT) each year as a result of the continued freezing of IHT thresholds and allowances, recent reductions in the availability of certain reliefs, and the proposed inclusion of pension funds within the IHT net.

With IHT levied at a flat rate of 40% on estates (after Nil Rate Bands are applied), it is now more important than ever to take steps to ensure that your wealth passes to your loved ones with minimal tax leakage.



HMRC collected a record £8.5 billion of IHT in the 2025/26 tax year and receipts for the four months so far in 2026/27 are £3.2bn (£100M up from the same period last year). The Office for Budget Responsibility expects annual receipts to approach £14 billion by 2029/30. This reflects the growing importance of proactive estate planning for many families.

The most appropriate strategy will depend on a range of factors including your age and health status, the level of your family wealth, the types of assets you own, and who your intended beneficiaries are. Each family's circumstances are different and families will require bespoke planning.

By seeking advice from professional advisers, we can work together to understand your objectives, maximise the planning opportunities and minimise the tax risks. The earlier you take advice, the more time for planning to ensure your tax and financial affairs are in order, and to make things easier for your family and loved ones.

Maximising reliefs and exemptions

Spouse exemption

References to a spouse include a civil partner. Assets passing between spouses, either on death or during lifetime, are generally exempt from IHT, unless assets pass from a Long Term Resident (LTR) spouse to a spouse who is not a Long Term Resident in the UK, in which case the exemption is capped at £325,000. The definition of an LTR and planning options for such situations are discussed further below.

Nil Rate Band

Each individual has a standard Nil Rate Band (NRB) of £325,000, which is transferable between spouses. The NRB has been frozen since 2009 and is not set to increase until April 2031 at the earliest. As a result of increasing rates of inflation and property values in recent years, many more individuals are now within the scope of IHT than ever before.

A couple may be able to pass up to £1 million free of IHT where both full Nil Rate Bands and Residence Nil Rate Bands are available. However, this figure will reduce where the value of a person's estate exceeds £2 million.

Residence Nil Rate Band

In addition to the Nil Rate Band, an individual may be entitled to a Residence Nil Rate Band (RNRB) of up to £175,000 (also transferable between spouses), provided the main residence is left to direct descendants. It is therefore possible for a couple to have assets worth up to £1 million before IHT is payable.

However, where an individual's net estate exceeds £2 million, the RNRB is tapered away at the rate of £1 for every £2 over that limit. The RNRB rules are complex, but it can still be available where you have downsized your property, sold your main residence or moved into residential care. The RNRB is completely lost once the net estate reaches £2.35 million.

Business Relief (BR)

If you run a business, your business assets, including shares in an unquoted trading company, may be wholly or partially relieved from IHT under the Business Relief rules. To qualify for relief, the company must not be 'wholly or mainly' an investment company.

Qualifying assets attract relief at 100% on the first £2.5 million. The excess over £2.5 million qualifies for relief at 50%. It is worth noting that AIM shares only qualify for relief at 50% but do not count towards the £2.5 million allowance.

Investors may also be able to obtain BR on certain qualifying investments after a two-year holding period. These investments can either be made directly by individuals or through existing companies. Further advice should be sought if you are interested in exploring this type of investment. BR is transferable between spouses and so couples will generally pay no IHT on the first £5 million of qualifying assets.

The assets must be held for a period of two years before BR is available.

If you own shares in a company that holds investment assets or surplus cash balances, those assets may restrict the amount of BR available on the shares. It is therefore important that a full review of the company's balance sheet is undertaken to identify any potential 'excepted' assets that may restrict relief.

Where shares are transferred to a spouse on death, the surviving spouse takes over the ownership period of the deceased. This means that the surviving spouse does not have to wait for two years for the shares to qualify for BR provided the two-year holding period was satisfied by the deceased spouse. This is not the same for lifetime gifts where the recipient (donee) spouse will have to wait for two years before the shares qualify for BR in their hands.

Making the most of lifetime gifting

Lifetime gifting is one of the most valuable ways of reducing IHT liabilities on death. However, there are potential pitfalls and it is important to take advice to ensure that any gifts you make during lifetime do in fact reduce the taxable value of your estate on death. Otherwise, the gifts may be ineffective for IHT purposes.

Financial or 'cashflow' forecasting for individuals allows you to model different financial scenarios, including lifetime gifting, and understand the long-term impact of planning decisions, helping you make informed choices with greater confidence. LFWM are experienced in using these tools to aid investment and other financial decisions.

