ASWATAX

Chartered Tax Adviser

A GUIDE · 2026/27

The Inheritance Tax Planning Guide

Gifts, trusts, reliefs and Family Investment Companies, explained in plain English

CHARTERED TAX ADVISERS

ABOUT THIS GUIDE

The Inheritance Tax Planning Guide

Gifts, trusts, reliefs and Family Investment Companies, explained in plain English.

This guide explains the rules for the 2026/27 tax year in plain English. Each section stands on its own, so you can read it from start to finish or go straight to the part that applies to you.

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WHAT OUR CLIENTS SAY

Rated 5.0 on Google

A selection of genuine reviews from clients and the advisers who refer them to us.

★★★★★

"I had multiple areas where tax advice was required within my family owned group of small businesses. Omar carried out a detailed analysis and provided a report with various options available. I then commissioned ASWATAX to set up a Family Investment Company (including a discretionary trust), restructure our parent company's shares and carry out a demerger of one of our companies within the group. To date I can not fault ASWATAX."

David England · Family Investment Company, trust and group restructure

GOOGLE REVIEW

★★★★★

"Excellent service from ASWATAX! Omar, the founder made a potentially complex process feel simple and straightforward. Highly recommended for anyone needing tax advice."

Naleem Cader · Private client

GOOGLE REVIEW

SECTION 01

Who this guide is for, and how to use it

This guide is for UK families who want to understand inheritance tax (IHT) before they plan around it. You might own a home that has grown in value, run or part-own a business, hold investments or rental property, or simply want your children and grandchildren to keep as much of what you have built as possible.

You do not need any tax knowledge: we explain each term as it first appears.

How to use it.

- Read sections 2 and 3 first. They cover the rules almost everyone is caught by.
- Dip into sections 4 to 9 for the tools that fit your situation: trusts, business relief, pensions, Family Investment Companies, insurance and wills.
- Finish with the checklist in section 10 and the common mistakes in section 11.

Everything here is for the 2026/27 tax year and is correct at 20 October 2026. The Budget on 28 October 2026 may change some of it.

> This guide is general information, not advice. It cannot take account of your own circumstances. Please take advice before you act.

SECTION 02

How inheritance tax works in 2026/27

IHT is a tax on the value of what you leave when you die, and on some gifts you make in the seven years before. The standard rate is **40%**, and it is charged only on the part of your estate above your tax-free amounts. Your estate is everything you own, less your debts: property, savings, investments, business interests, vehicles and (from April 2027) most pension funds.

The tax-free amounts

Allowance	Amount	What it is
Nil-rate band	£325,000	The tax-free amount everyone gets.
Residence nil-rate band	up to £175,000	An extra amount if you leave your home (or a share of its value) to children, grandchildren or other direct descendants.

Allowance	Amount	What it is
Combined	up to £500,000 per person	The two bands together.

Three points matter here.

1. **Both bands are frozen** until 5 April 2031. As prices and property values rise, more families are caught.
2. **The residence nil-rate band tapers away for larger estates.** It falls by £1 for every £2 your estate is worth over £2 million. For a single person with the full £175,000, it has gone entirely once the estate reaches £2.35 million.
3. **The residence band cannot exceed the value of your home.** You receive the lower of the two. If you have downsized or sold your home, a "downsizing addition" may preserve some of the band, provided other assets pass to direct descendants.

Spouses and civil partners

Anything you leave to your husband, wife or civil partner is normally exempt from IHT. This is the biggest relief in the system. One limit: if you are a long-term UK resident and your spouse is not, the exemption is capped at **£325,000**. Your spouse can elect to be treated as a long-term UK resident for IHT, which removes the cap, but it also brings their worldwide assets into UK IHT while the election lasts.

Any nil-rate band you do not use on the first death can pass to the survivor, and the same is true of the residence nil-rate band. A couple can therefore leave up to £1 million between them without IHT, if both bands are fully available and the estate is below the taper threshold. The survivor's personal representatives claim the unused bands.

The charity rate

If you leave **10% or more of your net estate to charity**, the rest of the estate is taxed at **36%** instead of 40%. Gifts to charity are themselves exempt.

When tax is paid

IHT on an estate is due by the end of the sixth month after death, and interest runs after that. This catches families out when the main asset is a house that has not yet been sold.

