



# DEEP DIVE

ESTATE PLANNING



## A DEEP DIVE INTO INHERITANCE TAX AND FAMILY WEALTH PLANNING

## INHERITANCE TAX

You're probably already aware of how much higher an inheritance tax bill can be today than ever before. Over the last 330 years, the tax payable on death has evolved into the current headline-grabbing (and headache-inducing) final insult to the estates of hard-working families that it is today.

After the announcement in 2024 that Inheritance Tax will start to apply to pension pots, millions of ordinary families are now worried about how they can protect the wealth that they have worked so hard to build.

The current inheritance tax allowances have been frozen since April 2020 and will not get any better until at least April 2030. As the values of estates continue to increase, the tax liabilities for the families of the departed will only continue to grow. Deep Dive Estate Planning is here to help those families. We provide expert advice to our clients and their families, using trusts and other financial strategies to protect and preserve family wealth for generations to come.

It nearly goes without saying that we will not engage in controversial or unproven planning techniques or recommend any tax-avoidance schemes. We give no advice until we are totally clear that it is suitable, and that the benefits of implementing the recommendations are likely to massively outweigh the risks, disadvantages and costs.

This guide gives you the tools you need to start understanding how to reduce your liability to inheritance tax. Whether you're reading about the subject for the first time, or you've been aware of it for a while, you should find at least one useful tip here that will make the read time a very sensible investment. Even if you already have 95% of the answers, having the right adviser to help you avoid the traps in the other 5% can save your family a fortune!

None of the information in this guide should be construed as personal advice or a recommendation, and no action or inaction should be planned without seeking personal advice from a qualified professional. Some of the information in this guide has been simplified to enable easier understanding, and your adviser should take you through any further complexities of planning for your family's unique circumstances. The Financial Conduct Authority does not regulate will writing, tax planning and trusts, as they are legal products, not financial ones.

If you would like to learn more, you can call Deep Dive Estate Planning to book a free 20-minute telephone briefing - please call 020 3882 4569 or email [info@deep-dive-trusts.co.uk](mailto:info@deep-dive-trusts.co.uk)



## WHAT INHERITANCE TAX PLANNING IS.

Most people think of inheritance tax as one that you pay on death, but that definition misses a critical point. Inheritance tax never affects the person who has died- the effects are felt by their children by way of a smaller inheritance. You never pay your own inheritance tax liability.

In some cases, the goal of planning may be to benefit other family members, beloved friends or charities, but regardless it is always true that the people making the plan are not the people who stand to benefit.

But people do make plans to reduce the tax paid by their estate after their death, and these plans involve taking on almost all of the disadvantages themselves, during their lifetimes. Different strategies have different disadvantages, and generous inheritance tax planning clients can choose from a range of disadvantages that may apply, some more onerous than others:

- Having to spend time and effort researching their options.
- Choosing an adviser they can trust and paying the advice fees.
- Giving away money or assets and not being able to get the gift back if needed.
- Spending high monthly premiums on life insurance.
- Investing in something that they would not have chosen without an inheritance tax incentive (these plans might have high volatility, complexity, lack liquidity, have high management fees, or other unappealing characteristics).
- Taking on other tax consequences such as income tax or capital gains tax.

There is only one strategy that you can deploy to reduce your estate's inheritance tax liability which can benefit you while you're alive- you can spend your wealth. For many people, this is an important part of their planning, first aiming to live their best retirement and then planning to distribute the money not needed to their loved ones.

Given that the rate of inheritance tax is 40%, the pertinent question is this: "If I asked your children whether they would prefer for you to have £100,000 to spend, or they could spend £60,000, how would they respond?" Fortunately, most of the children of our clients have the response you would hope for, and planning along these lines often enriches the lives and experiences of the whole family.

In order to plan a spending strategy that enables you to spend enthusiastically but not recklessly, to maximise the enjoyment you can have from your wealth without fear of running out, you would be well advised to consider asking your adviser to do some cash flow modelling work with you.

Setting this strategy aside, any other IHT planning you do will give you the disadvantages during your lifetime to benefit future generations for the decades that follow. If this fact doesn't put you off the idea of planning to reduce the tax payable when you die, we'll look at the tax calculation first, and then explore some planning options.

