

# Advanced IHT Planning Strategies

## Protecting Your Family's Inheritance

### Introduction

With Inheritance Tax receipts reaching record levels and the nil-rate band frozen until 2028, proactive planning has never been more important. This guide explores the strategies available to UK taxpayers seeking to legitimately reduce their IHT exposure while maintaining financial security and family harmony.

The most effective IHT plans combine multiple strategies, tailored to individual circumstances. There is no one-size-fits-all solution—what works for one family may be entirely inappropriate for another. Professional advice is essential to navigate the complex rules and avoid costly mistakes.

### Lifetime Giving Strategies

#### Regular Gifts from Surplus Income

One of the most powerful yet underused IHT exemptions allows unlimited gifts from income, provided they form part of your normal expenditure, are made from income (not capital), and don't affect your standard of living. Unlike other gifts, these are immediately exempt—there's no seven-year rule to survive.

To qualify, you must demonstrate a regular pattern of giving. Many families use this exemption to fund grandchildren's school fees, contribute to ISAs or pensions, pay life insurance premiums, or make regular gifts to children. Documentation is crucial—HMRC will want to see evidence of the pattern and that income exceeded expenditure.

#### Potentially Exempt Transfers (PETs)

Outright gifts to individuals are potentially exempt transfers. They fall out of your estate entirely if you survive seven years. If you die within seven years, taper relief progressively reduces the tax rate from year three onwards.

PETs are simple and effective but require you to genuinely give away the asset. You cannot continue to benefit from it without triggering the gift with reservation rules. This makes PETs most suitable for cash or assets you don't need access to.

## Trust-Based Planning

Trusts remain a cornerstone of IHT planning, despite changes that have reduced some of their tax advantages. The right trust structure can protect assets, provide for vulnerable beneficiaries, and maintain an element of control that outright gifts don't offer.

### Discretionary Trusts

A discretionary trust gives trustees flexibility to decide which beneficiaries receive what, and when. This is particularly valuable when beneficiaries are young, potentially vulnerable to divorce or bankruptcy, or where you want to protect against unknown future circumstances.

Transfers into discretionary trusts are chargeable lifetime transfers. If they exceed the nil-rate band, there's an immediate 20% charge. After seven years, the assets leave your estate. The trust itself faces periodic charges (up to 6% every ten years) and exit charges when capital is distributed.

### Bare Trusts

Bare trusts are simpler—the beneficiary has an absolute right to the capital and income. They're treated as PETs for IHT purposes, so there's no immediate charge and the assets fall out of your estate after seven years.

The downside is lack of flexibility. Once the beneficiary reaches 18 (16 in Scotland), they can demand the assets. This makes bare trusts unsuitable where you want to control when beneficiaries receive their inheritance.

### Loan Trusts

A loan trust allows you to retain access to your original capital while gifting the growth. You make an interest-free loan to trustees, who invest it. Any growth belongs to the trust and falls outside your estate immediately. The loan remains yours and can be repaid on demand.

This is particularly suitable for those who might need access to capital but want to freeze its value for IHT purposes. The longer you live, the more growth accumulates outside your estate.

## Business Property Relief

Business Property Relief (BPR) offers 100% relief on qualifying business assets after just two years. This makes it one of the fastest and most effective IHT planning tools available.

### Qualifying Assets

Assets that can qualify for 100% BPR include:

- Shares in unquoted trading companies
- Interests in trading partnerships
- Sole trader businesses
- Shares in AIM-listed trading companies

Agricultural Property Relief (APR) offers similar benefits for farming assets. Land, buildings, and farm equipment used for agricultural purposes can qualify for 100% relief after two years of ownership and occupation.

## Important Budget 2024 Changes

The Autumn 2024 Budget announced significant changes affecting IHT planning from April 2026 onwards:

### Business Property Relief Reforms

From April 2026, 100% BPR will only apply to the first £1 million of qualifying business assets. Amounts above this threshold will attract 50% relief only, meaning an effective IHT rate of 20% on the excess. AIM shares will be limited to 50% relief regardless of value.

### Agricultural Property Relief Reforms

APR faces similar restrictions—100% relief up to £1 million combined with BPR, then 50% thereafter. This has significant implications for family farms and agricultural estates.

### Pensions and IHT

Perhaps the most significant change: from April 2027, unused pension funds will be included in estates for IHT purposes. This fundamentally changes retirement and estate planning strategies, as pensions have long been a key tool for passing wealth tax-efficiently.

## Property Planning

The family home is often the largest asset in an estate and the hardest to plan around. Options include:

### Downsizing

Selling a larger home to release capital for gifting can be effective, but the Residence Nil-Rate Band includes downsizing provisions to protect your allowance if you've moved to a smaller property.

### Equity Release

Lifetime mortgages allow you to release equity while remaining in your home. The debt reduces your estate value. However, compound interest means the debt grows significantly over time.

## Creating Your IHT Plan

Effective IHT planning follows a structured approach:

1. Calculate your current IHT exposure with professional valuations
2. Define your objectives—tax efficiency, family provision, charitable giving
3. Ensure your own financial security before making gifts
4. Choose strategies appropriate to your assets and circumstances
5. Document everything and review regularly
6. Work with professional advisers to implement properly

Contact Ingenious Trustee Services to discuss how we can help you create and implement an effective IHT plan.

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