

INHERITANCE TAX

WHY WAITING COULD COST YOUR FAMILY

When it comes to inheritance tax (IHT), one of the costliest mistakes families make is waiting too long to plan. It's a subject many put off, often due to the discomfort of contemplating death or assuming that it doesn't apply to them. But delayed planning can come with a hefty price tag potentially leaving your loved ones with a significant bill and reducing the legacy you intended to pass on.

NEW FROM APRIL 6, 2026: LIMITS ON TAX-FREE RELIEF FOR FARMS AND BUSINESSES

WHAT'S CHANGING?

From 6 April 2026, the government will cap Agricultural Property Relief (APR) and Business Property Relief (BPR) at a combined £1 million cap per individual (or per trust). Above that threshold, qualifying assets will only receive 50% relief, resulting in an effective 20% IHT charge on the excess.

Shares in AIM-listed or unquoted companies will only qualify for 50 % relief even from the first pound.

Unused allowances cannot be transferred between spouses or partners so if both partners have qualifying assets, they must each use their own £1 million cap separately

THE IMPACT

- Most estates (around three-quarters) that currently claim APR/BPR won't pay more IHT, but those with over £1 million in such assets will see their relief reduced and face new tax bills
- Some estates may take years to pay IHT on qualifying business/apr property can now be paid in up to 10 annual interest-free instalments
- Farmers and business owners are protesting these changes many argue that while land-rich, they're cash-poor, and now heirs may have to sell assets to pay tax

WHY IT MATTERS FOR YOUR PLANNING

If you own or plan to pass on a farm, trading business, or certain investments, the new cap can significantly reduce relief. Planning before April 2026 potentially through gifting or restructuring could preserve relief.

GIFTS MADE AFTER 3 OCTOBER 2024 MAY FALL UNDER THE NEW RULES

TRANSITIONAL RULES

Gifts made from 30 October 2024 up to 5 April 2026 are still made under the existing rules—but if the donor dies on or after 6 April 2026, the new relief cap applies when calculating IHT.

That means even if you give away business or agricultural assets in late 2024 or 2025, and those gifts exceeded £1 million, beneficiaries could face IHT under the new £1 million-cap rules, if the donor dies within seven years.



TRUSTS - ANTI-FRAGMENTATION RULES

Trusts created before 30 October 2024 with qualifying assets each get their own £1 million allowance. But trusts set up after that date must share a single £1 million cap designed to prevent splitting assets into multiple trusts to multiply relief.

PLAN NOW - OR RISK UNEXPECTED TAX

Even gifts that seem well-timed may still trigger future IHT under the new regime. If you intend to give away business or farm assets soon, consult a professional especially if death occurs within seven years.

THE HIDDEN COST OF DELAYED PLANNING

Inheritance tax currently stands at 40% on estates over the nil-rate band (£325,000 per individual, or £650,000 for couples, plus any applicable residence nil-rate band). With rising property values and asset growth, more families are getting caught in the IHT net—even those who don't consider themselves wealthy.

Failing to act early can mean losing out on crucial exemptions and planning strategies that could drastically reduce the tax burden. Here's how to take control of your estate planning and preserve wealth for future generations.

1. Use Your Annual Exemptions

Each individual can give away up to £3,000 per tax year free of inheritance tax. This is known as the *annual exemption*. If you didn't use it last year, you can carry it forward one year, potentially gifting £6,000 tax-free. Small gift exemptions (£250 per recipient per year) and gifts for weddings (up to £5,000 for a child) also fall outside the IHT net.

Why it matters: These exemptions reset every year so the earlier you start, the more cumulative tax-free wealth you can pass on over time.

2. Make Use of the 7-Year Rule

Gifts made to individuals that exceed your exemptions can still be IHT-free if you survive seven years after making them. These are known as Potentially Exempt Transfers (PETs). If you die within seven years, the gift may still be taxed, but the amount reduces on a sliding scale after three years.

Why it matters: Starting the clock now gives your family a better chance of avoiding tax on lifetime gifts.

3. Set Up Trusts for the Next Generation

Trusts can be powerful vehicles to pass wealth down generations while still maintaining some control. Depending on the type, assets placed in trust may not form part of your taxable estate if done correctly and early.

Why it matters: Trusts offer flexibility, asset protection, and long-term tax benefits, especially when used in conjunction with other strategies.

4. Use Life Insurance in Trust

Life insurance can be a smart way to cover an anticipated IHT liability. But placing the policy *in trust* ensures the payout doesn't form part of your estate and is therefore not subject to tax.

Why it matters: Without the trust wrapper, the policy intended to pay the IHT bill could itself be taxed, reducing its effectiveness.

5. Consider a Family Investment Company (FIC)

A Family Investment Company allows you to retain control over assets while gradually passing value to your children or grandchildren through shares. FICs can offer a tax-efficient way to grow wealth and manage succession.

Why it matters: With proper planning, FICs can mitigate income tax, capital gains tax, and IHT liabilities especially if started early.

CASE STUDY: THE COST OF WAITING

Meet Sarah and John – A Tale of Two Decades

Sarah and John, both in their early 60s, owned a property worth £900,000, savings of £200,000, and investments totaling £400,000. They assumed that IHT was only a problem for the very wealthy and never sought advice.

At 75, John passed away unexpectedly. The estate, now valued at £1.8 million, faced a potential IHT bill of over £400,000 after allowances. With little planning in place, assets had to be liquidated, and the family home was nearly sold to cover the tax.

Contrast that with their friends, David and Anne, who at age 60:

- Started using their £3,000 annual exemptions
- Gifted £150,000 to their children and lived past the 7-year threshold
- Placed life insurance in trust to cover their projected IHT bill
- Set up a discretionary trust for future grandchildren
- Established a Family Investment Company for their remaining investments

Result? When David passed at 78, the estate's IHT liability was under £50,000 sparing the family a major financial burden and preserving wealth across generations.



THE BOTTOM LINE: ACT NOW

Inheritance tax doesn't just impact the ultra-wealthy. Inaction can leave your family vulnerable to unnecessary tax bills, strained finances, and even forced sales of cherished assets. By acting early and taking advantage of existing rules, you can significantly reduce the impact of IHT and ensure your wealth benefits those you care about most.

TAKE THESE STEPS TODAY:

- Review your estate's value and current IHT exposure
- Start using your annual gift exemptions
- Plan and document large gifts to start the 7-year clock
- Explore trust structures and life insurance options
- Consult with a financial adviser or estate planner to see if a Family Investment Company suits your goals

Every year you wait could cost thousands. Start the conversation now your future self, and your family, will thank you.

WE CAN HELP

If you need assistance with any issues raised in this Broadcast, please call us on **01753 888 211** or email **info@nhllp.com**. We are here to help.