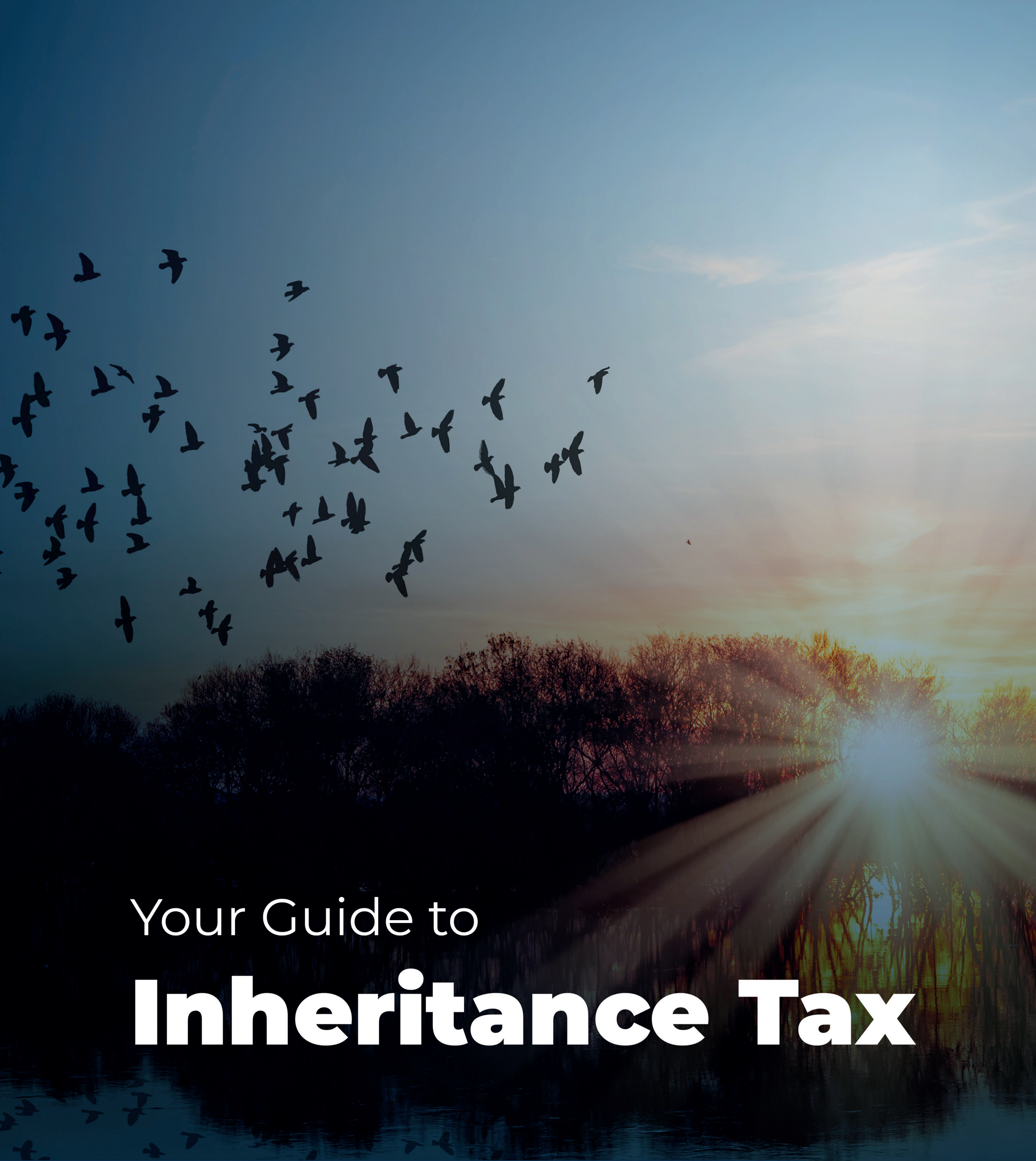

Your Guide to

# Inheritance Tax

ATTICUS

FINANCIAL PLANNING

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## Compliance Statement

Inheritance Tax Planning is not regulated Financial Conduct Authority.

Taxation planning is not regulated by the Financial Conduct Authority.

Liability for tax depends on your personal circumstances and tax rules, which may change over time.