For certain assets, including land and buildings, a business or an interest in one, and some shares in unlisted companies, the IHT can be paid in **ten equal annual instalments**, the first due at the six-month deadline. For qualifying business assets the instalments are interest-free; for others, such as a home or a let property, interest runs on the unpaid balance.

Example: Margaret, a widow, dies in 2027 with an estate of £1.3 million, including a home worth £450,000 that she leaves to her daughter. Her late husband's bands were unused, so her personal representatives claim them. Her tax-free amount is £650,000 of nil-rate band plus £350,000 of residence nil-rate band: £1,000,000 in all. The excess is £300,000, and the IHT at 40% is £120,000. Had she left the same estate to a friend instead of a descendant, the residence bands would not apply and the bill would be higher. All figures are hypothetical.

SECTION 03

Lifetime gifts

The simplest way to reduce an IHT bill is to give away assets while you are alive. The rules are generous, but they have traps.

Potentially exempt transfers and the seven-year rule

Most gifts to another individual are **potentially exempt transfers (PETs)**. There is no IHT on a PET if you live for **seven years** after making it. If you die within seven years, the gift is added back and may be taxed.

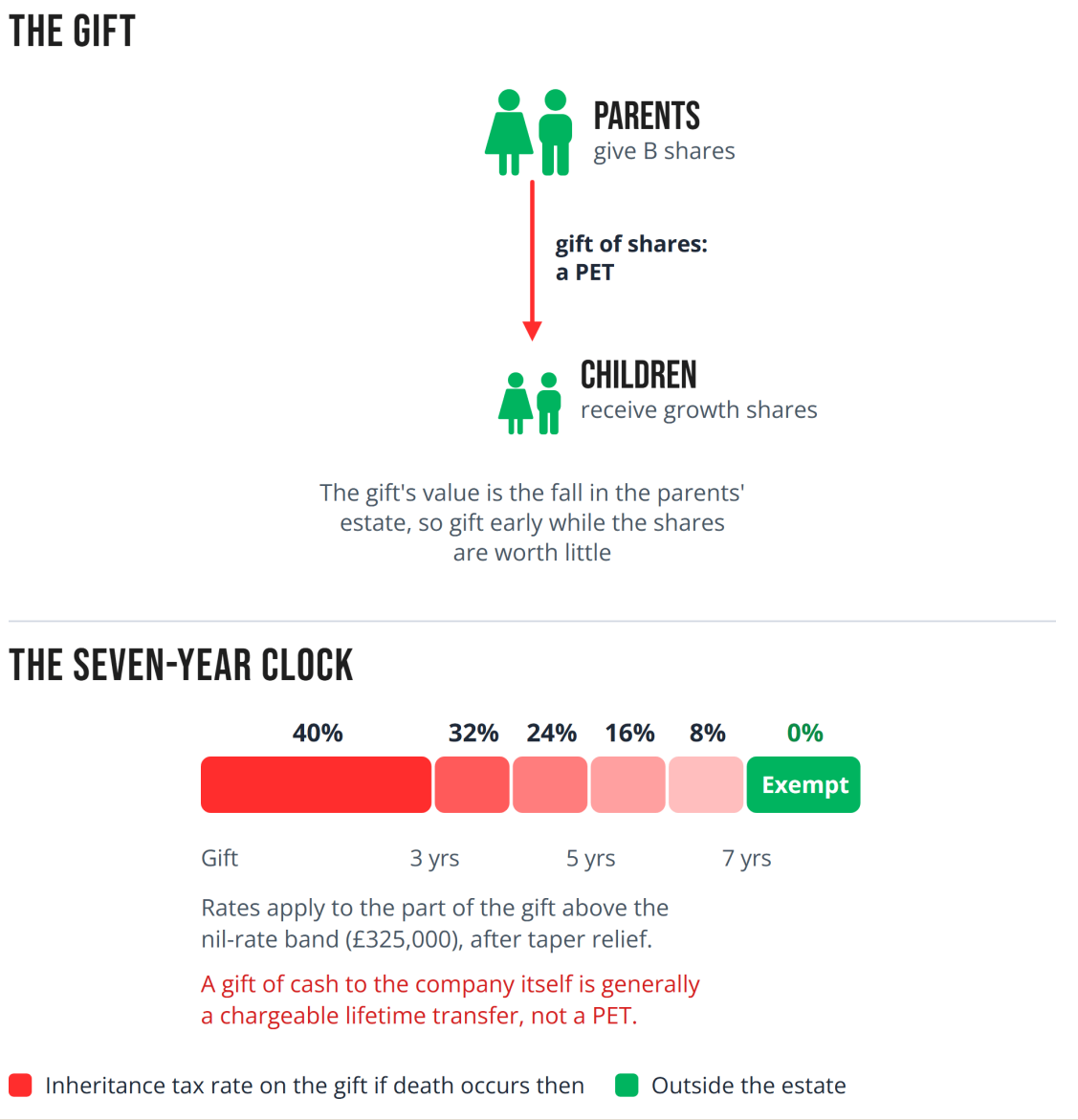
If you die three to seven years after the gift, **taper relief** reduces the tax:

Years between gift and death	Tax rate on the gift
Less than 3	40%
3 to 4	32%
4 to 5	24%
5 to 6	16%
6 to 7	8%
7 or more	0%

Taper relief reduces the tax, not the value of the gift. It only helps if total gifts in the seven years before death exceed the £325,000 nil-rate band. Gifts made in those seven years use up the nil-rate band before the rest of the estate.

Example: Raj gives his son £400,000 in cash in 2026 and dies five and a half years later. The first £325,000 of the gift falls inside the nil-rate band. The other £75,000 would normally be taxed at 40%, which is £30,000. Because he died in years five to six, taper relief reduces the rate to 16%, so the tax is £12,000 (ignoring annual exemptions for simplicity). The gift has used up the whole nil-rate band, so the rest of Raj's estate is taxed at 40% from the first pound. All figures are hypothetical.

Gifts of shares and the seven-year clock



A gift of shares from parents to their children is a potentially exempt transfer: if the parent survives seven years it falls out of the estate, and taper relief reduces the tax on gifts above the nil-rate band made more than three years before death. Gifting shares while the company is new and worth little keeps the value given away small.

Gifts that are exempt straight away

Gift	Limit
Annual exemption	£3,000 each tax year, to one person or split between several. You can carry forward one unused year, so up to £6,000 if you used none last year.
Small gifts	£250 per person per tax year, to as many people as you like (not to someone who has also received another exemption from you that year).
Wedding or civil partnership gifts	£5,000 to a child, £2,500 to a grandchild or great-grandchild, £1,000 to anyone else.
Normal expenditure out of income	No limit, if the gifts are regular, paid from income rather than capital, and leave you enough to maintain your usual standard of living.

The last one is the most underused. Regular gifts out of surplus income, such as paying a child's rent or topping up a savings account for a grandchild, can be large and still be exempt. Keep records that show the pattern and that your income covered the cost.

Gifts with reservation

If you give something away but still benefit from it, it stays in your estate. The classic example is giving your home to your children while you carry on living in it. This applies however long you survive.

Capital gains tax on gifts

Giving away an asset can trigger **capital gains tax (CGT)** even though you receive nothing. A gift to someone other than your spouse, civil partner or a charity is generally treated as a sale at market value. For 2026/27, gains above the £3,000 annual exempt amount are taxed at 18% (to the extent they fall within your basic rate band) or 24%. Some gifts, such as gifts into a trust, can qualify for holdover relief, which postpones the gain. On the other side, assets held at death are normally treated as acquired at their value then, which wipes out the gain.

Always look at IHT and CGT together before you give away a property, shares or a business interest.

SECTION 04

Trusts

A trust is a legal arrangement. You (the settlor) hand assets to trustees, who hold them for the benefit of others (the beneficiaries). Trusts let you give away assets while keeping some say over how and when they are used.

The three main types

Type	How it works	IHT treatment in outline
Bare trust	The beneficiary is entitled to the assets and the income.	A gift into a bare trust is a PET. The assets count as the beneficiary's.
Interest in possession trust	A beneficiary has a right to the income, and others receive the capital later.	The rules depend on when and how the trust was created.
Discretionary trust	Trustees decide who benefits and when.	A gift is a chargeable lifetime transfer, with an entry charge and ten-yearly and exit charges (below).

There are other trusts, including trusts for disabled people and trusts created by a will, which have their own rules.