Before we do, you should pause here for a moment to consider the biggest question when it comes to IHT planning:

*"Am I prepared to take actions that will disadvantage me financially, in order to provide a much greater benefit to my children and the generations that follow?"*

If that's the sort of person you are, we'd love to help you and your family.

That's what inheritance tax planning is.





## THE CALCULATION

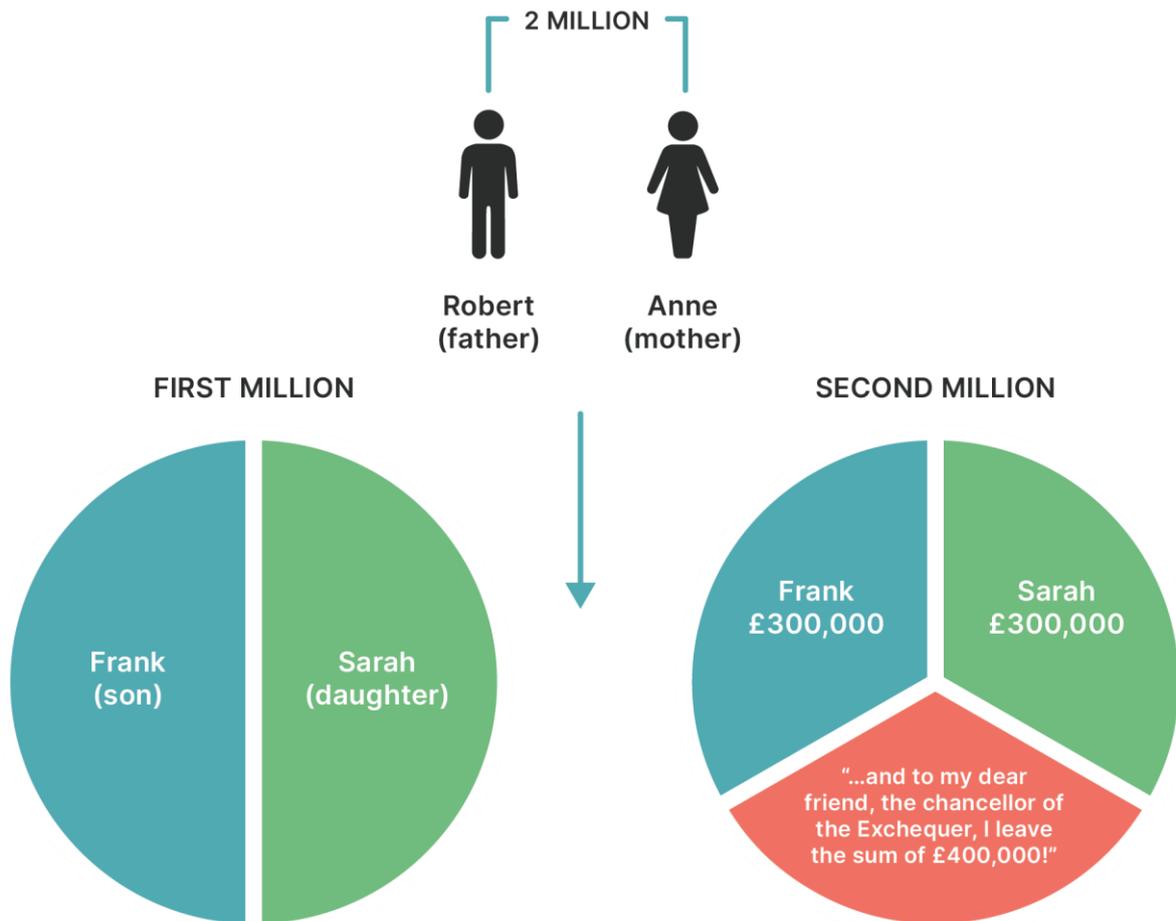
Inheritance tax is payable on death, and with married couples it's usually the second death that causes the tax to be payable. For UK residents it tends to be a tax on the total value of their worldwide assets, although there are some exceptions to this rule. Some important rules you should know are:

