



A guide to inheritance tax for investors

Changes to your pension savings

Unused pensions are currently exempt from inheritance tax on death, but this is set to change. From April 2027, most unused pensions will be subject to inheritance tax and added to the value of your estate when you die. At the moment, some people choose to preserve their pension fund and take any income they need from other sources. This means their pension fund can be passed on free of inheritance tax. Other people may not be liable to pay inheritance tax presently, but this could change from April 2027 when the value of their unused pensions are included in their estate.

Government estimates suggest that in 2027-2028, an additional 10,500 estates will become liable for inheritance tax as a result of the rule changes and roughly 38,500 estates will pay more inheritance tax than would previously have been the case¹. If you're concerned that these changes could affect you, this guide outlines how inheritance tax works and the exemptions that can mitigate any liability.

The right course of action will depend on your personal circumstances. Your financial adviser can help you understand the changes in greater detail and how they could impact you.



Important information

This information (updated in February 2026) is not a personal recommendation for any particular product or course of action. Always speak to your financial adviser in the first instance for all your financial planning needs. Fidelity Adviser Solutions does not give tax advice and, this guide is not intended to be relied upon for tax planning purposes. Pension eligibility and tax treatment depend on individual circumstances and tax rules may change. Withdrawals from a pension product will not normally be possible until you reach age 55 (57 from 2028). Please also remember that investment values (and income from investments) can go down as well as up, so you may get back less than you invest.

1. Inheritance Tax on pensions: liability, reporting and payment – Summary of responses, HMRC, July 2025.

Inheritance tax: allowances

Inheritance tax is payable on the value of your estate when you die. Your estate is broadly everything you own. For example, property, savings, investments and life assurance. Any outstanding credit card balances, loans and mortgages can be deducted, as can funeral costs too, before any liability for inheritance tax is calculated. Once the value of your estate has been calculated, there are allowances before inheritance tax is payable:

Nil-rate band

There is a nil-rate band of £325,000 per person. If the value of your estate is less than this, nothing is usually payable.

Residence nil-rate band

The residence nil-rate band is £175,000. It applies when a property is passed to a direct descendent. Commonly, this means children or grandchildren, but can also include step-children, adopted children or foster children (and their spouses or civil partners). Only one home can qualify and this allowance doesn't apply to second homes or buy-to-let properties. For estates worth over £2 million, the residence nil-rate band is reduced (for every £2 over the £2 million threshold the allowance reduces by £1). If you downsize, sell or gift a home, the residence nil-rate band may still be available where:

- The property was sold, given away or downsized on or after 8 July 2015.
- The former home would have qualified for the residence nil-rate band.
- At least some of the estate is inherited by direct descendants.

The downsizing addition will usually be the same as the residence nil-rate band lost. It can't be greater than the residence nil-rate band if the sale or downsizing hadn't taken place.

Transferring allowances between couples

Both the nil-rate band of £325,000 and the residence nil-rate band of £175,000 can be transferred between married couples and civil partners when one spouse dies. This means the total value of an estate before any inheritance tax is due could be £1 million for a couple. Transferring allowances applies to people who are married or part of a civil partnership but does not include couples who live together.

Both the nil-rate band and the residence nil-rate band have been frozen until April 2031.

Passing wealth to your spouse or civil partner

Commonly known as the 'spousal exemption'. If you transfer your assets when you die to your spouse or civil partner, there is no inheritance tax payable. The exemption is unlimited but doesn't apply to transfers between unmarried partners or partners who are not in a registered civil partnership with each other.

Gifts

Gifts made during your lifetime can reduce your inheritance tax liability if the value of your estate exceeds the nil-rate bands. Gifts, while usually money, can also include jewellery, art, property, stocks and shares and much more. Anything that's sold for less than its value or given away to a family member may also be considered a gift. The following gifts can be made without any liability to pay inheritance tax.

■ Annual exemption

You can give away up to £3,000 every year. You can also use any unused allowance from the previous year, so you can give away up to £6,000 if you didn't make any gifts in the previous year (though only one year can be carried forward in this way). The amount you gift can be split between more than one person.