Gifts to spouses

Gifts to a spouse can be made free of IHT (and also free of capital gains tax (CGT)). This is a useful exemption if couples wish to equalise their assets, perhaps for income tax purposes, or in cases where each spouse wishes to leave assets to different beneficiaries.

Gifts to other individuals

Gifts to an individual other than a spouse generally fall outside the donor's taxable estate after a period of seven years, provided the donor does not reserve a benefit in the assets given away.

Gifts made within the 7 years before death become chargeable to IHT but if total gifts exceed the Nil Rate Band a taper relief applies to reduce the amount of tax payable if there are more than 3 years between the date of gift and the date of death. The reduction in tax operates on a sliding scale, as shown in the table.

Years before death	IHT payable on gift
0-3	100%
3-4	80%
4-5	60%
5-6	40%
6-7	20%
7+	0%

For peace of mind, consider taking out life insurance to cover the IHT risk should a gift become chargeable to IHT as a result of death within seven years.

Care needs to be taken to ensure there is no reservation of benefit by the donor in the asset given away, otherwise the value of the gift will form part of the donor's chargeable death estate. For example, giving away your home (e.g. to a child) and continuing to live in that property is generally ineffective for IHT planning. The value of the home would remain chargeable to IHT on the death of the donor, and the donee would also lose the benefit of the CGT-free uplift to the property's market value at the date of death that would otherwise apply if the property had remained in the deceased's ownership.

However, there is an exception where the donee shares occupation of the property with the donor. Provided certain conditions are met, there would be no gift with reservation of benefit in these circumstances. If the property is also the donee's main residence, any gain arising on a future sale by the donee may qualify for CGT relief under the Private Residence Relief rules.

Capital Gains Tax

Gifting an asset during one's lifetime is a disposal for CGT purposes. Even though no proceeds are received, the gift may result in a CGT liability if the asset is standing at a gain. In certain circumstances, the donor and donee may jointly elect to 'hold-over' the gain to defer the CGT charge. Where a valid election is made, the donee effectively takes over the donor's gain and pays the CGT when they eventually dispose of the asset.

Annual exemption

Individuals can gift £3,000 per year free of IHT and can carry forward any unused allowance from the previous year only. Gifts within the annual exemption are immediately outside your estate for IHT purposes.

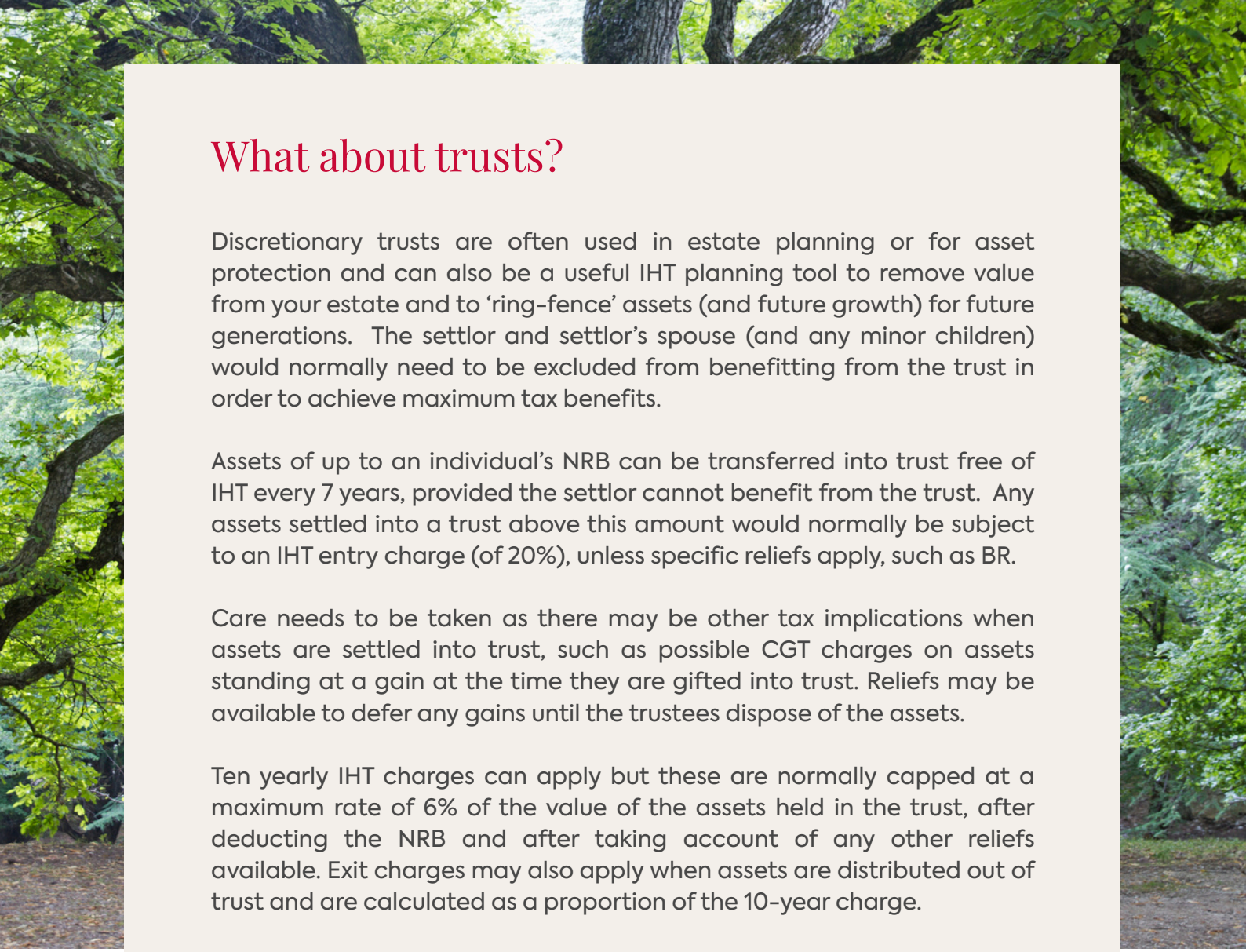
The regular gifts out of surplus income exemption is a particularly valuable exemption that individuals should take advantage of to remove value from their estate without having to worry about the 7 year survivorship period.