- The first £325,000 you leave is free of IHT. This £325,000 is known as your "nil-rate band (NRB)."
- If you have a family home you wish to leave to your children, you can leave a further £175,000 to them, also IHT- free. This is known as your "residential nil-rate band" (RNRB). There are some conditions attached to this allowance which we'll explore shortly.
- Transfers between spouses don't use these allowances. On the first death of a spouse, the widow(er) inherits any unused allowances, so a married couple may leave £1,000,000 to their children free of inheritance tax.
- Some other bequests don't attract IHT. The government allows unlimited tax-free bequests to charities, and to registered political parties. If you give 10% or more of your net estate to charity, the tax rate on the rest of your estate also reduces from 40% to 36%. If your definition of "leaving something for the generations that follow" is more than just a financial one, you may feel that supporting a cause that keeps the world in good shape is not such a bad idea.
- If you make a gift of money or another asset and die within seven years, the amount given away comes off your nil-rate band. You might have heard about "taper relief" on gifts but unless someone gives away over £325,000 inside a seven-year period, taper relief doesn't apply. However, there are some exemptions to the seven-year rule which can be exploited by smart planning- we'll discuss these later.

In most cases, you can get a good idea of the IHT liability from the following calculation:

$$40\% \times (\text{Taxable Estate} - \text{Available Nil-Rate Bands}).$$

We'll look at how to calculate the taxable estate and how the nil rate bands are used later in the guide. But first, let's look at a simple example, of a couple with a £2m estate, whose liability might look like this:



## Value of the estate

Your estate is typically the total value of all your worldwide assets. These typically include:

- Your home
- Your buy-to-lets
- Your savings and investment portfolios
- Pensions will soon count as part of your taxable estate, thanks to recent budget announcements.
- Any physical assets of value (gold, jewellery, art, vehicles)
- Any alternative assets (cryptocurrency, NFTs, magic beans)
- Your estate would also be reduced by the value of any debts.

Some assets attract IHT relief but still count as being “in your estate” for some calculations. After the upcoming budget changes take effect in 2026 and 2027:

- Shares in your family business or another unquoted company attract 0% Inheritance Tax up to £2.5m
- Agricultural land does too, up to £2.5m per person
- Above the £2.5m allowance, 50% relief is available so an effective 20% IHT will apply
- Some shares traded on AIM will also attract 50% relief

Some assets that you would consider “yours” are in fact not, as they are held in trust for you outside your estate. These include:

- Life insurance policies
- Death in service benefits
- Investments held in trust



## Nil rate bands

We've discussed the Nil-Rate Bands of £325,000 and the fact that gifts within seven years of death (non-exempt ones) reduce the nil rate band remaining on death.

The residential nil rate band of £175,000 per person has the following strings attached:

- You must leave equity in your main residence, so you need to have equity of at least £175,000 in your property to benefit from the full allowance. If you've had to sell your home to go into care there are provisions to ensure you don't lose the allowance.
- You must leave it to your "direct descendants." These are your children, grandchildren and so on. Adopted children, stepchildren and the like are all ok. If you have no direct descendants, your estate can't use a residential nil-rate band.
- You must have an estate of £2m or less when you die (this calculation includes tax-relieved investments within your estate) to receive the full allowance. For every £2 above £2m, you lose £1 of your residential nil rate band.
- So as an example, a married couple has an estate of £2.7m on second death, and the £700,000 over £2m causes them to lose (£700,000/2) the £350,000 combined RNRBs they might otherwise have had:

	Estate is under £2m	Estate of £2.35m *	Estate of £2.7m and over
Single person	£325,000 NRB £175k RNRB	£325,000 NRB only Loses £175,000 RNRB	£325,000 NRB only
Married couple	£650,000 NRB £350,000 RNRB	£650,000 NRB Lose* £175,000 of RNRB £175,000 RNRB left	£650,000 NRBs only

*\*There's a simple strategy we can implement for married couples with wealth of between £2m and £4m which can potentially recover some of your lost RNRB and save your estate up to £70,000, which we often cover in our webinars, or you can call 020 3882 4569 for a discussion of how it works.*

You should now be able to estimate the IHT payable on your death, as follows:

$$(\text{Total value of taxable estate} - \text{Total value of remaining nil-rate band(s)}) \times 40\%$$

## GIFTING

One popular way to reduce the tax on your estate is to give money away- reducing the value of your estate causes a reduction in the tax payable when you die. The fact that IHT is payable after death can focus some people's attention on deathtime planning, but many people prefer to be able to see the impact that receiving the money has on the grateful recipient while they are still alive.

