Plan, Protect, Pass on

Your guide to Inheritance Tax and how protection can support your planning

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Your guide to Inheritance Tax and how protection can help make planning easier

Planning for Inheritance Tax (IHT) isn't just about numbers.

It's about giving the people you care about clarity, confidence and financial security. With the right preparation - including thoughtful gifting, up-to-date planning and appropriate protection - you can help make sure your estate is passed on, in the way you intend.

Many of us will need to consider IHT at some stage. You might be updating your will, thinking about who should inherit your home, or exploring how to support charities you care about. It's easy to feel overwhelmed by legal terms or complex rules, but understanding the basics can make a real difference to the decisions you make.

This guide brings the essentials together in one place. You'll find a simple overview of how IHT works, the allowances that may be available to you, and how protection could support your planning.

Please remember:

This is a general guide only and doesn't constitute financial or tax advice. Tax rules can change, and their impact will depend on your individual circumstances. If you're unsure about anything, consider speaking with a financial adviser.

What is Inheritance Tax?

IHT is paid on the total value of your estate when you die. By ‘estate’, we mean everything you owned at the time of your death, including your house, possessions and money.

Who pays Inheritance Tax?

In short, it depends. If you’ve named someone in your will, they’ll be called an ‘executor’. If there’s no will, someone will be appointed as an ‘administrator’. This is normally a family member, or someone you were close to. So whether you’ve picked someone, or someone is chosen for you, they’ll be in charge of sorting your affairs and figuring out if any IHT needs paying to HM Revenue & Customs (HMRC).

Any IHT due will be paid by your executor or administrator using funds from your estate, unless it relates to a gift. IHT on gifts is payable by the recipient of the gift, not the estate. You can find out more about making gifts later in this guide.

What are the rules?

IHT is based on the value of your estate and the tax-free allowances available at the time of your death. Understanding the main thresholds and allowances can help you see when IHT may apply and why planning ahead can make a difference.

Thresholds and rates

Everyone has a tax-free threshold, known as the nil-rate band (NRB). This is currently £325,000, meaning IHT is not usually paid on the first £325,000 you leave to others.

Anything above this amount is currently taxed at a rate of 40%, although other exemptions and reliefs may reduce how much tax is actually paid.

0% Tax
on first £325,000

40% Tax
on over £325,000

Some people may also benefit from an additional tax-free allowance, called the residence nil-rate band (RNRB). This can increase the total amount that can be passed on tax-free to up to £500,000, if you leave your main home to your direct descendants. We explore this later in the guide.

IHT allowances can help you to:

- reduce the amount of tax payable
- increase the tax-free threshold
- transfer unused allowance to a spouse or civil partner.

Which allowances apply will depend on factors such as who you leave assets to, the type of assets involved, and whether allowances have already been used.

Gifts, the act of giving

Anything you give away during your lifetime that reduces the value of your estate counts as a gift. When you die, some of the gifts you've made may still attract IHT. In these cases, the tax is usually payable by the person who received the gift, rather than by your estate. Depending on when you made the gift, it might be taxed at less than the normal rate of **40%**. This is called **taper relief**.

If you die between three and seven years after you made a gift, and the value of that gift takes your estate over the threshold, the amount of tax that applies is reduced using the sliding scale below:

Years between gift and death	Tax due
3 to 4 years	**32%**
4 to 5 years	**24%**
5 to 6 years	**16%**
6 to 7 years	**8%**

Here are a couple of scenarios that break down the numbers.

Scenario 1: You give your daughter **£450,000** to help pay off her mortgage. You then die six years later with an estate worth £325,000.

Because the gift exceeds the **£325,000 NRB**, the amount above this limit (£125,000) is subject to IHT. As the gift was made between five and seven years before death, taper relief applies and the **tax rate is reduced to 8%**.

This means your daughter, not your estate, would need to pay an IHT bill of £10,000 on the gift.

Chargeable lifetime gifts reduce the NRB available to the estate on death, which can result in an IHT charge on the estate even if it is £325,000 or less.

In this example, assuming no other reliefs apply, the estate would therefore be subject to an **IHT bill of £130,000** (40% of £325,000).

Scenario 2: You give your grandchild **£75,000** during the summer of 2021. You then die four years later, with an estate worth £150,000.

When the gift is added to the value of the estate, the total remains **below the £325,000 NRB**. As a result, neither the gift nor the estate is subject to IHT.

In this example, no IHT would be payable.

Making a gift can reduce the tax-free amount available to your estate when you die. It's important to consider this when planning how you'd like to pass on your wealth.

Examples are for illustrative purposes only.

There are some gifts you can make each year free from IHT. These include:

Gift to spouse or civil partner:

IHT is not payable on any gifts you give to your spouse or civil partner. This means you can gift your spouse or civil partner as much as you like in your lifetime, as long as they live in the UK permanently.

