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# A Guide to **Inheritance Tax Planning – Protecting Your Estate**

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Inheritance Tax (IHT) is a growing concern for families, homeowners, and business owners looking to pass on their wealth efficiently.

With upcoming changes to Agricultural Property Relief (APR) and Business Property Relief (BPR), and further changes to IHT and unspent pensions in 2027, effective estate planning is more important than ever.

However, IHT planning extends beyond APR and BPR. Understanding nil-rate bands, gifting rules, and trust structures can help you reduce or even eliminate unnecessary tax liabilities.



# Understanding Inheritance Tax

Currently, IHT is charged at 40 per cent on estates valued above £325,000 (the standard nil-rate band).

However, there are various reliefs and exemptions available to help minimise the tax burden:

## Nil-rate bands

Everyone has a £325,000 tax-free allowance, which can be used across cash, taxable investments and property. An additional £175,000 residence nil-rate band applies, where a main home is passed to direct descendants.

This means each individual can pass on up to £500,000 tax-free, combining non-property assets and their main home. Married couples or civil partners can pass on up to £1 million tax-free between them.



These rates are frozen until 2031, making proactive planning crucial as asset values continue to rise.



# Business and Agricultural Property Reliefs – What is changing?

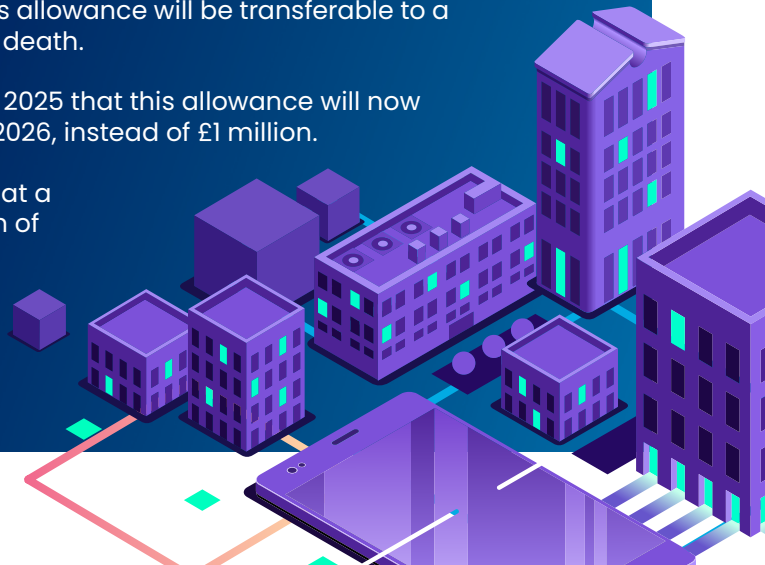
The 2024 Budget introduced significant changes to Agricultural Property Relief (APR) and Business Property Relief (BPR) under Inheritance Tax (IHT), effective from April 2026.

The 100 per cent relief on agricultural and business assets will be capped at £1 million per individual, with values above this threshold eligible for only 50 per cent relief. In the 2025 Autumn Budget, the Chancellor confirmed that this allowance will be transferable to a surviving spouse and civil partner after a person's death.

It has subsequently been confirmed in December 2025 that this allowance will now be extended to £2.5 million per person from April 2026, instead of £1 million.

With the existing nil-rate bands, this may mean that a farming couple can only protect the first £6 million of assets for beneficiaries.

This cap could significantly affect large farming operations and high-value businesses.



# What is changing to pensions?

Currently, defined contribution pensions do not form part of an individual's estate and are not subject to IHT.

From 6 April 2027, defined contribution pensions may be subject to IHT, depending on the value of the estate and who inherits the pension. Where applicable, the tax rate could be up to 40 per cent.

For example, if you die with a pension pot worth £400,000, its entire value will be added to the total value of your estate (including properties, cash and investments) when calculating whether IHT is due and how much is to be paid.

While many people may not have significant sums left in their pensions at the time of death, this change will affect an estimated 10,500 estates for the first time and increase IHT liability for 38,500 estates.

If you own a home, your total estate value, including your pension, could exceed tax-free allowances, resulting in an unexpected IHT bill.

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## Strategies to reduce your IHT liability

If your estate could exceed the tax-free thresholds, consider the following steps to mitigate IHT.



# Make use of nil-rate bands

Married couples and civil partners can pass assets tax-free to each other.

Any unused nil-rate band can be transferred to a spouse, potentially shielding up to £1 million from IHT.

Ensure the residence nil-rate band is fully utilised by passing your home to children or grandchildren.

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# Use gifting allowances

Gift up to £3,000 tax-free each year (£6,000 if no gift was made in the previous tax year).

Wedding gifts, small gifts, and regular gifts from excess income may also be exempt.

More significantly, larger gifts may be IHT-free if you survive for seven years. The seven-year rule provides a progressive rate of relief after the first three years of a gift being made the rate of relief continues to increase until the seventh, and final, year.

# Make regular gifts out of your income

Regular gifts made from surplus income can be exempt from IHT, provided they meet certain conditions.

To qualify, these gifts must be part of a normal pattern of giving, come from your after-tax income (not capital), and not reduce your standard of living.

Common qualifying examples include regularly paying a child's rent, covering ongoing school fees for grandchildren, or making routine financial contributions to a loved one.

If you later need to use capital to maintain your lifestyle, the exemption will no longer apply.

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# Consider trusts for wealth protection

Trusts enable wealth to be passed down generations while retaining control over its use.

Certain trusts reduce IHT liability if structured correctly. They can also protect assets for children or vulnerable beneficiaries.

# Review your estate's liquidity

From April 2026, IHT on assets not covered by APR or BPR will need to be paid in 10 equal instalments.

Ensure that your estate has sufficient cash or liquid assets to cover tax bills. Gradual asset disposal may ease the financial burden on beneficiaries.

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# Update your will and succession plans

An up-to-date will ensures assets are distributed as intended while incorporating tax-efficient planning.

If you own a family business or farm, a structured succession plan can help reduce tax exposure and ensure a smooth transition.

# Protect Your Estate

With significant changes to IHT on the horizon, now is the ideal time to review your IHT planning strategy.

By managing your estate proactively, you can ensure that more of your wealth goes to your loved ones rather than to the Government.

If you need assistance reviewing your estate in light of these changes, please get in touch.



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