***Source:*** *This guide contains content provided by 2plan wealth management Ltd, approved on 07.01.2026 under reference FP36691 and titled "A Guide to Inheritance Tax". It has been restyled for Atticus Financial Planning Ltd.*

# Introduction

Understanding inheritance tax can feel daunting. The rules seem complicated, the numbers feel large, and it's easy to wonder whether this is something you actually need to worry about. But here's the thing: inheritance tax affects far more families than most people realize. And the good news is that with a bit of knowledge and the right guidance, you can take meaningful steps to help protect what you've worked hard to build.

This guide is designed to help you understand inheritance tax in plain language. We've avoided the jargon where we can, and explained it clearly where we can't. Our goal is to give you a solid foundation so that when you do speak with a professional adviser, you'll feel confident and informed.

Think of inheritance tax as part of your broader financial picture. Like most taxes, it's not designed to catch you out. It simply exists. And like most aspects of your finances, understanding it gives you choices.

**At Atticus Financial Planning, we believe money is a facilitator of dreams. It should work for you, not stress you. That is what this guide is about.**

If you would like to discuss any of the topics covered in this guide in greater detail, please don't hesitate to book a free initial conversation with us here at Atticus Financial Planning.

Email us at **info@atticusfp.co.uk**
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**Abraham Uys**
*Director & Chartered Financial Planner*

*Let's chat, find a time that suits you...*

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# What is Inheritance Tax? Why Does It Matter?

Inheritance tax (IHT) is a tax on the estate of someone who has died. When you pass away, the value of everything you leave behind (your property, savings, investments, possessions and so on) is added up. If that total value exceeds a certain threshold, inheritance tax is charged on the amount above that threshold at a rate of 40%.

You might be thinking: "Does this affect me?" The answer depends on your circumstances. If you own a home, have savings, or have built up investments over your lifetime, you likely have an estate with significant value. And if you're concerned about leaving as much as possible to your children, grandchildren, or whoever matters most to you, inheritance tax is worth understanding.

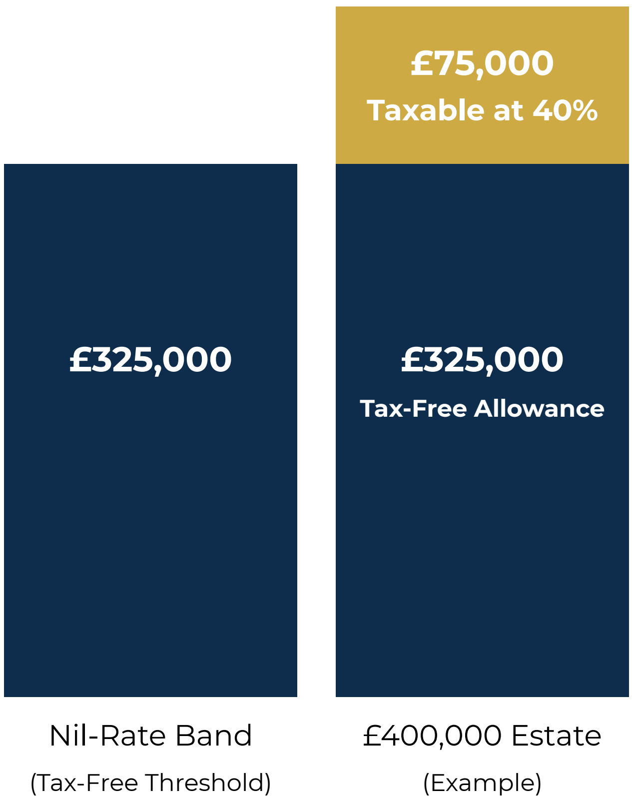
The reason it matters is simple. Inheritance tax is paid from your estate before anything goes to your loved ones. If your estate is liable for inheritance tax and you haven't planned for it, your family could end up paying thousands in tax that, with a bit of thought, might have been avoided or reduced.

But inheritance tax is more than just a tax problem. It's also about your legacy. How do you want your money and possessions to pass on? Who should benefit? What values do you want to leave behind? These questions matter just as much as the tax side of things. And often, when you think about inheritance tax in this context, planning becomes less about avoiding tax and more about creating the future you want for your family.

## Tax-Free Threshold?

The government allows you to pass on a certain amount of money and assets to your beneficiaries without any inheritance tax being due. This amount is called your **Nil-Rate Band.** Think of it as your inheritance tax allowance.

Here is and example of how the Nil-Rate Band works...



# The Nil-Rate Band Explained

Currently, the nil-rate band sits at a particular threshold. The important thing to understand is that this threshold has been frozen at its current level and will remain there for several years. This matters because inflation gradually increases the value of estates over time, which means more people are likely to have estates that cross this threshold in the future.