Money from your income:

You can make regular gifts out of your normal income - for example from your salary or pension, as long as you can still pay your bills, and maintain your usual standard of living. These gifts must come from ongoing income, not from your savings or investments. Because IHT is based on the value of what you own, regular gifts made from surplus income can fall outside of IHT if they meet the rules.

Small gift allowance:

You may gift up to £250 to any number of individuals each tax year. However, this exemption can't be combined with any other gift exemptions for the same recipient in the same tax year. For example, the recipient can't also receive any amount covered by your £3,000 annual exemption.

Annual exemptions:

The first £3,000 you give away each tax year doesn't count as part of your estate.

Weddings:

Typically, you can give a gift of up to £1,000 per person without the amount being included in the value of your estate. If one of your children is getting married this can be up to £5,000. For a grandchild or great-grandchild, you can gift up to £2,500.

Donations to charities:

Anything you donate to charity isn't taxed. And if your donations are equal to 10% or more of your overall estate, then the IHT payable reduces from 40% to 36%.

The roof over your head

As previously mentioned, your estate won't have to pay IHT unless its total value exceeds the nil-rate band of £325,000. On top of this, you may also be able to **increase the amount of your tax-free allowance** if you leave your family home to your nearest and dearest in your will.

In 2017, an additional allowance called the **residence nil-rate band (RNRB)** was introduced. It allows you to increase your IHT threshold from **£325,000 up to £500,000** if you leave your home to your direct descendants, such as your children and grandchildren. This does not apply to nieces, nephews, cousins or more distant relatives.

The RNRB is capped at £175,000. This is a maximum allowance - it does not exempt the full value of a property.

Here's an example of how it works:

- You have the NRB allowance of £325,000 as of this tax year.
- You leave your home – worth £175,000 – to your children
- As you left your home to your children your combined IHT allowance is £500,000 (NRB and RNRB).
- This means your estate won't have to pay IHT on the first £500,000.

For illustrative purposes only.

Estate value matters: the RNRB allowance is reduced for larger estates, tapering away by £1 for every £2 that the net estate value exceeds £2 million. The allowance is lost entirely once the estate reaches £2.35 million, or £2.7 million where allowances are combined for married couples and civil partners.

Marriage, civil partnership and your estate

Anything you leave to your spouse or civil partner won't count towards your estate's IHT liability. Even if your estate is worth millions.

If any part of your £325,000 NRB isn't used when you die, it can be transferred to your spouse or civil partner. This transferred allowance is applied when they later die and can increase their estate's NRB allowance to up to **£650,000**, even where no qualifying home is involved.

If a qualifying home is also left to direct descendants, the RNRB can also be transferred between spouses or civil partners and may apply after the second death. When combined with both partners' nil-rate bands, this can increase a couple's potential IHT allowance to up to **£1 million**, subject to the estate meeting all qualifying conditions, including the £2 million taper threshold.

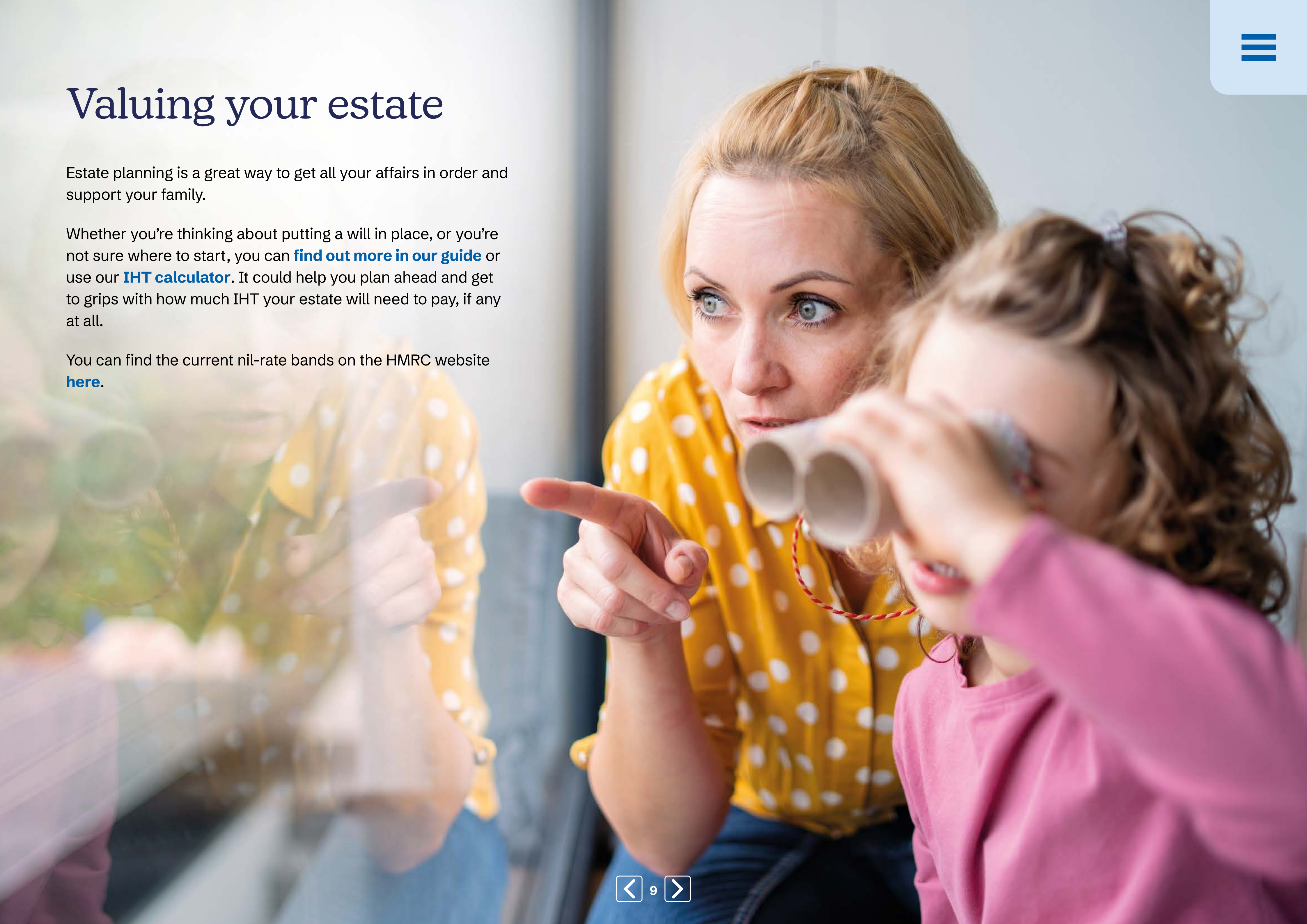
Important: The transferring of allowances applies **only** to married couples or civil partners. Cohabiting partners - no matter how long they've been together - aren't able to transfer any of their unused allowances to their surviving partner.

