A GUIDE TO ESTATE PLANNING

A guide to the new inheritance tax rules from april 2027

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Understanding how upcoming changes could affect your estate and what can be done now

Inheritance Tax (IHT) has long been a concern for families seeking to pass wealth efficiently to the next generation. However, changes scheduled for April 2027 are expected to significantly widen its impact.

With frozen tax thresholds, rising property values and the proposed inclusion of pensions within the IHT framework, thousands more estates may face higher tax exposure over the coming years. For some families, this could create what has been described as a “double IHT effect” - where both property and pension wealth are taxed within the same estate.

Understanding how the rules operate and how they may change allows time for structured, measured planning rather than reactive decisions later.

CURRENT INHERITANCE TAX FRAMEWORK

Inheritance Tax is generally charged at 40% on the value of an estate exceeding the available nil-rate bands. The standard nil-rate band currently stands at £325,000 per individual.

In addition, an extra £175,000 residence nil-rate band may apply when a main residence is passed to a direct descendant, such as a child or grandchild. Where married couples or civil partners combine their allowances, it is currently possible to pass up to £1 million free of IHT, provided the estate qualifies in full.

However, these thresholds have been frozen for several years and are set to remain unchanged. As asset values increase, more estates are drawn into the IHT net despite no change in real wealth.

£2 MILLION TAPER AND THE RESIDENCE NIL-RATE BAND

A key complication arises for estates valued above £2 million. For every £2 an estate exceeds this threshold, £1 of the residence nil-rate band is lost. This tapering mechanism can significantly reduce the tax-free allowance available to higher-value estates. In practice, an estate worth £2.35 million would lose its residence nil-rate band entirely, removing up to £350,000 of additional combined allowance for a couple.

As property prices continue to rise and investment portfolios grow, more families are finding themselves unexpectedly close to this taper threshold. Without careful planning, a modest increase in asset value can trigger a disproportionately higher tax liability.

IMPACT OF PENSION CHANGES FROM APRIL 2027

One of the most significant proposed changes is the inclusion of unused pension funds within the scope of Inheritance Tax from April 2027. Historically, pensions have been outside the estate for IHT purposes, making them a highly efficient intergenerational planning tool.

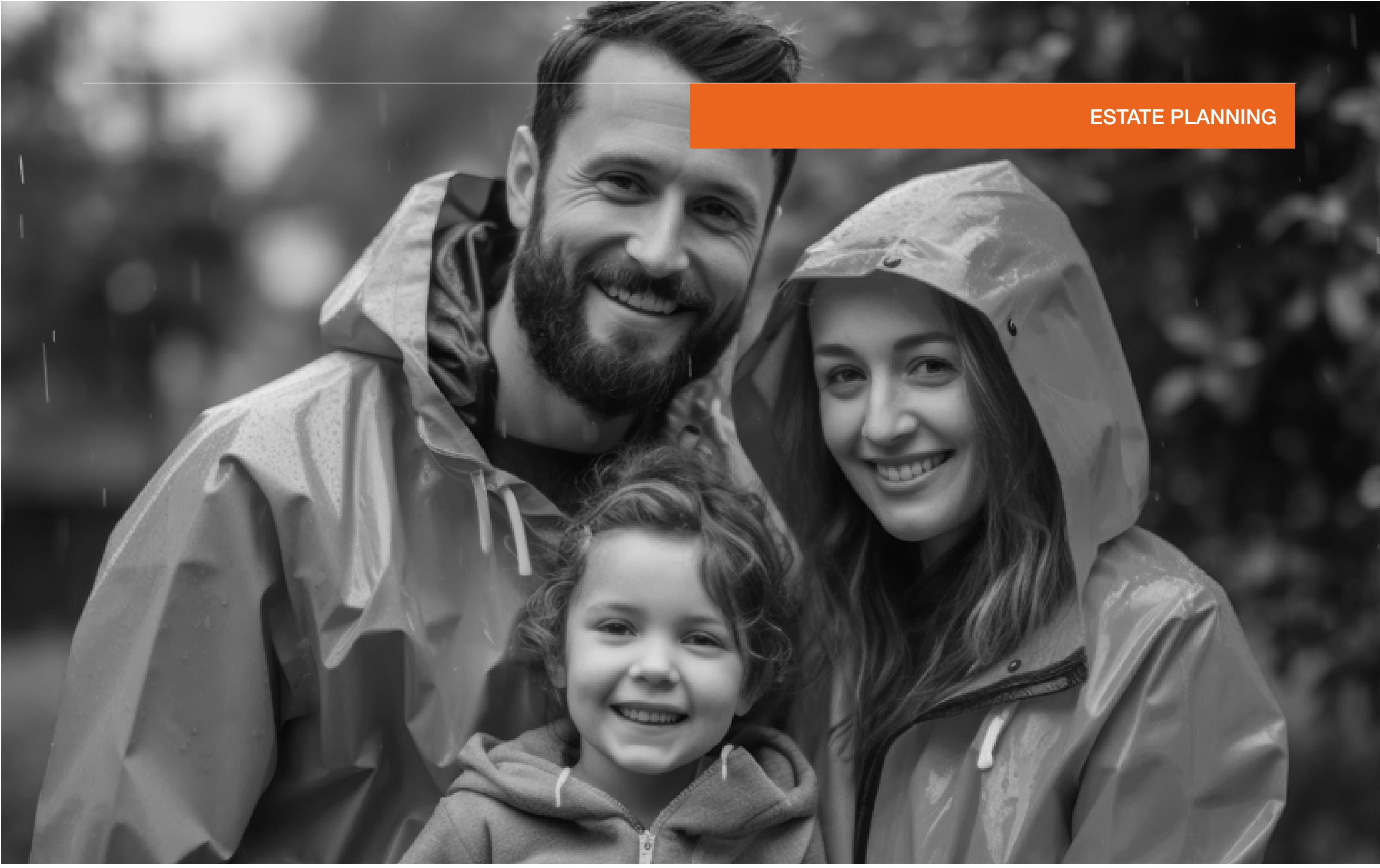
If pensions become subject to IHT, families could face a layered tax outcome. Pension funds may first be included in the taxable estate, and, depending on the beneficiary’s age and withdrawal structure, income tax may also apply when funds are accessed.