How does it work in practice? Let's say you pass away and your estate is valued at less than the nil-rate band threshold. Wonderful news. No inheritance tax is due, and everything can pass to your beneficiaries.

Now imagine your estate is worth more than the nil-rate band. The amount below the threshold passes to your beneficiaries tax-free. But the amount above the threshold is liable to inheritance tax at 40%. So if your estate exceeds the threshold by £50,000, for example, inheritance tax would be calculated on that extra £50,000.

This is why many people think about their estate value long before they pass away. The higher your estate, the more important it becomes to think about how to use allowances and exemptions effectively.

## The Residence Nil-Rate Band

There's another allowance that many homeowners should know about. It's called the residence nil-rate band (RNRB). This is an additional allowance that applies specifically to your main residence if you're leaving it to certain beneficiaries (typically direct descendants like children or grandchildren).

In effect, this means that if you own a home and you're leaving it to your children or grandchildren, you get an extra allowance on top of your standard nil-rate band. This extra allowance is substantial and can make a real difference to whether inheritance tax is due at all.

There are conditions attached. The residence nil-rate band only applies if you're leaving your home to direct descendants. It doesn't apply to gifts to friends, charities, or more distant relatives. And the allowance only applies to the residential property itself, not other assets in your estate.

But for many families, the residence nil-rate band is genuinely important. It's one of the reasons why a lot of people discover they don't have an inheritance tax problem at all, even if they thought they did.

It's worth noting that this allowance has changed in recent years and is subject to further changes. This is another reason why professional advice makes such a difference. An adviser can help you understand what currently applies to your situation and flag changes that might affect your planning going forward.

# How is Inheritance Tax Calculated?

The calculation itself is actually quite straightforward once you understand the basics.

First, you add up the value of your entire estate. This includes your property, savings, investments, pensions (though this gets more complicated), and possessions. It even includes certain gifts you've made in the seven years before you died (we'll explain this shortly).

Next, you deduct any debts, funeral expenses, and valid gifts to certain recipients like your spouse or registered charities.

What's left is your taxable estate.

Now you compare this to your nil-rate band. If your taxable estate is below the threshold, no inheritance tax is due. If it's above the threshold, inheritance tax is calculated at 40% on the amount above the threshold.

However, there's a useful rule. If you leave a significant proportion of your estate to a registered charity, the inheritance tax rate on the rest of your estate can reduce from 40% to 36%. This doesn't apply in every situation, but it's worth knowing about if charity is important to you.

The calculation becomes more complicated if you have a spouse or civil partner (because of spousal exemptions), or if you own business assets, agricultural land, or hold assets in trust. This is where professional advice really helps. An adviser can look at your specific situation and help you understand what inheritance tax, if any, might apply.

# Gifts and Exemptions

One of the most powerful tools in inheritance tax planning is understanding gifts and exemptions. The rules around what you can gift, and when those gifts become exempt from inheritance tax, are quite generous if you know how to use them.

Let's start with the most straightforward exemption. You can give away money or assets to anyone during your lifetime, and in many cases these gifts won't be counted towards your inheritance tax liability when you die. The key is understanding which gifts are treated this way.

Your annual exemption allows you to gift a certain amount each tax year without any inheritance tax consequence. The amount resets every year. If you don't use your exemption in one year, you can carry it forward to the next year, but typically only for one year. So if you've got a generous sum to distribute, or you want to help family members out regularly, your annual exemption is a good place to start.

**Small gifts** are also exempt. You can give money or gifts up to a very modest amount to as many people as you like, and these won't have inheritance tax consequences. It's not enough to change someone's life, but it's useful for birthdays, Christmas gifts, or helping with small costs.

**Gifts between spouses and civil partners** are always exempt from inheritance tax, no matter how large. This is another reason why married couples and civil partners are often in a better position tax-wise when it comes to inheritance planning.

**Gifts to registered charities** are also exempt. If you want to leave money to a cause you care about, inheritance tax won't apply to that gift.

**Annual Exemption**
**£3,000**
Per tax year

**Small Gifts**
**£250**
To any number of people

**Wedding Gifts**
**£1k-£5k**
Varies by relationship

**Spousal Gifts**
**Unlimited (£)**
Between spouses

**Charity Gifts**
**Unlimited (£)**
To registered charities

**Surplus Income**
**Unlimited (£)**
Regular gifts from excess

## Potentially Exempt Transfers and the Seven-Year Rule

Now let's talk about one of the most useful tools in inheritance tax planning. It's called potentially exempt transfers, and it's tied to something called the seven-year rule.

