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# Understanding Inheritance Tax in the UK



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# Introduction

According to the latest government figures, the average bill for inheritance tax in the UK has climbed to £210,000.

The latest data from HMRC shows that of the 592,000 deaths in the UK in 2018/19, only 22,100 saw an inheritance tax (IHT) charge. 3.7% may sound like a small number, but it is expected to rise.

During the 2024 Budget, Chancellor Rachel Reeves announced that inheritance tax thresholds would be frozen for an additional two years until 2030. With the tax-free amount frozen, experts predict that more people will become liable for IHT tax in the future.

For those looking to pass on their estate to their loved ones, the question is, how do you protect it from IHT?

As with most areas of financial planning, the earlier you start considering UK Inheritance Tax, the more flexibility and control you'll have. Early planning allows you to make full use of available reliefs, exemptions, and long-term strategies that can significantly reduce your estate's future tax liability.





# Inheritance Tax in the UK explained

Inheritance tax is a tax on your estate when you die. Your estate can consist of anything from property to savings and investments.

Inheritance tax in the UK is charged at 40% on assets over the tax-free allowance, otherwise known as the threshold. The current threshold is £325,000, so any estates below this amount do not pay IHT.

Other exceptions that allow you to avoid IHT if your estate is worth more than 325,000 include:

- If you leave your estate to your spouse or civil partner
- If you leave your estate to a charity or community amateur sports club

You should note that the standard 40% IHT rate is only applied to the part of your estate that is above the threshold.

For example, if your estate is worth £600,000, the

40% IHT rate is applied to £275,000. In other words, 600,000 minus your tax-free threshold of £325,000 leaves a taxable amount of £275,000.

For those with property in their estate, an additional allowance is available. The Residence Nil Rate Band (RNRB) allows an additional £175,000 to be added to your allowance, meaning IHT is not due on the first £500,000.

The RNRB does have some restrictions. It only applies to your main residence and if you wish to pass it on to your children or grandchildren only. The residence nil rate band will reduce by £1 for every £2 that the estate is worth more than the £2 million taper threshold.

These tax-free allowances may sound like a lot, but it soon gets swallowed up. However, by taking steps to reduce your overall IHT bill, your loved ones receive what you had intended.

# Reducing your Inheritance Tax bill

With inheritance tax at 40%, once you pass the tax-free threshold, it can prove costly. The latest data shows that London had the highest inheritance tax bill in the UK. The average tax-paying estate in the capital paid £271,800 in IHT.

Still, there are ways you can reduce your inheritance tax bill. However, if you are concerned about inheritance tax and would like to reduce it, we strongly suggest you seek advice first.

Whether it's gifting assets or any of the other tips listed below, speaking with an expert will help you make the right choices based on your situation.

## Gifting assets

Probably the most straightforward way of reducing IHT is to reduce the value of your estate by giving it away while you are alive.

Of course, it's not as simple and just signing over all of your estate to someone.

You are allowed to give away £3,000 every tax year as a gift. You can give that away in one chunk or split it between as many people as you like. Also, you can give unlimited gifts of £250 per person each tax year, as long as you have not used another allowance on that person.

Going to a wedding? Each tax year, you can give the following amounts as a wedding gift:

- £1,000 to any person
- £2,500 to a grandchild or great-grandchild
- £5,000 to a child

## Leaving your estate to a spouse

Regardless of how much your estate is worth, it is not liable for IHT if you leave it to your spouse or civil partner. Doing this also has another huge advantage.

When your spouse passes away, they inherit your unused tax-free amount. As mentioned above, in most cases, this will be £325,000. That would mean your spouse has a total of £650,000 as a tax-free amount.

## Life insurance

Life insurance doesn't reduce your IHT bill, but it can offset it.

The lump-sum payout can cover the costs of your IHT. Also, if the policy is written into a trust, it will not form part of your estate.



## Equity release

This option is aimed more at those with wealth tied up in property.

If you are in this situation, reducing the value of your estate through gifting might not be an option. Equity release schemes provide an option to get around this.

These schemes allow you to release capital by either borrowing money against your home's value or selling part of the property but remain living there.

Both options allow you to reduce the overall value of your estate and reduce your IHT bill. However, these options require very careful consideration.

We highly advise that you speak with a professional before going ahead. Failure to do so could prove more costly.

## Charitable donations

As we previously mentioned, IHT is not applied to money left to charity or local sports clubs. Be aware that the charity must be registered in the UK.

Leaving 10% of your taxable estate will also mean you benefit from a reduction in IHT. If you choose this option, IHT will be reduced from 40% to 36% for the rest of your estate.

Remember, it must be 10% of the taxable estate. For example, let's say your estate is worth £500,000. The taxable amount would be £175,000 (£500,000 minus the tax-free amount). So, in this situation, 10% would be £17,500.

For more information on allowances and gifts, visit the dedicated page on the UK government website.



# Here to help

With the number of people liable for inheritance tax in the UK expected to rise, taking action now could benefit your loved ones in the future.

The tips in this article are a good starting point to protect your assets from inheritance tax. However, everyone has a different situation; that's why speaking to an expert can help.

At Holborn, our team of experts can provide detailed, bespoke advice based on your situation and needs.

When it comes to your estate, make sure your loved ones receive what you intended.

To find out how we can help you, contact us today.

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