The charges on a discretionary trust

- **Entry charge: 20%.** Gifts into a discretionary trust above your available nil-rate band are taxed at 20% straight away, if the trustees pay. If you pay the tax yourself, the gift is grossed up, so the effective rate is 25%. If you die within seven years, further tax of up to 40% may be due, with credit for the 20% already paid.
- **Ten-year charge.** On each tenth anniversary of the trust, tax is charged on the value above the nil-rate band, up to a maximum of **6%**.
- **Exit charge.** When assets leave the trust, tax is charged at up to **6%**. There is no exit charge on assets leaving within three months of the trust being set up or of a ten-year anniversary, and some other transfers are exempt.

Trustees must report these charges, and pay the tax, by the end of the sixth month after the event.

Registration

Most trusts must be registered on HMRC's **Trust Registration Service (TRS)**, including UK express trusts that have no tax to pay, subject to some exclusions. For new trusts, registration is normally due within 90 days of the trust being created or becoming liable to tax. Trustees must also keep the register up to date.

Income tax and CGT

Trusts pay their own taxes. Trustees pay CGT at 24% (18% where Business Asset Disposal Relief applies) after an annual exempt amount of £1,500 in 2026/27. That amount is shared between all the trusts made by the same settlor, with a minimum of £300 for each trust. Income tax rates on trusts are also higher than most individuals pay. The tax cost must be set against the IHT benefit.

When a trust helps

A trust can make sense when you want to:

- give assets away but keep control of when and how children or grandchildren receive them;
- protect assets from a beneficiary's divorce, creditors or poor decisions;
- provide for a vulnerable family member;
- start the seven-year clock on assets that are likely to rise in value; or
- combine with another structure, for example a trust that holds shares in a Family Investment Company.

A trust is less attractive when the sum is large (so the entry charge bites), when you still need access to the money, or when you want a simple outcome.

SECTION 05

Business and agricultural relief after 6 April 2026

Business Relief (BR) and **Agricultural Property Relief (APR)** reduce the IHT value of qualifying business and farming assets. The rules changed on 6 April 2026.

What changed

- **100% relief now applies to the first £2.5 million** of qualifying business and agricultural property, combined, for each person. Before 6 April 2026, 100% relief was uncapped.
- **Above £2.5 million, relief is 50%.** That is an effective IHT rate of 20% on the excess.
- **Unused allowance can pass to a surviving spouse or civil partner.** A couple can therefore shelter up to £5 million of qualifying property at 100%.
- **AIM shares get 50% relief in all cases.** This applies to shares designated "not listed" on recognised stock exchanges, which includes AIM. They do not benefit from the £2.5 million allowance, even if it is otherwise unused.
- **Trusts have a £2.5 million allowance too,** for their ten-year and exit charges. The rules for trusts set up or added to from 30 October 2024, and for several trusts made by the same person, are technical, so take advice before putting business assets into a trust.
- **Tax can be paid in ten equal annual instalments, interest-free,** on all assets that qualify for the relief.

The allowance applies to chargeable transfers made from 6 April 2026, including lifetime transfers (for example gifts into trust), and not only to estates on death. It is reduced by amounts used by your earlier chargeable transfers in the previous seven years, and transitional rules can bring in some gifts made from 30 October 2024.

What still does not qualify

Business Relief is for trading businesses. A company that mainly holds investments or lets out property does not qualify, and nor do assets inside a company that the business does not need. That is why the structure of a family business matters.

What to do now

- Add up the qualifying business and farming assets each of you owns. If they approach £2.5 million, planning is worth doing now.
- Check who owns what between spouses so each can use their own allowance.
- Review your wills and any shareholder agreements.

SECTION 06

Pensions and IHT from 6 April 2027

For deaths **on or after 6 April 2027**, most unused pension funds and pension death benefits will count as part of your estate for IHT. Until now, most pensions sat outside it.

What the change means

- **Brought in:** most unused pension funds and death benefits, whether or not the scheme administrator has discretion over who receives them.
- **Not brought in:** death-in-service benefits from registered pension schemes, and dependants' scheme pensions from defined benefit and collective money purchase arrangements.
- **Still exempt:** benefits that pass to a surviving spouse or civil partner, or to a registered charity.
- **Who pays:** the personal representatives, not the pension scheme, are responsible for reporting the tax, and pension beneficiaries are generally jointly liable for tax on the pension. The scheme can be directed to pay the tax from the pension, and the personal representatives can direct it to withhold part of the benefits while the tax is settled.