There are allowances for gifting that you have probably heard of. We often hear these referred to as "limits," but they aren't. There is no limit on the value of money or assets you may give away. Provided you live for seven years after a gift is made, there are usually no tax consequences save for the intended reduction in IHT. These allowances are the amounts that you may give without the requirement to live for seven years thereafter.

- Annually you may give away £3000. This allowance may be rolled forward by a single year, so if you didn't do it last year you can gift £6000 this year.
- In the year of their wedding, you may make a gift of £1000 to anyone, £2500 to your grandchild or £5000 to your child. This may be added to the annual exemption above.
- Gifts to charities and political parties are usually exempt with no limit, and there may be other tax advantages too (for example you may claim gift aid).
- You may make any number of £250 "small gifts" to any number of recipients but may not combine this with your annual exempt amount.

This last (and best) one deserves a deeper dive:

### Gifts from regular surplus income

This exemption is widely misunderstood and woefully underused- it was claimed by less than 500 estates in 2022. If you have even heard of it before that puts you in the well-informed minority, and I very rarely encounter people who have grasped just how powerful it can be or who understand the steps necessary to use it.

Every year, you may make regular gifts from your annual surplus income with no limit and they are not subject to the seven-year rule.

The exemption here is not an amount expressed in pounds- it differs depending on the income and expenditure of the person in question. To work out how your family could benefit, you need to look at your annual budget. If you take your annual income after tax, and deduct from this your total expenditure for that year, you can make a regular gift of the difference. If you die within seven years, these gifts from surplus income are not "failed 7 year gifts," they're exempt.



## Conversations on this relief often involve the following questions:

Does this mean that if I have surplus income of £5,000 a month, I can just give it away and it's exempt? Even though £60,000 a year is massively more than all the other allowances combined?

Yes! There's no maximum to this one.

How about £500,000? If I've got a huge income and an annual budget surplus of £500,000, surely that's going to be more complicated?

It's the same. If you're looking for a catch, the only one I have is that giving away income doesn't technically reduce your IHT liability, it just stops the income from accumulating in your estate which would otherwise cause the IHT to increase.

When you say, "regular" what does that mean, exactly?

To be construed as a regular gift there must be an element of repetition. This could mean it's a monthly, quarterly or even annual payment, so long as the repetition is evident. There may be different beneficiaries of the gift – you might be in the habit of making an annual gift of your surplus income to one of your children or grandchildren but vary which one depending on their need.

Are there strings attached?

Unfortunately, yes there are. The issue with this one is knowing what counts as income, keeping records of your expenditure and your gifts, and – crucially – being able to explain everything to the taxman when you die. This is the hardest part and it's very difficult to ensure your family knows what to do on your death, when they are also dealing with the emotional impact of your death and all the tasks that become necessary at that time.

A way to make it easy in the future is to keep a good annual record of your budget, look at the surplus, regularly make gifts up to that amount, document them, and tell your executors to provide that documentation to the taxman on your death.

Of course, if you're having annual meetings with your adviser, they can keep appropriate records for you.

Are there any other difficulties to note?

One more. This is a tax relief that requires the records from the seven years from the point of your death- these are usually your least healthy years and often with those the lowest mental capacity. If you require the assistance of a family member (who hopefully has power of attorney for you) they will find it very difficult or impossible (due to the law) to make any gifts for IHT planning purposes that you weren't already in the habit of making.

Starting while your capacity is good and documenting your intended plan is a great way to ensure they can assist, and it is important that your attorney continues to document any planning actions if you lose capacity. Where there are multiple children helping in different ways, one coherent plan with assistance from an expert can make life easier.

### The seven-year rule

When making a gift to reduce your inheritance tax liability, you may find that you wish to give away more than the exemptions. Giving away larger sums is a common way of reducing your IHT liability, and the following points are worth noting:

- If you live for seven years or more after making a non-exempt gift, it successfully reduces your IHT liability. If you die within seven years, the failed gift uses up some of the nil-rate band on your death, reducing the tax-free amount available to the remaining estate.
- For example, a donor makes a non-exempt gift of £200,000 and the beneficiary invests it. Five years later, the investment is worth £330,000, and the donor dies. It's the original gift value of £200,000 that comes off the donor's nil-rate band, so even though the gift "failed" there is still a tax saving relative to the donor having invested the money himself.
- You will note that there is no taper relief in the above example. Taper relief is usually a red herring as it applies to the tax on the gift, not to the value of the gift. In this example, the tax on the £200,000 gift is £0 (as it uses the nil-rate band).