Regular gifts out of surplus income

This is a valuable exemption that is often overlooked. Provided the gifts form a regular pattern, are made out of income (not capital), and the donor is left with sufficient funds to maintain their regular standard of living, the gifts are immediately outside the donor's estate, without the need to survive for seven years.

The gifts need to be structured correctly and must be properly documented. It would be prudent to carry out a cashflow planning exercise to ensure that the level of gifts leave you with sufficient funds for your old age. Up-to-date records of income and expenses will need to be maintained as evidence that the conditions have been met, and enable the executors to easily claim the relief when filing any IHT forms after death.





What about trusts?

Discretionary trusts are often used in estate planning or for asset protection and can also be a useful IHT planning tool to remove value from your estate and to 'ring-fence' assets (and future growth) for future generations. The settlor and settlor's spouse (and any minor children) would normally need to be excluded from benefitting from the trust in order to achieve maximum tax benefits.

Assets of up to an individual's NRB can be transferred into trust free of IHT every 7 years, provided the settlor cannot benefit from the trust. Any assets settled into a trust above this amount would normally be subject to an IHT entry charge (of 20%), unless specific reliefs apply, such as BR.

Care needs to be taken as there may be other tax implications when assets are settled into trust, such as possible CGT charges on assets standing at a gain at the time they are gifted into trust. Reliefs may be available to defer any gains until the trustees dispose of the assets.

Ten yearly IHT charges can apply but these are normally capped at a maximum rate of 6% of the value of the assets held in the trust, after deducting the NRB and after taking account of any other reliefs available. Exit charges may also apply when assets are distributed out of trust and are calculated as a proportion of the 10-year charge.

It is vital that professional advice is taken as trusts are a particularly complex area of taxation.

Making gifts to charity

Gifts to UK registered charities are generally exempt from IHT, whether made during your lifetime or on death. As a result, charitable giving can be an effective way to support causes that are important to you while also reducing the value of your taxable estate.

Where at least 10% of an estate (or an individual 'component' of the estate in more complex cases) is left to charity on death, the rate of IHT applying to the remainder of the taxable estate is reduced from 40% to 36%. This can significantly reduce the overall IHT liability while increasing the amount ultimately passing to charitable causes.

As the rules are complex and the 10% test is applied by reference to a statutory calculation, professional advice should be sought to ensure that charitable gifts are structured appropriately and the reduced rate is available where intended.

Ensuring Wills are up to date

Wills

A professionally drafted and regularly reviewed Will is a cornerstone of IHT planning, yet recent research indicates that around 60% of UK adults do not have one.[1] A Will ensures that assets pass according to your wishes and can help maximise the use of available exemptions, reliefs and allowances, including the spouse exemption and Nil Rate Bands.