Example: Helen, a widow, dies in 2028 with £700,000 of other assets and an unused pension fund of £400,000. For this illustration she has only the £325,000 nil-rate band. Without the pension, IHT would be 40% of £375,000, which is £150,000. With the pension counted, the taxable estate is £775,000 and the tax is £310,000. The pension adds £160,000, which is 40% of £400,000. Other taxes may also apply to what her beneficiaries take from the pension. All figures are hypothetical.

What to review now

- **The order in which you spend your assets.** Leaving the pension to last may no longer be the right approach.
- **Who is named to receive the pension.** Check your nomination or expression of wish forms are up to date.
- **Whether regular gifts out of income could be funded from pension withdrawals.** If they are regular and affordable, they may be exempt.
- **Your estate as a whole.** A pension that used to sit outside the estate could push it over the £2 million residence nil-rate band taper threshold.

The Budget on 28 October 2026 may affect this area, so check before you act.

SECTION 07

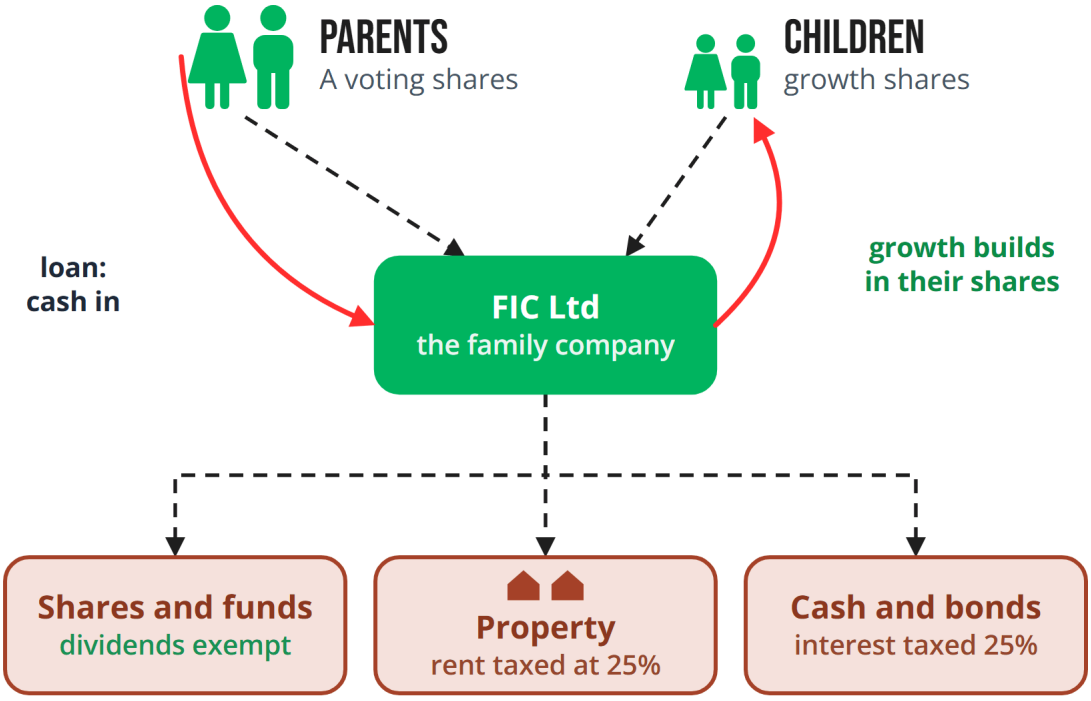
Family Investment Companies

A **Family Investment Company (FIC)** is an ordinary private company set up to hold and grow family investments. Parents usually control it as directors, and the children (or trusts for them) own shares. It is one of the best-known tools in family planning, and we have set up 50+ of them.

How a FIC works

1. You set up the company and agree its rules in its articles of association.
2. You fund it, usually with a **loan** from you to the company, and sometimes with money for shares.
3. The company invests: in shares, funds, bonds or property.
4. Different share classes (often called **alphabet shares** or **growth shares**) are issued. Parents keep shares with votes and control. Children or trusts hold shares that capture the future growth.
5. You take money back by repaying the loan, which is not income, or through dividends and other payments.