■ Small gift exemption

You can make small gifts of up to £250 to as many people as you like but can't use the annual exemption and the small gift exemption for the same person.

■ Donations to charity

Any payments you make to a UK registered charity are exempt from inheritance tax. You can also qualify for a 10% discount on your inheritance tax bill if you leave 10% or more of your net chargeable estate to charity. This means the inheritance tax on the balance of your estate would reduce from 40% to 36%.

■ Gifts to museums, universities and political donations

These are all exempt from inheritance tax.

■ Gifts to partner, children and grandchildren

Gifts to your spouse or civil partner are exempt as are gifts of up to £5,000 to children when they get married (£2,500 to grandchildren and £1,000 to anyone else). The wedding gift allowance can be used in addition to the annual exemption of £3,000 but not the small gift exemption.

■ Gifts out of excess income

As well as ad hoc gifts, it's also possible to make regular gifts where you have more income than you need. The amount you can gift this way is only limited by the need to meet normal expenditure. You must be able to demonstrate that your income is more than is necessary to meet your normal expenditure. If you're interested in this option, there are several issues to consider:

- Not all sources of income can be included. For example, withdrawals from an investment bond are considered a return of capital so wouldn't qualify.
- Gifts don't have to be made to the same person each year, so long as they are paid to the same class of beneficiaries (family members or friends for example).
- Generally, gifts should be the same or similar each year. This could be a fixed amount or a percentage. Where gifts are to cover specific expenditure, such as school fees, the amount may change each year.

Potentially exempt transfers

You can make gifts that fall outside of the exemptions described in the previous section. These gifts are considered 'potentially exempt transfers'. That means they will be free from inheritance tax if you survive for seven years after you make the gift. There is no limit on gifts that can be made this way. On death within seven years, inheritance tax could be payable. The total value of gifts within the seven year period is added to your estate and where these exceed the nil-rate band, taper relief is available to reduce any inheritance tax liability on the amount over the nil-rate band.

Impact of taper relief on potentially exempt transfers

Years between making gift and death	Taper relief	IHT payable
0-3	None	40%
3-4	20%	32%
4-5	40%	24%
5-6	60%	16%
6-7	80%	8%

Gifting money or other assets may not be the right solution, particularly where large sums of money are involved. You may need to access these funds later in life. Once gifted it's no longer your money.



Business relief

Business relief was introduced in the 1976 Finance Act. The objective was to ensure that family-owned businesses can be passed on without having to be sold to pay inheritance tax. It's also available to private investors who invest in qualifying businesses. An investment that qualifies for business relief is considered outside your estate after two years, but you still retain ownership of the asset and any dividends payable. To qualify for business relief the investment must be owned by you for at least two years and held at the time of your death.

The reliefs available from 6 April 2026 are:

100% relief:

- A trading business including sole traders and partnerships.
- Shares in an unquoted company.
- Enterprise Investment Schemes.

50% relief:

- A controlling holding of shares in a quoted company. For example, controlling more than 50% of the voting rights.
- Land, buildings, machinery or plant used wholly or mainly for the purposes of the business.
- AIM shares where a transfer is made or death occurs after 6 April 2026.

There will also be a £2.5 million cap for 100% relief from April 2026.

If the two-year ownership requirement isn't met on your death, the two-year period for the new owner starts from the date of your death. The exception is assets inherited on death from a spouse or civil partner. In this case, the spouse or civil partner 'inherits' the period of ownership of their partner. This does not apply if the asset was transferred to your spouse or civil partner during your lifetime. Business relief can play a key role in inheritance tax planning. The benefits include:

- You retain full control over your money, unlike 'gifting'.
- The assets become exempt from inheritance tax after two years.
- There is potential for the assets to grow, though they can fall in value too.
- It can be simpler to invest in companies that qualify for business relief compared to, say, setting up a trust (though trusts may be more suitable depending on your requirements).

Please note that investing in AIM listed and unquoted companies is considered high risk. Shares can be more volatile than shares in quoted companies and more difficult to sell. What's more, tax rules may change again in the future and benefiting from business relief depends on the companies in the portfolio retaining their qualifying status. There are investment companies that specialise in this area and offer funds that include a portfolio of companies that qualify for business relief. This can diversify your investment and spread the risk.