Many spouses will establish Mirror Wills, which contain broadly identical provisions. They remain one of the most common forms of Will used in the UK due to their simplicity and relatively low cost.

For larger or more complex estates, alternative structures involving trusts may provide greater control, flexibility and protection for future generations.

Where you hold assets outside the UK, you should consider whether you also need a Will in the overseas jurisdiction(s) to deal with those assets. Local legal advice should be taken to ensure the overseas Will does not conflict with your UK Will and takes account of any applicable forced heirship rules.

Without a valid Will, your estate will generally pass under the intestacy rules, which may be inconsistent with your wishes. For example, unmarried partners have no automatic entitlement under the rules, regardless of the length of the relationship.

Your Will should be reviewed regularly and following major life events, such as marriage, divorce, on having children or a material change in your financial circumstances. Keeping it up to date ensures that your estate planning remains aligned to your objectives and tax efficient.

1. The National Will Register, National Wills Report 2025

Do not assume that your spouse or partner will automatically inherit everything. Without a valid Will, your estate will generally pass under the intestacy rules, which may not reflect your wishes.

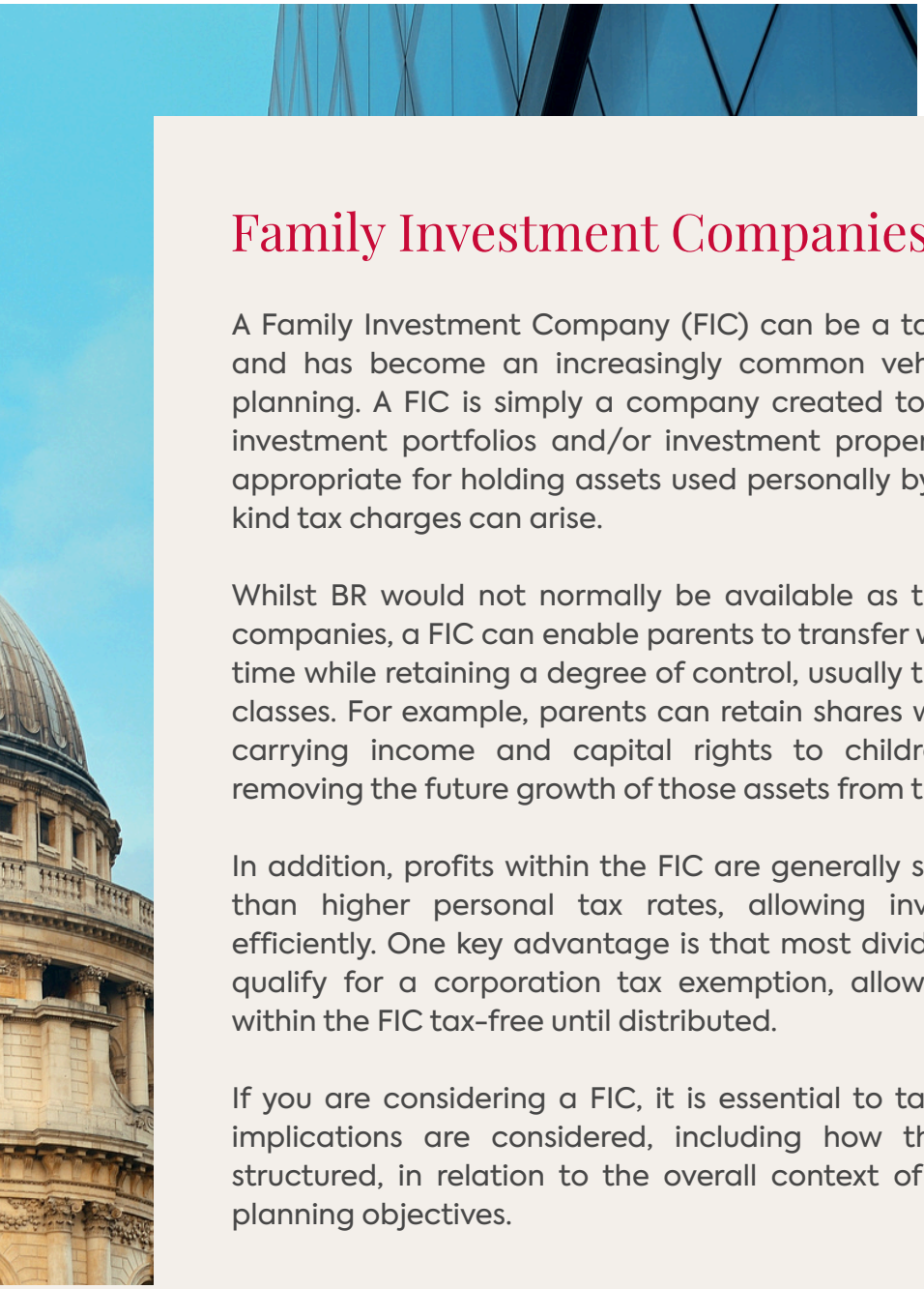


Lasting Power of Attorney (LPA)