How a Family Investment Company works

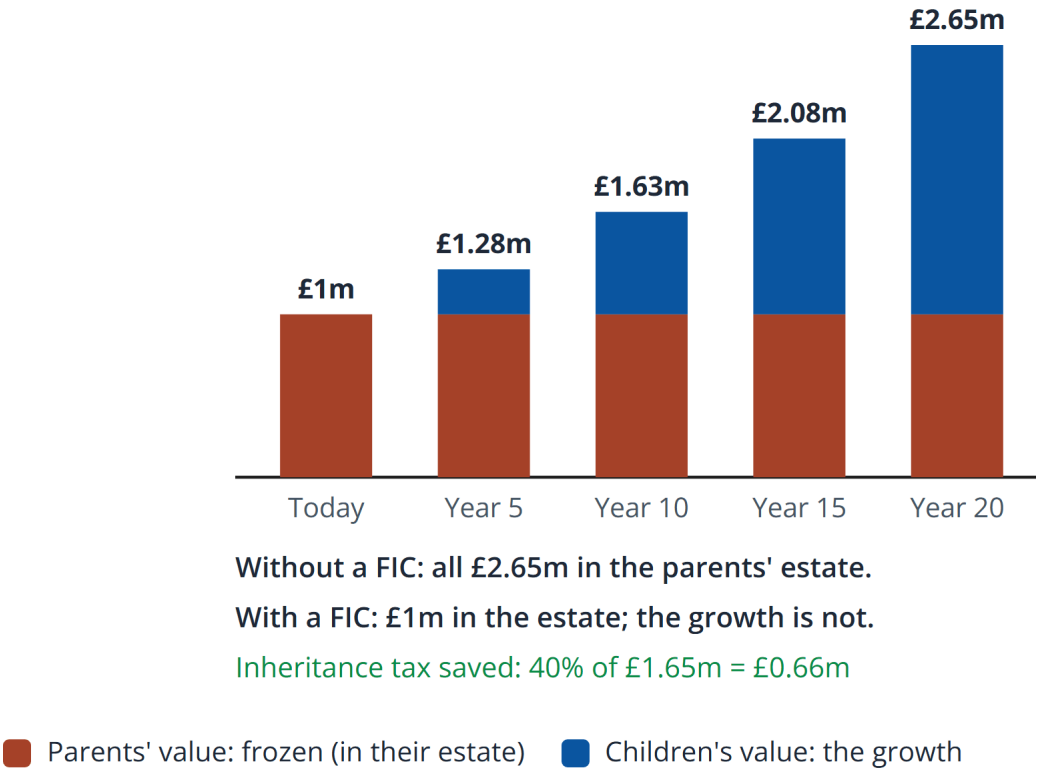


The parents set up a company, fund it, usually by lending it cash, and keep control through voting shares, while the children hold shares that carry the future growth. The company invests and pays corporation tax, and the growth builds up in the children's shares, outside the parents' estates for inheritance tax.

Why people use one

- **Control.** Parents can keep control as directors while later generations own the growth.
- **Growth outside your estate.** Value created after the shares are issued sits with the other shareholders. Your loan, and any shares you keep, stay in your estate.
- **Flexibility.** Share rights can be set so different family members receive different dividends.
- **Tax inside the company.** A FIC that mainly holds investments pays corporation tax at 25%, but most dividends it receives are exempt, so a portfolio of shares can grow with little tax inside the company.