Here's the idea. If you give away money or assets during your lifetime as a gift, and you survive for seven years after making that gift, the gift becomes completely exempt from inheritance tax. It won't be counted in your estate for tax purposes when you die.

This is genuinely powerful. It means that if you want to start moving wealth to your children, grandchildren, or other loved ones, and you're confident you'll live for another seven years, you can do so knowing that those gifts won't be caught by inheritance tax later.

The seven-year rule gives you real flexibility. You could gift substantial sums to your children with confidence, knowing that provided you live seven more years, those gifts will be outside your estate.

But there's a catch, and it's important to understand it. If you die within seven years of making the gift, inheritance tax can become due. The amount of tax that applies depends on how long before your death you made the gift. If you die within three years, the full inheritance tax rate applies. After three years, it gradually reduces. By year seven, it's zero.

This is why they're called "potentially exempt" transfers. At the moment you make the gift, it's potentially exempt. It only becomes definitely exempt if you survive seven years.

Naturally, none of us know how long we'll live. This is one reason why professional advice matters. An adviser can help you think through whether this strategy fits your situation and your confidence about your health and longevity.

## Gifts Out of Surplus Income

There's another exemption that many people don't know about, and it can make a significant difference if your circumstances fit. It's called gifts out of surplus income.

The basic idea is this. If you have surplus income, and you make regular gifts from that surplus income, those gifts can be completely exempt from inheritance tax. It doesn't matter if you've used your annual exemption. It doesn't matter if you die within seven years. As long as the gifts came from surplus income, and they were regular, they can be outside your estate.

What counts as surplus income? It's income that you receive but don't need to spend on your normal living costs. For example, if you have pension income that exceeds what you spend each year, or investment income that you reinvest rather than spend, that could count as surplus income.

In practice, this exemption works best for people who have regular, predictable income that exceeds their expenditure. A retired couple with pension income, for example, might be able to set up a pattern of regular gifts to their children from surplus pension income each year. Those gifts could potentially be completely outside their estate.

The challenge is that you need to be able to show that the gifts came from surplus income. You need a pattern. And you need to make sure that the surplus income really is surplus - that you're not relying on it to cover your living costs.

Again, this is where professional advice makes a real difference. An adviser can help you identify whether you have genuine surplus income, structure regular gifts appropriately, and make sure everything is documented correctly in case your estate is questioned after your death.

# Inheritance Tax Planning and [...]

## Trusts

Trusts are a tool that sometimes comes up in inheritance tax planning conversations, and they can seem mysterious if you haven't encountered them before.

At their heart, a trust is quite simple. You're setting aside money or assets and appointing someone (called a trustee) to look after them for the benefit of other people (called beneficiaries). The trustee has legal responsibility for managing the assets according to the instructions you've given them.

Why would you do this? There are several reasons. You might want to protect assets for younger beneficiaries until they're old enough to manage money responsibly. You might want to support a vulnerable family member while making sure their benefits aren't affected. You might want to make sure your wishes are carried out even if your beneficiaries make poor decisions. Or you might want to achieve specific inheritance tax outcomes.

From an inheritance tax perspective, trusts can be useful because they change who owns the assets and how inheritance tax applies. But trusts themselves are complex. Different types of trust are treated differently for inheritance tax purposes. Some are more tax-efficient than others. And the rules have changed significantly in recent years.

The key thing to understand is that trusts aren't a magic solution. They're a tool that might be useful in your situation, or they might not. And if they are useful, they need to be set up properly to achieve what you want.  This is definitely an area where professional advice isn't optional. It's essential. An adviser can help you understand whether a trust would actually help in your situation, and if so, what type of trust and how to structure it.

## Business and Agricultural Relief

If you own a business or farm, or you hold significant shares in a family company, you should know about two important reliefs. They're called business relief and agricultural relief.

These reliefs allow certain qualifying business assets and agricultural land to pass to your beneficiaries with reduced or no inheritance tax. The relief can be substantial, potentially reducing the inheritance tax on those assets to nothing.

There are conditions. The business or farm needs to meet certain criteria. You generally need to have owned it for a minimum period. And the relief only applies to the business or farm itself, not to other personal assets.  If this applies to you, it's important to understand it, because it could make an enormous difference to your inheritance tax liability. But the rules around what qualifies and how much relief you get are detailed.

Again, professional advice makes a real difference. If you own a business or farm, an adviser can review your situation and help you understand what inheritance tax reliefs might apply and how to protect them.