A Lasting Power of Attorney allows you to appoint someone to make decisions on your behalf if you lose mental capacity. There are two types of LPA: one covering Property and Financial Affairs and another covering Health and Welfare.

Without valid LPAs in place, your family may need to apply to the Court of Protection for authority to manage your affairs, which can be a time-consuming and costly process, and prevent your next of kin from accessing your assets which might be needed, for example to pay for your care needs, at an already stressful time for them.

Consider putting LPAs in place at the same time as your Will. Combining the process is often more efficient and cost-effective, as your solicitor can review your family circumstances, estate planning objectives and choice of attorneys and executors together.



Family Investment Companies

A Family Investment Company (FIC) can be a tax efficient alternative to a trust and has become an increasingly common vehicle used by families in estate planning. A FIC is simply a company created to hold investments such as cash, investment portfolios and/or investment property. FICs would not normally be appropriate for holding assets used personally by family members, as benefit-in-kind tax charges can arise.

Whilst BR would not normally be available as these companies are investment companies, a FIC can enable parents to transfer wealth to future generations over time while retaining a degree of control, usually through the use of different share classes. For example, parents can retain shares with voting rights and gift shares carrying income and capital rights to children or grandchildren, gradually removing the future growth of those assets from their taxable estate.

In addition, profits within the FIC are generally subject to corporation tax rather than higher personal tax rates, allowing investments to compound more efficiently. One key advantage is that most dividends received by the FIC should qualify for a corporation tax exemption, allowing this income to accumulate within the FIC tax-free until distributed.

If you are considering a FIC, it is essential to take advice to ensure that all tax implications are considered, including how the FIC should be funded and structured, in relation to the overall context of the family's wealth and estate planning objectives.



Family Investment Partnerships

A Family Investment Partnership (FIP) is an alternative option to a FIC under which the family investments are held through a partnership, which can be structured as a Limited Liability Partnership (LLP) or possibly a Family Limited Partnership (FLP). The latter is a more bespoke arrangement and less commonly used than a LLP.

The day-to-day management and control of the partnership can be separated from the economic ownership, helping families manage succession and reduce tax liabilities.

As partnerships are transparent for UK tax purposes, partners would be taxed on their share of the partnership's income and gains as they arise. The rights and interests of each family member would be set out in the partnership agreement and can be changed over time, although care needs to be taken as changes in profit-sharing ratios can give rise to tax implications.

Both FICs and Family Investment Partnerships can be effective long-term succession planning tools, but they involve legal, tax and administrative considerations and should only be implemented following specialist advice.

Family businesses

Do not leave your retirement and succession planning for the family business too late. A number of practical issues and other factors need to be considered, including:

- Who will run the business going forwards and do they have sufficient expertise?
- Will the current owner(s) need to retain a degree of control?
- How will control be passed over the next generation and over what timeframe?
- Do separate share classes need to be put in place to have flexibility over income distributions?
- To what extent does BR apply and can planning be undertaken to maximise the level of relief available, for example by reducing the value of excepted assets within the business?
- Would a freezer or growth share arrangement be suitable to lock in the value retained by the current shareholders that is subject to IHT so that future growth can be enjoyed by the next generation?
- Where shares are gifted, to what extent is CGT hold-over relief available to defer any CGT charge until the shares are eventually sold by the donee(s).

Becoming UK resident

I have recently arrived in the UK: are my assets within the charge to IHT?

From 6 April 2025, a person's 'domicile' status is no longer a connecting factor for UK IHT purposes. Instead, we now look at whether you are a LTR in the UK at the time a charge arises.

You will be an LTR if you have been resident in the UK for at least 10 out of the last 20 tax years, immediately preceding the tax year in which the chargeable event (e.g. death or transfer into trust) arises.

An LTR is fully within the scope of UK IHT on worldwide assets.