Freezing the value in the parents' estate

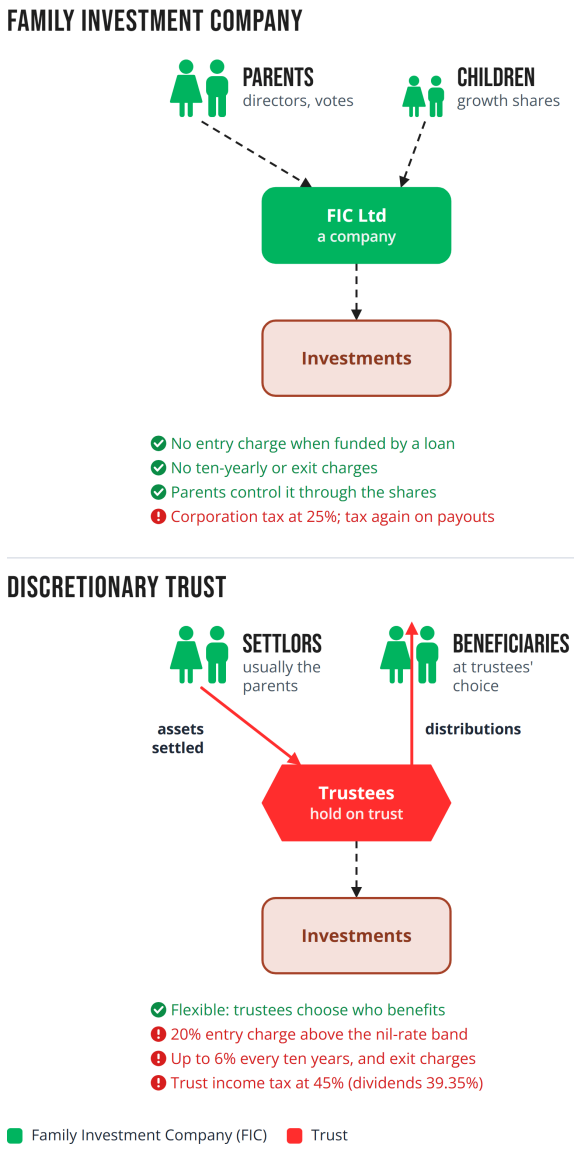


With a Family Investment Company the value the parents keep, the loan and any freezer shares, stays at today's level, and all the future growth belongs to the children's shares, outside the parents' estates. Illustration: £1m invested at 5% a year for 20 years, before tax, with the loan left outstanding and the nil-rate bands used elsewhere.

The tax points to understand

- **Gifts of shares.** A gift of shares to another individual is normally a PET, so the seven-year rule applies. It is also a disposal for CGT at market value, and CGT holdover relief is not available, because a FIC is an investment company, not a trading company. That is why growth shares are normally given at set-up, while they are worth little.
- **Funding by loan.** Money you lend stays in your estate until it is repaid.
- **Getting money out.** When profit is paid out as dividends, the shareholder pays income tax on them.
- **Children under 18.** If a parent gives shares to their own minor child (unmarried and not in a civil partnership), and the child's income from the parent's gifts is more than £100 a year, the whole amount is taxed as the parent's income, not just the excess. Shares for young children therefore need careful planning.
- **Business Relief.** A FIC that holds investments is not a trading company and does not qualify for Business Relief.
- **Public accounts.** A FIC files accounts at Companies House, so they are public.

A Family Investment Company and a discretionary trust, side by side



Both can hold investments for the next generation outside the parents' estates. A trust is more flexible about who benefits but faces a 20% entry charge above the nil-rate band and charges of up to 6% every ten years; a Family Investment Company funded by a loan has no entry or periodic charges and the parents keep control, but it pays corporation tax.

When a FIC beats a trust, and when it does not

	FIC	Discretionary trust
Entry charge on a lifetime gift	None on a gift of shares that is a PET	20% above the nil-rate band
Ten-year and exit charges	None, unless the shares are held in a trust	Up to 6%

	FIC	Discretionary trust
Tax on income and gains inside it	Corporation tax at 25% (most dividends received are exempt)	Trust rates, which can be higher
Control	Directors, plus voting shares	Trustees
Privacy	Accounts are public	Generally private
Set-up and running	A company, with filings every year	A trust deed, with trustee duties and registration

A FIC tends to suit larger sums of investable wealth that you will not need back soon, where the family wants to keep control and avoid the trust charges. A trust tends to suit simpler gifts, or cases where privacy matters. Many families use both together.

Costs and complexity

A FIC is a company, so it needs a bank account, annual accounts, a tax return, a confirmation statement, and proper records of decisions on loans and dividends. The legal documents need careful drafting, and the tax result depends on how you fund it and what it holds. We will always tell you if a FIC is the wrong answer for you.

For a deeper guide, see our specialist site at familyinvestmentcompany.uk.

SECTION 08

Life insurance written in trust

A life insurance policy pays out when you die. If you own the policy personally, the proceeds normally become part of your estate, and 40% of them may go in tax. If the policy is **written in trust**, the proceeds can normally be paid to your chosen beneficiaries outside your estate, usually without waiting for probate.

Families use this in two main ways. A **whole-of-life policy** can fund a known IHT bill, so the family does not need to sell the house in a hurry. Term cover can protect a young family.