- Some people see the treatment of death within 7 years as a disadvantage of making non-exempt gifts, and avoid giving away more than their exempt amounts for this reason. However, gifts failing won't increase your liability to IHT, they merely fail to reduce it by the full amount. In the above example, even a failed gift has resulted in an increase to the wealth of the beneficiary.
- Gifts into discretionary trusts are treated differently if they exceed £325,000 per person. You should consult a Chartered Financial Planner if you are contemplating these. For further reading you could look up "chargeable lifetime transfers" or "the 14-year rule."
- For a gift to succeed in reducing your IHT liability it must be a genuine gift with no "reservation of benefit." A reservation of benefit means that the donor retains the ability to benefit from the asset after it's been given. Examples of "gifts with reservation of benefit" which would not succeed for IHT planning are:
  - Giving away equity in your home but continuing to live there.
  - Giving away a holiday home but taking holidays there without paying a market rate to the new owner.
  - Giving away a buy-to-let but keeping the rental income.
  - Giving away art or jewellery but keeping it in your home or wearing it.
  - Giving away any asset with the condition that the beneficiary must give it back if you need it.



## Gifts into trust

Rather than making a direct gift to a beneficiary, some people choose to make a gift to a trust. This allows them to nominate the trustees to look after the trust property, determining how to invest and manage what's held in the trust until the time is right to let the beneficiary have the asset or the income from it.

This gives you the ability to remove the wealth from your estate without relinquishing control over the asset. You can also dictate how, and to whom, the income or capital may be distributed in the future. These are essential in the case of minor beneficiaries. They are also very useful if older beneficiaries are affluent enough to have their own IHT problem – one which would be made worse by the receipt of a direct gift.

There are too many different trust strategies to give an exhaustive account here, but the basic approaches include:

**Gift Trust:** An asset is given away by the donor to start the seven-year rule. They may make a gift of cash, property, or other assets but they may not have it back for their own use.

**Loan Trust:** An asset, usually cash, is loaned by the donor to the trust. The seven-year rule does not start as there has been no gift. Typically, the trustees make an investment within the trust and the growth on that investment is immediately outside the estate of the donor. The donor can have back some or all of the loan on demand, but any loan balance remains in the estate of the donor for the inheritance tax calculation.

**Discounted Gift Trust:** The donor makes a gift of cash at the outset but stipulates that the trust must invest the money and pay a fixed income back to the donor for the rest of their life. The income may not be varied once the plan commences. The full gift leaves the estate of the donor after 7 years, and on death prior to year 7 there is some IHT relief available.

You can find out more in our Deep Dive Guide to Practical Planning with Trusts.

## COMMON INHERITANCE TAX STRATEGIES

Spending and gifting are the fundamentals of IHT planning but there are other actions you can take which don't deprive you of the ownership of your wealth.

**Will** – While a will is not typically an instrument that is used to save inheritance tax, it's a crucial part of your planning if you're contemplating how you want your estate to be distributed on death. The use of discretionary trusts combined with your will can provide protection for your wealth as it passes through the following generations.

However, some clauses in a will can provide an IHT saving.

If you are a married couple with an estate between £2m and £4m, you are likely to separately have an estate of half this amount each. We established earlier (on page 8) that a married couple with an estate of £2.7m or more would lose their two Residential Nil Rate Bands if they wanted to claim both on second death.

However, if that same couple tried to claim one of their RNRBs on first death, they might at that time have an estate of £1.35m each- meaning that they could claim one full RNRB on simply by leaving £175,000 of equity in the family home to their children in their wills on first death.

The tax saved would be 40% of £175,000 = £70,000

Some of the more advanced estate plans give the executors the option, but not the obligation, to make this bequest. This is known as a “residential nil-rate band carve-out clause.”

#### Business Relief:

Business relief was introduced in the Finance Act 1976 and has been expanded by successive governments until today. The simplicity of the relief is counteracted by the complexity of the investments that qualify for it.