Valuing your estate

Estate planning is a great way to get all your affairs in order and support your family.

Whether you're thinking about putting a will in place, or you're not sure where to start, you can **find out more in our guide** or use our **IHT calculator**. It could help you plan ahead and get to grips with how much IHT your estate will need to pay, if any at all.

You can find the current nil-rate bands on the HMRC website **here**.



How protection can help with Inheritance Tax planning

While allowances and gifting strategies can help reduce IHT, protection (life insurance) can help ensure your loved ones are supported at a difficult time.

Life insurance can:

- Provide a **cash lump sum** to cover an IHT bill
- Help avoid beneficiaries needing to sell assets quickly
- Support gifting strategies if you pass away within seven years of giving a large gift
- Be written in trust so the payout typically reaches beneficiaries faster and is tax-efficient

Protection can make planning simpler and give peace of mind.

Using life insurance to help cover an IHT bill

If your estate is likely to exceed the £325,000 threshold (or £500,000 with the RNRB allowance), a protection policy can be set up to cover the expected tax.

When written in trust, the payout usually goes directly to the trustees, who can pass it on to the beneficiaries, helping them settle the bill quickly.

Planning as a couple

For many couples, the IHT bill only arises after the second death. A joint life policy that pays out at that point can ensure money is available when needed.

This is especially helpful when wealth is tied up in property.

Planning ahead when you make a large gift

If you pass away within seven years of giving a significant gift, the recipient may face an IHT bill.

A protection policy can:

- Match the potential tax liability
- Reduce over time in line with taper relief
- Provide reassurance when giving or receiving large gifts

Need a helping hand with Inheritance Tax?

If inheritance planning feels overwhelming, we suggest talking to a financial adviser. They'll be able to guide you through your options and bring clarity to your decisions.

How an adviser can help you:

- Explain whether IHT is likely to apply to your estate
- Talk through your estate, allowances and gifting options
- Explore whether protection could play a role in your planning
- Recommend the right type of protection cover for your circumstances
- Ensure any policy is written in trust, where appropriate

In some cases, protection can provide a straightforward way to make sure money is available to help cover an IHT bill, without placing additional pressure on your loved ones. An adviser can also help you understand the limitations of protection products, including any exclusions, trust requirements, or situations where cover may not pay out.

Important: Protection products require ongoing premium payments and cover will end if premiums stop. It's important to review the policy regularly to make sure the level of cover still matches your potential liability. Tax efficiency depends on the trust being set up correctly. The right type of cover and trust arrangement will depend on your individual circumstances.

For tailored advice, you should speak to your financial adviser. If you don't have an adviser, MoneyHelper provides up-to-date resources to help you find regulated advisers at **moneyhelper.org.uk/choosing-a-financial-adviser** or call 0800 011 3797. Advisers may charge for their advice, but there are usually a number of ways to pay.

For more general information on paying IHT, you can also visit the **IHT Government's website**.

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