Points to check:

- The trust should be set up when the policy starts, or the policy assigned to a trust afterwards.
- Premiums are gifts. They are often covered by the exemption for normal expenditure out of income, or by the annual exemption, but keep records.
- A policy is a cost, not a saving. Compare the premiums with the tax it would pay for.

- A policy held in a discretionary trust is relevant property, so the ten-year and exit charges apply in principle. The charge is usually nil while the policy has little value.
- Choose your trustees and beneficiaries with care.

SECTION 09

Wills and lasting powers of attorney

Tax planning is wasted without the paperwork.

A will says who gets what. Without one, the law decides, and the result may not be what you want or the most tax-efficient. A will can make use of the spouse exemption, the residence nil-rate band, the charity rate and trusts. Review it after any big life event, such as marriage, divorce, a new child or the sale of a business. Beneficiaries can also change who receives an inheritance by a **deed of variation**, made in writing within two years of death.

A lasting power of attorney (LPA) lets someone you trust make decisions for you if you lose the ability to do so yourself. There are two kinds: one for property and finances, and one for health and care. Without one, your family may need a court order to manage your affairs, and your gifting plan could stall.

Both documents should be drawn up by a solicitor. We work alongside them.

SECTION 10

A 10-point inheritance tax planning checklist

1. **Work out your estate.** List everything you own and owe, including pensions, life policies and business interests.
2. **Check your tax-free bands.** Is your estate close to or over £325,000 (or £500,000 with a qualifying home)? Is it over £2 million, where the residence band starts to taper?
3. **Make sure unused bands from a late spouse are claimed.** Keep the records of the first death.
4. **Use your annual exemptions** each year: £3,000, small gifts of £250, and wedding gifts.
5. **Set up regular gifts out of surplus income,** and keep records.
6. **Plan larger gifts early.** The seven-year clock starts on the date of the gift. Look at CGT before you give away assets.
7. **Review your business and farming assets** against the £2.5 million allowance.
8. **Review your pension** before 6 April 2027: who receives it and the order in which you spend your assets.

9. **Consider trusts, a Family Investment Company or life insurance in trust** where they fit your goals.
10. **Update your will and put LPAs in place,** then review them every few years.

SECTION 11

Common mistakes

- **Giving away the family home and carrying on living in it.** It stays in your estate for IHT.
- **Giving too much, too soon.** Keep enough to live on, including the cost of possible care.
- **Keeping no records.** The date of each gift, and the pattern of gifts out of income, must be provable.
- **Using a trust without checking the costs:** the 20% entry charge, the ten-year charge and the registration duty.
- **Planning around one tax.** IHT, CGT and income tax need to be looked at together.
- **Leaving an out-of-date will,** or having no LPA.
- **Waiting.** Seven years is a long time. Starting earlier almost always helps.

SECTION 12

How ASWATAX helps, and your next step

ASWATAX LTD is a boutique, specialist-led tax advisory firm. Our team of tax specialists brings 15+ years' experience, every plan is reviewed by a Chartered Tax Adviser, and you are never passed between departments. We have worked with 300+ clients, with an estimated £100m+ of inheritance tax saved for clients. We are rated 5.0 on Google.

We help families to:

- see what IHT bill their estate faces now, and in the future;
- decide which tools to use;
- put those tools in place, working with your solicitor, accountant and financial adviser; and
- keep the plan up to date as the rules change.

Your next step is a free 20-minute call. We reply the same working day.

- Book online: www.aswatax.co.uk/book-a-call
- Email: taxadvisory@aswatax.co.uk
- Telephone: +44 7537 143695

FURTHER READING

Sources

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ASWATAX

TALK TO OUR TEAM

Book a free 20-minute call

Tell us what you are planning. We will tell you where the tax risks and opportunities are, and what to do next.

BOOK www.aswatax.co.uk/book-a-call

EMAIL taxadvisory@aswatax.co.uk

PHONE +44 7537 143695

We reply the same working day.

£100m+	50+	300+	5.0
estimated inheritance tax saved for clients	Family Investment Companies set up	clients advised	rated on Google

ASWATAX is a specialist firm of UK Chartered Tax Advisers. We advise families, business owners, property investors and internationally mobile clients, and we work alongside their accountants and lawyers.

IMPORTANT INFORMATION

This guide is general information, not advice, and does not take account of your own circumstances. Please take advice before you act.

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