A non-LTR is generally only liable to UK IHT on UK situs assets, which includes residential property situated in the UK (even if held indirectly through an overseas structure), UK commercial property, most UK shares and securities, investments held in the UK, UK bank accounts etc.

This means that if you have previously been non-UK resident for at least 10 years before you come to the UK, only your UK assets will be within the scope of IHT for the first 10 years of UK residence. After that, your worldwide assets will be chargeable to IHT. You should therefore plan for the loss of non-LTR status in advance of your 10th anniversary of UK residence.

Moving overseas

I am thinking of moving overseas: can I avoid UK IHT?

This depends on your LTR status when you leave the UK. If you are a LTR at the point you leave the UK, your non-UK assets will remain within the scope of UK IHT for up to 10 years post departure. This is known as the IHT 'tail'.

The number of years the IHT 'tail' lasts depends on how long you had been resident in the UK prior to departure:

Number of years UK resident	Length of Tail
10-13 years	3 years
14-19 years	4-9 years
20+ years	10 years

Once the 'tail' period ends, only your UK assets will be within the scope of IHT.

Life insurance could be an option to cover risk of death for the duration of the IHT tail.

Alternatively, estate tax treaties may also help to mitigate the UK IHT liability if you move to a country that has concluded an estate tax treaty with the UK. However, the UK only has a total of 10 estate tax treaties so their usefulness is likely to be limited. The Interaction of UK and overseas inheritance tax liabilities can be complex, and advice should be taken in both jurisdictions.

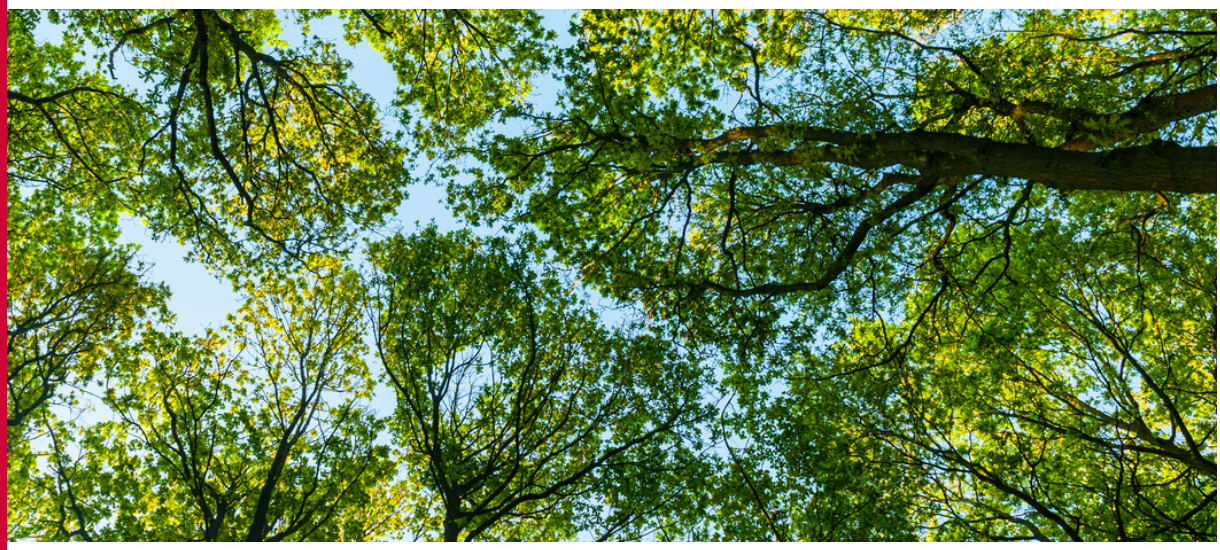
Watch out! If you leave the UK, your worldwide assets may remain within the UK IHT net for a period of 10 years post departure, and your UK situs assets will always remain within the UK IHT net even if non-resident.

Spouses with different Long Term Residence (LTR) statuses

If assets are left by a spouse who is LTR in the UK to their non-LTR spouse, the spouse exemption is capped at £325,000. This can give rise to unexpected IHT bills on the first death for couples in this situation who are unaware of the cap. However, there is a remedy. If the spouse who is not a LTR elects to be treated as an LTR, they can enjoy the unlimited spouse exemption. The election can be made during lifetime or within two years of the first spouse's death.

The election can therefore be useful for mitigating IHT on the first death but will bring the surviving spouse's worldwide assets within the scope of IHT on their death.

