GUIDE TO

NAVIGATING THE NEW UK INHERITANCE TAX RULES

Prepare today to safeguard your legacy tomorrow – strategies for mastering the proposed 2026 changes

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Welcome to our *Guide to Navigating the New UK Inheritance Tax Rules.*

The October 2024 Budget proposed significant changes to UK Inheritance Tax (IHT) rules, particularly for trading businesses and farmland owners. Effective from April 2026, these types of assets will have reliefs capped at 100% for the first £1 million of qualifying assets. For valuations exceeding £1 million, the relief will reduce the IHT payable by 50%.

Although this rate is lower than the standard 40%, many families who were previously unaffected by IHT may now find themselves impacted, presenting new challenges for estate planning.

Understanding these proposed changes is crucial for anyone who owns a family business, farmland, or other qualifying assets. Effective planning could help minimise tax liabilities, safeguard your estate, and ensure your financial legacy for the next generation.

Understanding the changes

Starting in April 2026, farmland and trading businesses valued over £1 million will enter the IHT framework for the first time.

While the reduced 20% rate applies only to these qualifying assets, the associated financial responsibility could pose challenges for families, particularly when liquidating assets to cover tax bills is not feasible.

Early planning is essential to mitigate exposure and ensure your wealth is preserved.

Strategies for minimising IHT

1. Lifetime gifting

Lifetime gifting is one of the most straightforward but effective ways to reduce IHT liabilities. Assets gifted during your lifetime aren't subject to IHT as long as you survive for seven years afterwards.

This can be particularly useful for transferring ownership of businesses or farms. By doing so, families can avoid unnecessary tax consequences while securing the financial future of the next generation.

Practical gifting considerations

- **Affordability:** Before making a gift, ensure it won't compromise your financial stability. Cash flow planning is critical to maintaining your lifestyle after gifting.
- **Timing:** The renewed £1 million limit on which 100% relief applies exemption every seven years allows you to make structured, smaller gifts over time, offering greater flexibility while spreading the tax benefit.

Example: A case study in gifting

Passing the family farm

John, a Hertfordshire farmer with £2 million in farmland, gifted half of the land to his daughter in 2023. By doing so, this portion of the estate will fall outside IHT calculations by 2030, assuming he survives the seven-year timeline. This move alone could save his family £200,000 in taxes (20% of the £1 million over the available threshold).

2. Selling assets to manage liabilities

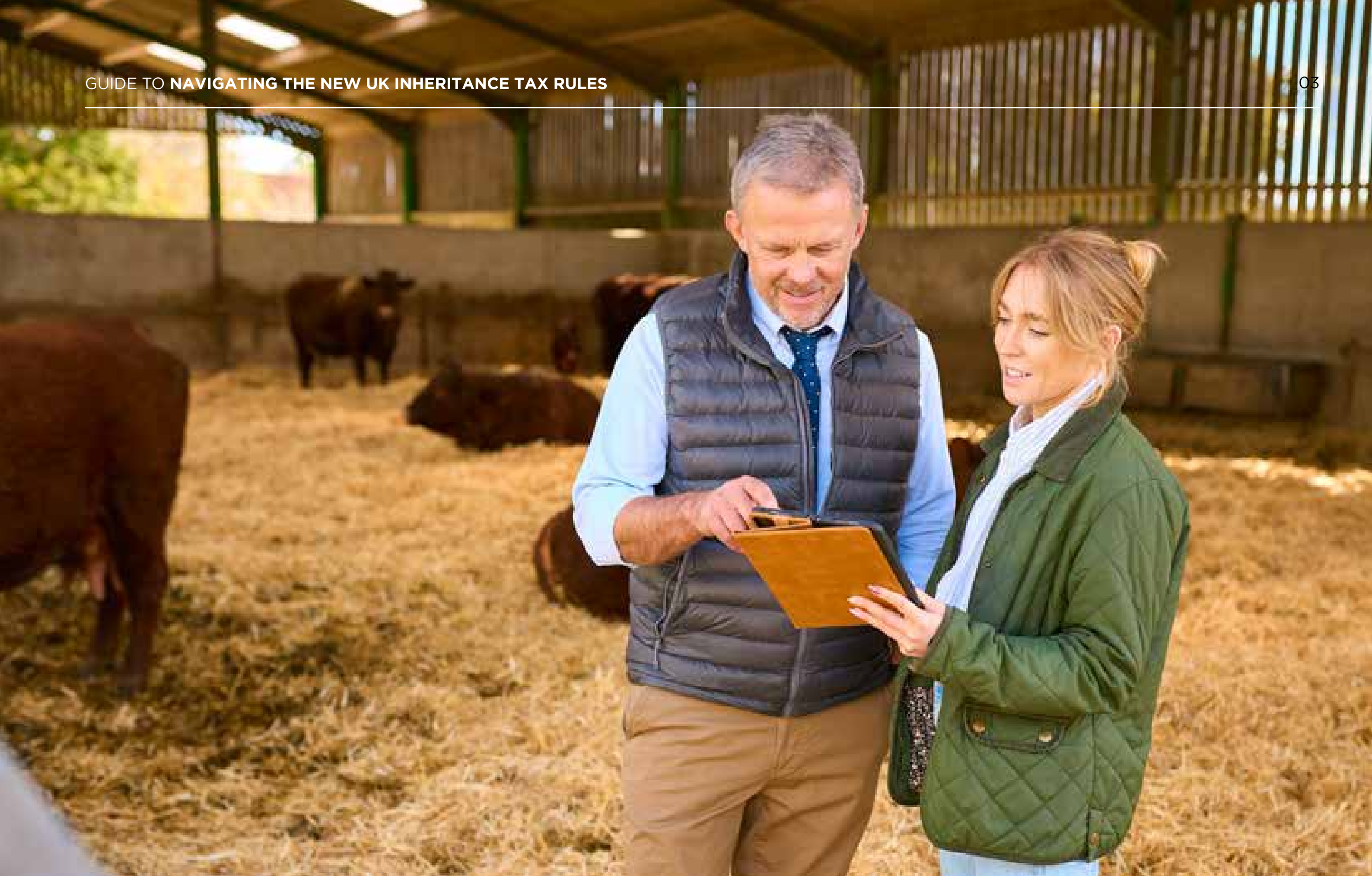
For families for whom gifting isn't practical, selling a business or property could be an alternative. While the new rules reduce IHT on qualifying assets to 20%, the proceeds from asset sales may still be taxed at the standard 40% rate upon death.