## Life Insurance

Here's an interesting angle. Life insurance can play a useful role in inheritance tax planning, not because it reduces your inheritance tax, but because it provides the cash needed to pay the tax that would be due.

Think of it this way. You might have an inheritance tax liability, but that liability won't be due until you die. Life insurance pays out when you die. So life insurance can provide the funds your family needs to pay any inheritance tax that's due, without them having to sell your home or other important assets.

This can be genuinely valuable. Imagine you pass away and your estate owes inheritance tax. Without the cash to pay it immediately, your family might need to sell property or investments in a rush to find the money. With life insurance, they have the cash available. They can pay the tax at their leisure and then distribute the rest of your estate as you intended.

There's a particular way to structure life insurance for this purpose that's called an "insurance in trust". This means the life insurance proceeds don't form part of your taxable estate, so the money is genuinely available for your family to use, without it pushing up your inheritance tax liability. Life insurance isn't for everyone, and it does have costs. But if you have an inheritance tax concern and you want to protect your family from the burden of finding cash to pay the tax, it's worth discussing with an adviser.

## Pensions

Pensions have a special status when it comes to inheritance tax, and it's one of the reasons financial advisers often say pensions are particularly tax-efficient for inheritance planning.

Here's why. Money held in a pension is typically not counted as part of your estate for inheritance tax purposes. This is true for most types of pension. So if you have significant wealth in pensions, compared to someone with equivalent wealth in savings or property, your inheritance tax position can be significantly better.

But it gets more interesting. Many modern pensions allow you to nominate who you want the pension to pass to when you die. Those beneficiaries can typically inherit the pension without inheritance tax being due. And in many cases, they can continue to draw income from the pension over their lifetime.

This creates some genuinely valuable planning opportunities. If you're concerned about inheritance tax, and you have the option to build wealth in a pension (through additional contributions, for example), the inheritance tax position can be far more favourable than building wealth outside a pension.

That said, pensions are complex. The rules have changed in recent years. Different types of pension are treated differently. And your individual situation matters. This is absolutely an area where professional advice helps you make the right decision.

# The Importance of a Valid, Up-to-Date Will

You cannot have an inheritance tax plan without a valid will. It's simply not possible.

Here's why. If you die without a valid will, your estate is distributed according to the rules of intestacy. These rules don't take into account your wishes, your family circumstances, or inheritance tax. They're generic rules that apply to everyone.

Your spouse might inherit less than you'd want them to. Your children might inherit when they're too young. Inheritance tax might apply when it could have been avoided. People you care about might receive nothing. And your family could face a lot of distress and cost sorting everything out.

A valid will changes everything. It allows you to express your wishes clearly. It allows you to appoint guardians for your children if they're under age. It allows you to make gifts to people and causes you care about. And importantly for this guide, it allows you to structure your estate in a way that makes sense from an inheritance tax perspective.

Your will should be professionally drafted. This might sound like unnecessary expense, but a poorly drafted will can cause far more expense and heartache later. And if inheritance tax is part of your thinking, it's particularly important that your will is structured properly to take advantage of any exemptions and reliefs that apply to your situation.

Your will also needs to be kept up to date.

Major life changes, significant changes to your assets, changes in tax rules, or changes in who you want to benefit all mean your will should be reviewed and possibly updated.

# Six Common IHT Planning Mistakes

Over years of watching families navigate inheritance tax, some patterns emerge. Here are some of the common mistakes people make, so you can try to avoid them.

## 1. Doing nothing

Many people know they should think about inheritance tax, but they don't. They assume it won't apply to them, or they find the whole thing too complicated to think about. But then they pass away, their family faces an unexpected tax bill, and the opportunity to plan is gone.

## 2. Using outdated information

Tax rules change. Thresholds change. What was good advice five years ago might not be good advice now. Yet many people plan based on what they remember or what they read in old articles.

## 3. Planning in isolation

For example, someone might set up a trust without considering whether a trust is actually the best solution, or without understanding how it interacts with their will, their pension, or their spouse's estate. Inheritance tax planning needs to be part of your broader financial picture.

## 4. Failing to consider real-world consequences

Making decisions based on pure tax considerations without thinking about the real-world consequences. For example, a strategy might save inheritance tax but create complications for your family, or it might reduce your own standard of living in retirement. The tax tail shouldn't wag the financial dog.

## 5. Not telling your family

If you've put a plan in place, your executors and beneficiaries need to know about it. If your will contains something unexpected, or if you've set up a trust, or if you've made arrangements for life insurance, your family needs to understand what's in place and why.