This shift fundamentally alters the role pensions have traditionally played in estate planning. For individuals with substantial pension savings, reviewing beneficiary structures and withdrawal strategies before 2027 may become increasingly important.

WHY MORE ESTATES MAY BE AFFECTED

The interaction of frozen thresholds, rising property values, and pension inclusion creates cumulative pressure. Research indicates that estates exceeding £2 million are expected to rise significantly over the coming years.

This growth is not necessarily driven by extraordinary wealth accumulation, but rather by inflationary asset growth and static allowances. For many families, their primary residence is the largest component of their estate. Continued house price appreciation



can therefore push estates beyond key thresholds without any intentional change in planning strategy.

As a result, individuals who previously considered IHT a distant concern may now find it directly relevant.

PLANNING SOLUTIONS TO CONSIDER

While the potential tax exposure may appear significant, there are established planning strategies that can help mitigate liability when implemented carefully and in good time.

LIFETIME GIFTING STRATEGIES

One of the most effective approaches is to make gifts during your lifetime. Under current rules, gifts made more than seven years before death are generally exempt from IHT, provided certain conditions are met.

This approach gradually reduces the taxable estate while allowing wealth to benefit family members sooner.

Structured gifting programmes, rather than one-off transfers, can provide both control and tax efficiency. Regular gifts from surplus income may also fall outside the estate immediately if they meet specific criteria.

The key consideration is to ensure that gifting does not compromise your financial security.

TRUST PLANNING

Trusts can be used to transfer assets while retaining a degree of control over how and when beneficiaries receive them. Depending on the structure chosen, trusts may help manage estate exposure and provide asset protection across generations.

Although trusts have their own tax framework, including potential entry charges and periodic reviews, they can be part of a wider estate strategy where appropriate. Professional advice is essential to ensure the chosen structure aligns with both tax legislation and family objectives.

PENSION RESTRUCTURING AND BENEFICIARY REVIEW

In light of the proposed 2027 changes, reviewing pension nominations and withdrawal strategies is particularly important.

For some individuals, it may be appropriate to draw pension income earlier and redeploy funds into alternative tax-efficient structures, such as ISAs. Others may consider balancing pension wealth with other assets to manage future estate exposure.

Updating expressions of wish forms ensures pension benefits are directed efficiently and in line with current intentions. Even before legislative change, clarity in beneficiary planning remains essential.

BUSINESS AND AGRICULTURAL RELIEF CONSIDERATIONS

For individuals holding qualifying business or agricultural assets, reliefs may reduce or eliminate IHT exposure

to those assets. Maintaining ownership structures and qualifying conditions can preserve valuable reliefs.

Regular review is important, particularly when business valuations fluctuate or succession planning is underway. Coordination between business strategy and estate planning helps avoid unintended tax consequences.

WHOLE-OF-LIFE INSURANCE AS A LIQUIDITY SOLUTION

In some cases, rather than directly reducing IHT exposure, families plan how any future liability will be paid. Whole-of-life insurance policies written in trust can provide a lump sum on death specifically to cover an anticipated IHT bill.

This approach can protect estate assets from being sold under pressure and provide certainty for beneficiaries. While it does not remove the tax liability, it ensures liquidity is available when needed.

IMPORTANCE OF EARLY PLANNING

Inheritance Tax planning is most effective when undertaken gradually and strategically. Attempting to restructure an estate shortly before death rarely delivers optimal outcomes.

With April 2027 approaching, reviewing pension arrangements, property valuations, and overall estate composition now provides valuable time to implement appropriate measures. Planning decisions can then be integrated with broader retirement, income and investment strategies rather than treated in isolation.

Estate planning is not solely about tax minimisation. It is about ensuring your wealth passes to those you care about in a structured, efficient and considered way. ■

How DG Financial can help

At DG Financial, estate planning is approached as part of a coordinated long-term financial strategy. We can help assess how upcoming inheritance tax changes may affect your estate, review pension positioning ahead of 2027, and structure appropriate planning solutions to protect your family's future.

Professional advice ensures decisions are aligned with current legislation while remaining adaptable to future change.

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