**If a share qualifies for business relief, and you die after having owned it for two years or more, it does not attract inheritance tax.**

Unfortunately, from April 2026, AIM shares lose 50% of the relief they previously enjoyed, as will people with over £2.5m in qualifying business relief assets, on the excess.

These investments are not suitable for everyone and you should always take advice before considering any business relief investment.

**AIM Shares:** Some companies listed on AIM (the alternative investment market which includes companies like ASOS, YouGov, Fever Tree and BooHoo). An AIM share or a portfolio of AIM shares can provide a high long-term growth potential with high volatility. AIM shares can now be held in a stocks and shares ISA so that they are also free of income tax and capital gains tax on profits.



Business Relief at 0% also applies to some FCA-regulated investment products for up to £2.5m per person. These are typically structured as unquoted companies which carry out business in areas with a degree of predictability, such as renewable energy or lending and leasing. Product providers include Octopus, Foresight, Praetura, TIME, Triple Point and many more.

It applies to some unquoted trading companies (if you are a shareholder in an unquoted business you should check this with your accountant). Business relief from a large holding in a single unquoted trading business is the riskiest of these, particularly if the share price may fall on the death of the shareholder if they are important to the business.

Enterprise Investment Schemes and Seed Enterprise Investment Schemes: also attract business relief. ESIs and SEISs attract substantial tax advantages beyond IHT as they invest in very small or start-up companies, making them high-risk and illiquid—the tax reliefs are there to compensate for the many risks people take for supporting small businesses with an investment.

Life insurance: Most people are familiar with life insurance as a proposition from when they bought a policy to repay their mortgage if they die. While those policies are very important, they tend not to need to pay out, as most customers of these policies are lucky enough to not die during the term of the policy. This makes them cheap. Life cover to pay off an IHT bill is different, and these differences make the monthly premiums much, much higher, for these reasons:

- You would need a policy that will pay out when you eventually die, rather than finishing after a fixed term. Such a policy is known as a “Whole of Life” and if you keep making the monthly payments until death, a large lump sum, IHT free, is guaranteed by the insurer. The fact that the insurer knows they will ultimately need to pay the claim means more risk than one where the client usually doesn't die during the term.
- IHT clients are older than mortgage customers, which makes death more likely and the premiums correspondingly higher.
- IHT liabilities may be larger, and tend not to decrease over time (unlike a repayment mortgage related life cover plan). As a result, most Whole of Life insurance plans are either fixed or increasing.

All these factors cause Whole of Life plans to have high premiums, usually hundreds (and sometimes thousands) of pounds a month. Once started, you have to continue to pay for the rest of your life and if you cancel the plan they usually have no cash in value.

Once you have come to terms with all these disadvantages, the good news is that they are usually mathematically very attractive. Your adviser should be able to give you a personalised quote and provide a helpful comparison between the disadvantage you take on during your lifetime (the premium) and the benefit to future generations on your death (the sum assured).



## NEXT STEPS

We hope you have found this guide to be a useful introduction to a complex area of planning. Having a good understanding of the basics is an important first step in your family wealth planning, and a sensible second step would be to consult a specialist adviser for individual advice on your family's unique circumstances.

A skilled adviser will be able to guide you through the advice process at your own pace, and in a level of detail that suits your preference. They should be able to clearly demonstrate that the cost of their advice is significantly outweighed by the benefits of proceeding. Most importantly, you should ensure the adviser is one that you like, and trust, as the ideal adviser for family wealth planning is one who you will be using for decades to come.