The decision about whether to make the election or not will depend very much on individual circumstances, including the value and location of each spouse's assets, the long-term plans of the couple, and whether the surviving spouse intends to remain in the UK.



Pensions

Private pension wealth is now the largest component of household wealth in Great Britain, according to the Institute for Fiscal Studies.

For many years, pensions have been an extremely effective IHT planning vehicle. Under current rules, most defined contribution pension pots can usually be passed to beneficiaries outside the member's estate for IHT purposes, making them an attractive way to preserve wealth for future generations.

However, from 6 April 2027, most unused pension funds and death benefits will be pulled into your estate for IHT purposes. This represents a dramatic shift from the current rules. For many individuals, pensions represent one of their largest assets, alongside the family home or a business interest, and the impact on the IHT liability could be significant.

Notably, benefits passing to a surviving spouse will remain exempt from IHT. Where pension funds are inherited by children or other beneficiaries, the same funds could potentially be exposed to both IHT and income tax, depending on the circumstances. Pension death benefits are also typically paid at the discretion of the scheme administrator. Therefore, keeping an up-to-date death benefit nomination, also known as an Expression of Wish, remains an important consideration.

How will IHT be calculated?

Pension assets will be aggregated with assets in the 'free estate', such as property, cash and investments, before available exemptions, reliefs and Nil Rate Bands are applied.

The Nil Rate Band and Residence Nil Rate Band will continue to apply to the estate as a whole rather than being allocated separately between pension and non-pension assets. As a result, the inclusion of pension wealth may cause some estates to exceed available allowances for the first time or increase the proportion of the estate subject to IHT.

The deceased's personal representatives (executors or administrators) will generally be responsible for reporting and paying any IHT due. Where tax is payable, the liability is expected to be borne proportionately between pension and non-pension assets, with mechanisms available for pension providers to pay tax directly to HMRC where required.

Many people have built their retirement strategies around pensions sitting outside the IHT net. If a substantial proportion of your wealth is held in pensions, you should review your arrangements well before April 2027.