Life assurance

Life assurance can be used for inheritance tax planning in several ways. For example, if you've made a potentially exempt transfer and die within seven years or within the two-year qualifying period for business relief, it can cover any inheritance tax due. Alternatively, if your assets are illiquid, like property, it can provide funds to meet any inheritance tax payable within the prescribed timeframe. Inheritance tax is due six months after the date of death. After this, interest is charged at 4% above the Bank of England base rate. The two main options are:

■ Whole of life assurance

As the name suggests, this type of policy will pay a lump sum to your beneficiaries whenever you die. This can be used to pay inheritance tax on your estate in the example above of holding illiquid assets. It can also be used in other circumstances.

■ Term insurance

Term insurance will only pay out if you die during the term of the policy. This can be useful if you've gifted money during your lifetime which is subject to the seven-year rule or are keen to cover the two-year qualifying period for business relief.

Term insurance is less expensive than whole of life because it only pays out if you die within the term chosen, rather than whenever you die. Life assurance should be written under trust. This way the payment sits outside of your estate. What's more, your beneficiaries will receive the inheritance without the need to obtain probate.

Your financial adviser can help identify which type of trust to use, but here's an overview of the main types used for life assurance:

Life assurance written under trust

A trust is created when the person who establishes the trust, the 'settlor', transfers an asset (such as money, land or buildings), and appoints trustees to manage the asset in accordance with the trust rules for the benefit of a third party (the beneficiary). Inheritance tax is sometimes payable on assets held under trust depending on the type of trust:

■ Bare trusts

This is the simplest type of trust. Assets transferred this way are considered 'potentially exempt transfers', so there is no inheritance tax to pay if the settlor survives for seven years. With a bare trust, the beneficiaries are fixed at outset and can't be changed later.

■ Discretionary trusts

This is a popular type of trust for inheritance tax planning. In contrast to a bare trust, the trustees have discretion about how to distribute funds after your death. The transfer of a life policy into a discretionary trust is considered a chargeable lifetime transfer. This means tax may still be payable in certain circumstances. In practice, term assurance policies are unlikely to have any value. Even where whole life assurance is used, there is unlikely to be any value at outset if the policy is put into trust when it's first taken out (though there could be charges in the future).

Trusts (general)

As well as helping to ensure that proceeds from a life assurance policy sit outside your estate on death, trusts have a broader role in helping to mitigate any inheritance tax payable. Two trusts often used are:

■ Discounted gift trusts

A discounted gift trust can be effective for anyone with excess capital which they can afford to give away, but still need to supplement their income by receiving payments from the capital. Pre-agreed regular payments are fixed for life and effectively represent a return of capital. The value of the gift is discounted by the estimated value of future payments, which is immediately outside of the estate. The balance is free of inheritance tax after seven years.

■ Loan Trusts

A loan trust describes a trust set up with a loan. Rather than making a gift, the donor lends money to the trust. In turn, the trustees invest the money for the benefit of the beneficiaries. However, the donor can ask for part or full repayment of the loan at any time. This type of trust can be effective when someone doesn't feel comfortable gifting capital in case they need it in the future. Any investment growth on the loan is outside the estate. Any loan repayments, which are subsequently spent, further reduce any inheritance tax liability. The loan itself still sits as part of the donor's estate (excluding any growth).

Jointly owned assets

In assessing your assets it's important to understand how jointly owned assets are treated for the purposes of applying inheritance tax. In England, Wales and Northern Ireland, property can be owned as 'joint tenants' or 'tenants in common'. The same options apply in Scotland, but the terminology is different.

If property is held as 'joint tenants', it automatically passes to the other party or parties on the death of one of the joint owners, but this doesn't mean it is free of any inheritance tax liability.

If property is held as 'tenants in common' each party owns their share of the property. On the death of one of the parties, it does not automatically go to the other owner(s), rather ownership is passed on through the deceased's will or through intestacy if there is no will.