## 6. Not having professional advice reviewed

Some people do make an effort, but they rely entirely on general reading or on advice from friends and family. Inheritance tax planning really does benefit from professional review of your specific circumstances.

# Why Professional Advice Makes a Real Difference

By now, you might have noticed we've mentioned professional advice quite a lot in this guide. That's not accidental. Inheritance tax planning genuinely benefits from working with a qualified adviser, and it's worth understanding why.

First, an adviser can review your whole situation. They understand how your estate is structured, what assets you have, what's in pension, what's in property, what you've already given away. They can see the full picture. This matters because inheritance tax planning isn't about any single decision. It's about how all your financial decisions interact.

Second, an adviser can help you think clearly about your values and priorities. What does your legacy actually mean to you? Who do you want to benefit? What causes matter to you? How much do you want to leave for your own security? An adviser can help you work through these questions, not just the tax questions.

Third, an adviser understands how the rules apply. Tax rules are complex and they change. An adviser stays on top of these changes and can help you understand what applies to your situation. They can also help you think ahead about how rule changes might affect your plan.

Fourth, an adviser can help you implement your plan properly. If you decide that gifting to your children makes sense, an adviser can help you do it in a way that's properly structured for inheritance tax purposes. If you decide a trust would help, an adviser can brief you on what type of trust and how to set it up. If you need to update your will, an adviser can work with you to make sure it reflects your wishes and your tax position.

Fifth, an adviser can review your plan regularly. Your life changes. Your family changes. Your wealth changes. Your priorities change. Your inheritance tax position might change too. An adviser can help you review whether your plan still makes sense and update it if needed.

Finally, an adviser gives you peace of mind. You've done the thinking. You've got professional guidance. You know your plan is appropriate for your situation. You've got documentation. Your family knows what's in place. You can stop worrying about it and get on with enjoying your life.

# Key Questions About Your Estate

As you think about your own inheritance tax situation, here are some questions worth reflecting on. You don't need to have answers to all of them right now, but they might help you think about whether you need advice, and what matters most to you.

1. **What is your estate likely to be worth?**
   This includes your home, savings, investments, possessions, and any pensions. If you're not sure, it's worth doing a rough estimate.
2. **Do you own your home?**
   If so, is it jointly owned with your spouse, or do you own it alone? Is it your main residence, or do you have investment property or a second home?
3. **Are you married or in a civil partnership?**
   Do you have children? Do you have other people who depend on you or who you want to benefit?
4. **Do you own a business or hold significant shares in a company?**
   Do you own agricultural land or a farm?
5. **Have you already made significant gifts to family members?**
   Are you planning to make gifts in the future?
6. **What do you want your money and assets to do after you've gone?**
   Who should benefit? What values do you want to pass on? Are there causes you care about?
7. **Is tax important to you in the context of your estate planning?**
   Or are other things (like making sure your wishes are followed, protecting vulnerable beneficiaries, making sure your family isn't burdened) more important?
8. **Do you have a current, valid will?**
   When was it last updated?
9. **Have you had professional advice about inheritance tax before?**
   If so, when, and do you remember what was recommended?

# A Final Thought

Inheritance tax can feel like an obstacle to leaving your money to your family. But it's really just part of the financial landscape. And like most financial challenges, it becomes a lot less daunting once you understand it.

The aim of this guide has been to help you understand how inheritance tax works, what options are available to you, and why professional advice makes a difference. We hope you now feel more confident about the topic.

But understanding inheritance tax is really just the start. The next step is thinking about your own situation. You might realise you don't have an inheritance tax problem at all. Or you might realise that a conversation with a professional adviser would be valuable.

What matters is that you've got enough information to know what questions to ask, and why those questions matter.

# About Us

We believe in the importance of money, not as an end in itself, but as a **facilitator of dreams**. With true financial planning, money becomes a means by which **lives can become richer** and more fulfilled and individuals can be freed to follow their true purpose.

At Atticus Financial Planning we feel that our clients choose to partner with us in making their dreams a reality. Together we work to create a meaningful and rich future, built upon a sound and robust financial plan. This forms the foundations that allows them to flourish, not just financially, but also mentally, physically and spiritually.

Our aim is to offer simple, effective advice that works and makes a difference in the lives of our clients.

**Contact us to start your journey to financial freedom by email at info@atticusfp.co.uk, give us a call on 01420 446 777, or find out more at www.atticusfinancialplanning.co.uk**

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