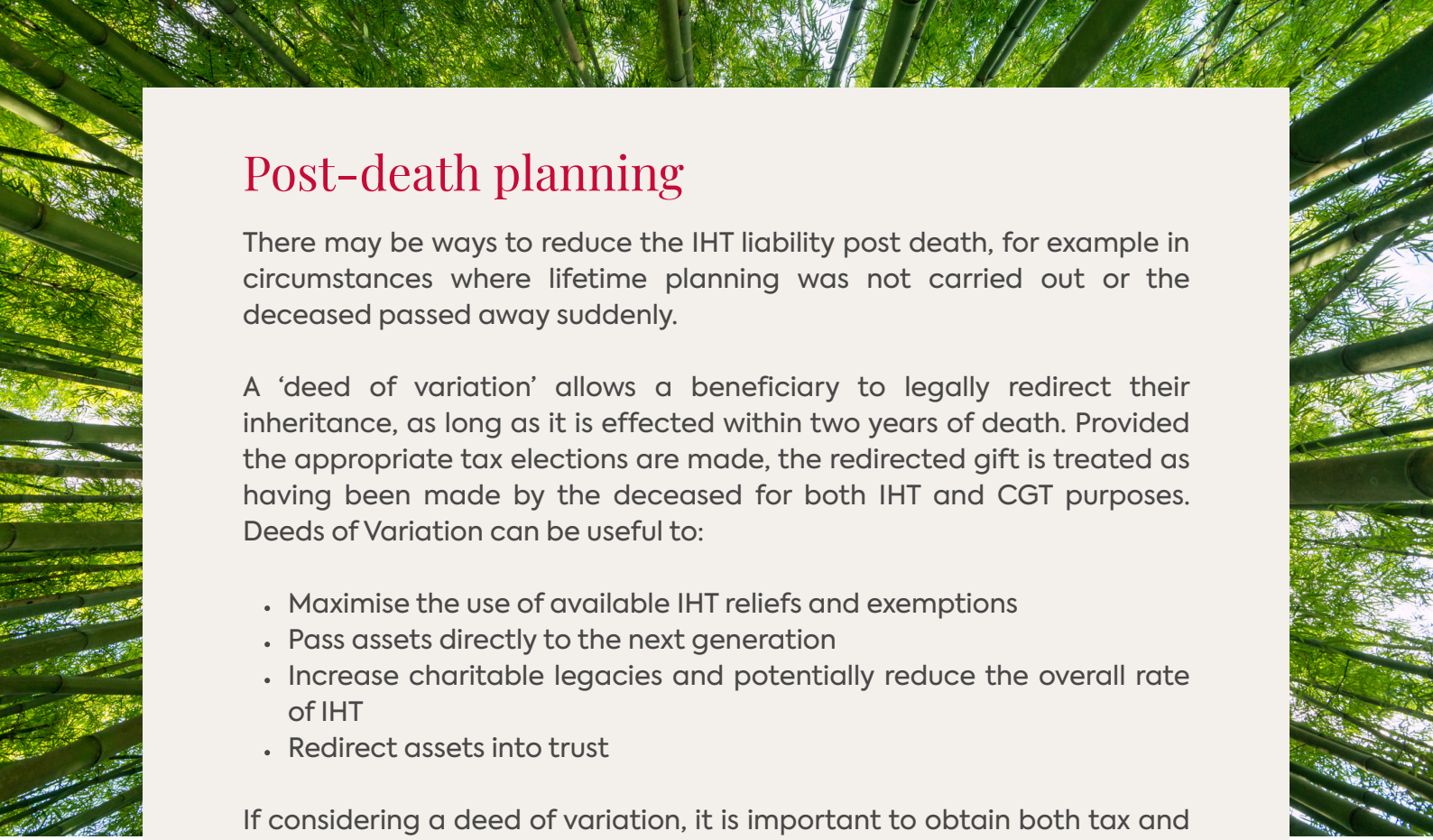
Planning implications

The upcoming changes are likely to alter the role pensions play within wider estate planning. Individuals who have deliberately preserved pension assets for intergenerational planning purposes may wish to review their strategy and consider whether existing arrangements remain appropriate. Areas that may need reviewing include:

- Pension death benefit nominations, or Expression of Wishes.
- Retirement income strategy and the order in which retirement assets are accessed.
- The interaction between pension assets and other assets that may qualify for IHT reliefs and exemptions.

As with any significant tax change, the most appropriate course of action will depend on individual circumstances, objectives and retirement income requirements. For some individuals, no immediate action may be necessary; for others, a review of their estate planning arrangements may be appropriate ahead of the introduction of the new rules.

The pension inheritance tax changes are not due to take effect until 6 April 2027. This commentary is based on legislation and HMRC guidance available at the date of publication and may be subject to change before the rules are finalised.



Post-death planning

There may be ways to reduce the IHT liability post death, for example in circumstances where lifetime planning was not carried out or the deceased passed away suddenly.

A 'deed of variation' allows a beneficiary to legally redirect their inheritance, as long as it is effected within two years of death. Provided the appropriate tax elections are made, the redirected gift is treated as having been made by the deceased for both IHT and CGT purposes. Deeds of Variation can be useful to:

- Maximise the use of available IHT reliefs and exemptions
- Pass assets directly to the next generation
- Increase charitable legacies and potentially reduce the overall rate of IHT
- Redirect assets into trust

If considering a deed of variation, it is important to obtain both tax and legal advice to ensure the documentation is correctly drafted to achieve the intended outcome.

IHT planning checklist

- ☐ Do you have a list of your current assets and do you know the potential IHT exposure?
- ☐ Have you made full use of the available IHT reliefs and exemptions?
- ☐ Have you considered whether lifetime gifting could reduce the value of your estate?
- ☐ If you have international connections, do any estate tax treaties help to mitigate UK IHT liabilities?
- ☐ Are your Will and Lasting Powers of Attorney up to date?
- ☐ If you own a business, have you reviewed your succession and Business Relief planning?
- ☐ Have you considered the impact of the proposed pension IHT changes from April 2027?
- ☐ If you have recently arrived in the UK, have you checked whether your overseas assets are within the scope of IHT?

With regular reviews and ongoing tax and financial advice, we can ensure that you are in the best position to protect your wealth, pass down your assets to your loved ones as intended with minimum tax exposure. Any planning can be adjusted to reflect changes to your circumstances, as well as changes to tax rules, legislation, inflation, etc.

Lubbock Fine LLP and Lubbock Fine Wealth Management LLP are well placed to guide you through the complex web of issues that you might face in arriving at a robust plan for the efficient and orderly distribution of your family wealth.

Lubbock Fine Probate LLP is available to help manage the probate application and estate administration after the death of a loved one.

Our experts

If you would like to know more, please get in touch with our team. We offer a no obligation initial meeting to discuss your needs, goals and objectives.



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