Here is an overview of different aspects of joint ownership:

■ Joint bank accounts

Joint bank accounts are established as 'joint tenants' by default. That means money left in the account goes to the remaining survivor(s) when one of the owners dies. However, HMRC will treat each joint owner as entitled to their share of the account based on their contributions. If a father and daughter set up a joint account and all of the funds are provided by the father, then on his death HMRC will include all of the funds when calculating any inheritance tax payable.

■ Jointly owned land and property

If it is held as 'joint tenants', ownership of the property automatically passes to the surviving owner or owners on death (again the deceased's share is still considered part of their estate). If the property is owned as 'tenants in common', the property does not automatically pass to the surviving owners as each person owns a share of the property.

■ Jointly owned investments and savings

Jointly owned investments and savings are treated in the same way as a joint bank account. In other words, ownership will automatically transfer to the surviving owner, while the value will be included in the deceased's estate in calculating any liability for inheritance tax.



What action can you take?

It's important to seek professional advice as there are any number of potential solutions. Before deciding on a course of action, your adviser will look holistically across all of your assets before making any recommendation. However, since the catalyst for this heightened interest in inheritance tax is the change to pensions, you may be interested in the main options as they directly affect your pension. What follows is not an exhaustive list, but an overview of some of the options you could discuss with your adviser:

Expression of Wish forms

As well as ensuring that your will and any Power of Attorney are up to date, you should also review your Expression of Wish form. This makes it clear who you would like to receive your pension benefits on your death (though it is not legally binding on the trustees). It may make sense to review your Expression of Wish now and then again post April 2027.

Take the tax-free lump sum

From age 55 (rising to age 57 in April 2028) you can take up to 25% of your pension fund as a tax-free lump sum subject to an overall limit of £268,275. This could be one way to reduce the value of your estate. Of course, you need to subsequently make sure the funds lie outside of your estate.

There are several options including:

- **Spend it, but care is needed**

If you spend it on, say, home improvements you may simply reduce the value of your pension but increase the equity in your home.

- **Gift it**

You can make lifetime gifts or, if the amount is greater than the exemptions, consider a potentially exempt transfer (perhaps using some of the money to buy life assurance to cover the taper period).

- **Business relief**

If you still need access to the funds, business relief could be an option. Some business relief investments still qualify for 100% relief, while some are limited to 50%. Life assurance could cover the qualifying period.

- **Trusts**

Depending on the type of trust you may still have access to funds. For example, a lifetime income can be paid if the funds are placed into a discounted gift trust.

Take more income from your pension

It may make sense to either start to take income from your pension plan or increase how much income you take to reduce the value of your pension assets. If you withdraw more than you need there are various options open to you:

- You could make ad hoc gifts with any excess or use the gifts out of surplus income exemption to make regular gifts if the excess income exceeds your normal expenditure.
- You could use any excess to buy life assurance to cover the rest of your estate and put this in trust. This approach doesn't reduce your inheritance tax bill but does ensure funds are available to meet your inheritance tax liability.

Of course, taking too much income could mean that you exhaust your pension savings over time, so this may only be suitable for people who have other sources of income and for whom running out of money from their pension fund isn't an issue. It should also be borne in mind that taking more income could increase your tax rate payable.

Buy an annuity

A lifetime annuity would combat the risk of running out of money. It will pay an income however long you live. Annuities fell out of favour when drawdown was introduced partly because of the ability to create a legacy under drawdown. Now that this aspect is less attractive, annuities may become more popular. Payments can continue to your spouse on your death without any liability to inheritance tax and the initial purchase price immediately reduces the value of your estate. However, leaving a legacy isn't the only benefit of drawdown. It is more flexible than an annuity. An annuity could be used to make ad hoc gifts, 'gifts out of surplus income' or pay life assurance premiums. An annuity could also push someone into a higher tax bracket, so care is needed.



This is just a summary of some of the options available and a few of the ways your pension could be used to mitigate any inheritance tax liability, but there are many other strategies that could be considered. If you're thinking about withdrawing all or part of your retirement savings or buying an annuity, it's important to make sure your choices are right for you. Your adviser can give you a helping hand by providing both guidance and advice.