### Free 20-minute briefing

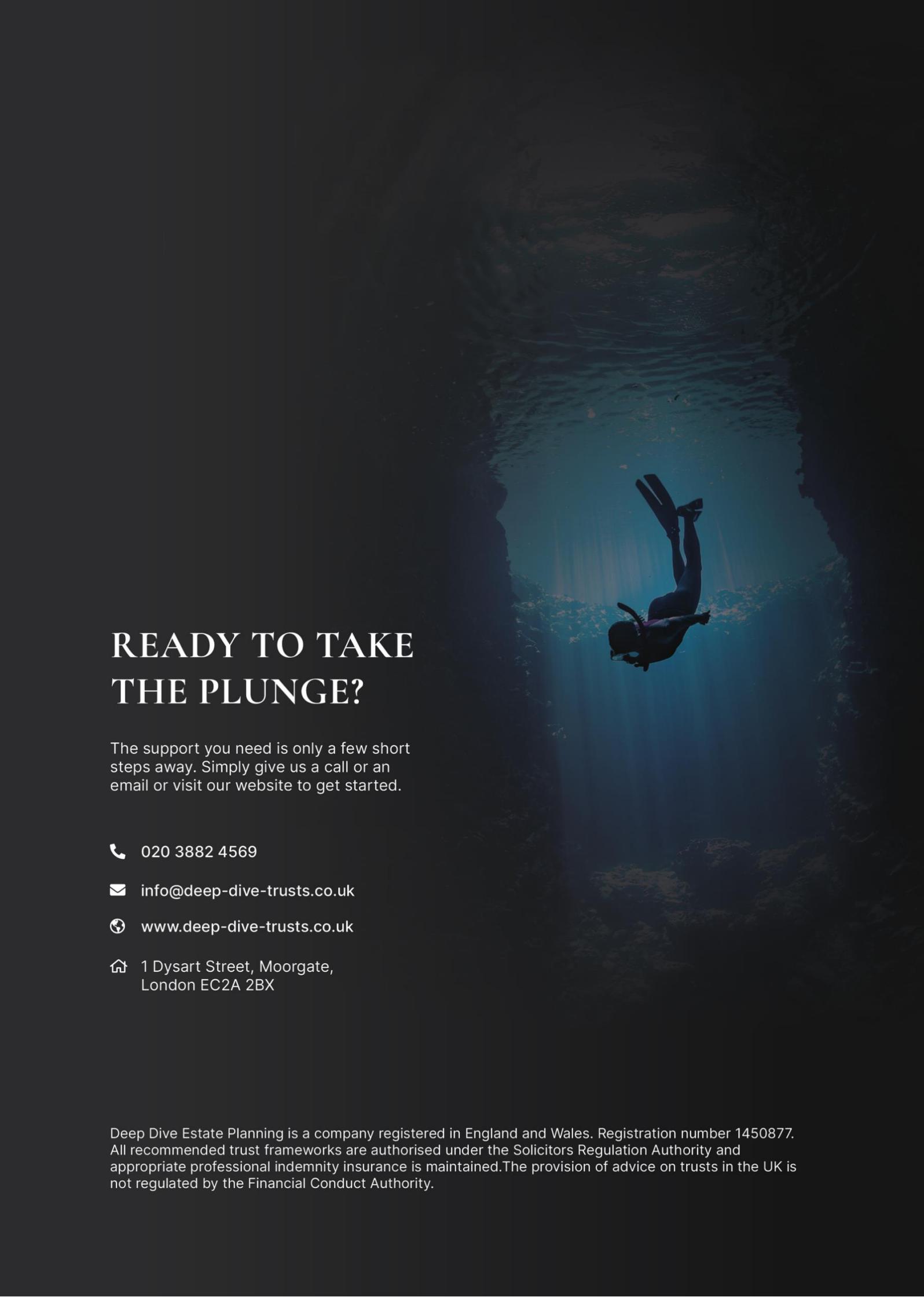
If you would like to engage with us on an individual basis to start your planning journey, we would be delighted to hear from you. We offer a 20-minute briefing free of charge, and you will be able to satisfy yourself that you're in safe hands before you proceed with any chargeable planning. To find out more please visit us at [www.deep-dive-trusts.co.uk](http://www.deep-dive-trusts.co.uk)

### Free Inheritance Tax Planning Seminars

Deep Dive holds regular Inheritance Tax planning seminars and webinars which build on the ideas we have explored in this guide. The seminars are free to attend, but places are limited. If you would like to reserve your place, please email us at [info@deep-dive.co.uk](mailto:info@deep-dive.co.uk) or call us on 020 3882 4569.

#### THE SEMINARS COVER:

- How to update your will to save thousands in inheritance tax.
- Ways to reduce the inheritance tax liability on your estate.
- How to protect your assets for your loved ones.



# READY TO TAKE THE PLUNGE?

The support you need is only a few short steps away. Simply give us a call or an email or visit our website to get started.

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