Trusts and asset sales

Placing assets in a trust before a sale can help reduce tax risks while providing families with greater control over how sale proceeds are distributed. Although the upfront costs for setting up and managing a trust may increase under the new regulations, early preparation makes this a worthwhile option for many.

Managing Capital Gains Tax (CGT)

Selling assets often triggers Capital Gains Tax (CGT), which can diminish financial gains. Balancing this with tax-efficient investments, such as gilts or qualifying corporate bonds, may mitigate some of these liabilities while providing a stable income stream.



3. Leveraging life insurance

Life insurance specifically designed to cover IHT bills can serve as a safety net to protect your estate. Policies established within an appropriate trust are particularly effective, as the payout to trustees outside of the estate of the donor will provide funds in order to pay the IHT due.

Supplemental role of life insurance

Life insurance is a valuable addition to strategies such as gifting. For example, term policies can offer temporary coverage for the seven-year period following a gift, ensuring that heirs have the funds provided by the policy to meet the burden of tax.

Costs and considerations

Insurance premiums depend on age, health, and required coverage. For families facing significant liabilities, the long-term benefits far outweigh the costs. With our professional advice we'll enable you to identify the right policy tailored to your needs.

Example: A case study in combining life insurance and gifting

Securing a manufacturing legacy

David, the owner of a £2.2 million manufacturing firm, faced a £240,000 IHT liability under the new rules. He purchased a life insurance policy and placed it in an appropriate trust to cover the amount to address this. He also began gifting company shares to his heirs. This strategy not only reduces immediate tax exposure but also preserves the business's long-term viability.

Why early planning matters

IHT planning is becoming more complex under the new regulations. A combination of lifetime gifting, trusts, and life insurance offers the flexibility needed to tackle these challenges and protect your estate. Starting early provides you with more options and ensures your plan aligns with your personal goals and family values.

Tailor your approach

No two families are alike, and developing an effective IHT strategy necessitates thoughtful consideration of your distinct circumstances. Seeking professional advice enables you to grasp the intricacies of the new rules while maximising the opportunities available.

Take action to secure your legacy

The proposed IHT changes introduced in October 2024 require timely and careful preparation. Don't wait until the last minute. These rules are an opportunity to take control of your financial future and ensure your assets remain safeguarded for generations to come. ■

ARE YOU READY TO PROTECT YOUR FINANCIAL LEGACY?

We provide expert professional advice to navigate the complexities of UK IHT. From lifetime gifting to trust creation and tax-efficient insurance, our solutions will help you preserve what you've worked hard to build. Contact us today for personalised guidance and start planning for a secure future.

ARE YOU READY TO TAKE CONTROL OF YOUR ESTATE PLANNING TODAY?

With expert guidance, we'll help you navigate the complexities of UK IHT. Don't leave your financial legacy to chance—contact us now for personalised advice and start building a secure future for your family.

To discuss how we can help you, please contact us.

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