



PUMA
INVESTMENTS

UPDATED
WITH KEY IHT
CHANGES
FOR 2026

YOUR GUIDE TO

Inheritance Tax

Contents

4

What is inheritance tax?

6

Pensions and inheritance tax

8

Inheritance tax allowances on death

9

Inheritance tax for married couples

11

Why inheritance tax is important

12

Effective ways to plan for your estate

13

Lifetime gifts

16

Trusts

18

Equity release

19

Life assurance

20

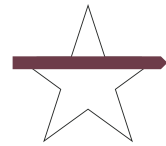
Business Relief on qualifying investments

24

ISAs

26

Your inheritance tax check list



Helping you understand the basics of IHT

This guide to inheritance tax is designed to help you understand the basics of how inheritance tax (IHT) works and the options available to reduce the tax payable. Tax planning can be complicated and this is not a complete guide to factors that might be relevant to you. We always recommend seeking professional advice tailored to your individual circumstances.

Inheritance tax has been described as the “most hated tax”¹

People dislike the idea that money they’ve already paid tax on, may be taxed again when they die. The good news is there are steps you can take to mitigate the impact of inheritance tax.

In many cases, and with the right planning, you may not have to pay inheritance tax at all.

¹ Professional Adviser article: Budget 2025: No respite from ‘most hated tax’ as IHT thresholds frozen again | November 2025

What is inheritance tax?

Inheritance tax is payable on the value of your estate when you die – this is broadly everything you leave behind.

A quick summary



If you leave behind assets worth less than £325,000, usually no IHT will be chargeable



There is no limit to the value of assets left to a spouse or civil partner



Married couples typically benefit from a combined allowance of £650,000, and an extra £350,000 if they also leave a home to their children



If you leave assets worth more than this to anyone else, your estate may incur IHT



The main rate of IHT is 40%

What is included in your estate?

1

The value of everything you own when you die, plus some gifts you have made prior to your death, is added up.

- Your home
- Any other properties you own
- Any savings or investments (ISAs are taxable)
- Any other assets including jewellery, furniture, cars
- Some kinds of pension savings (see page 6)
- Some gifts made in the seven years prior to death (see page 13)
- Assets settled into trust in the seven years prior to death (see page 16).

2

The value of debts including mortgages, loans, credit card bills is deducted.

3

As are any gifts you leave to charity in your will, plus reasonable funeral costs..



If this adds up to more than £325,000, inheritance tax may be payable.

Pensions and inheritance tax

The inheritance tax on pensions depends on the type of pension you have and when you die.

Type of pension

Defined benefit schemes

Sometimes called “final salary” schemes, these schemes pay a guaranteed income each year for the rest of your life, usually expressed as a percentage of your earnings. This pension income belongs to you and typically cannot be left to anyone other than a spouse on your death. As such they do not usually attract inheritance tax.

Defined contribution schemes

Also called “money purchase” schemes, money paid into a defined contribution scheme is invested in funds you can access in retirement. You can take up to 25% as a tax-free lump sum and the rest can remain invested to be drawn down, or used to buy a guaranteed income for life (called an annuity). Similar to defined benefit pensions, annuity income typically ends on death, whereas any unspent pensions left in drawdown can be passed to beneficiaries on death.

When you die

Before or after 6 April 2027

- **Deaths prior to 6 April 2027**
Unspent pension pots can be passed to anyone free from inheritance tax.
- **Deaths after 2027**
Unspent pension pots will form part of the estate and be subject to inheritance tax.

Older or younger than 75

- **Death before 75**
Beneficiaries will be able to draw down from the pension without paying income tax.
- **Death at or after 75**
When beneficiaries draw down from the pension it will be taxed at the marginal rate of income tax applicable to the person receiving the benefit. As the pension pot will be subject to inheritance tax prior to the beneficiaries being able to draw down, this income tax charge is in addition to inheritance tax paid.



What happens after 6 April 2027

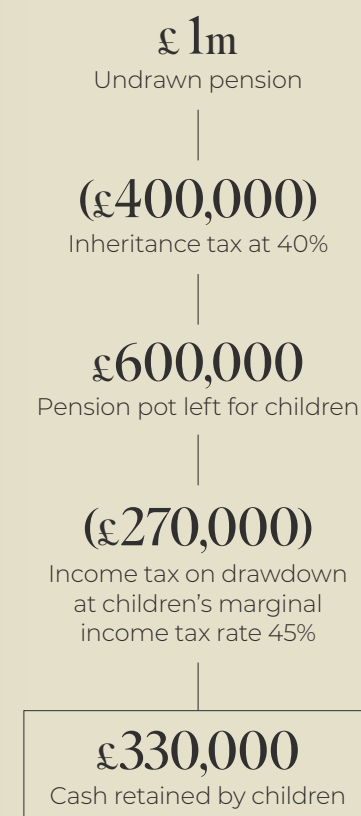
Pensions will form part of taxable estates for deaths after 6 April 2027. Pensions carry significant lifetime tax benefits, so speaking to a Financial Adviser to understand your options before making any changes is essential.

This guide contains references to new rules, some of which are not yet enacted into law. The content is based on current guidance and draft legislation as at the date of publication and may be subject to change.

A SIMPLE EXAMPLE

Meet Peter

Peter has a valuable estate and all inheritance tax allowances will be utilised against his home and ISAs. Prior to the Budget in 2024, he was planning to leave his pension undrawn and pass it on to his children free from inheritance tax. The impact of taxes on his pension should he die after 6 April 2027 are as follows:



If Peter's estate is worth more than £2 million including his pension, it will also lose the benefit of the residence nil-rate band. This can put the effective rate of tax at close to 80%.

This example is illustrative only. This is not a comprehensive statement of tax law and should not be read as advice. Tax reliefs depend on individuals' personal circumstances and may be subject to change.



Inheritance tax allowances on death

Nil-rate band

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

Residence nil-rate band

The residence nil-rate band is an additional £175,000 allowance that many but not all estates can benefit from. The allowance is designed to enable parents to leave their house to children or grandchildren – understanding this can help when thinking about whether the allowance is available.

To benefit, the estate must:

- Include a house that was the deceased's home at some point, or the proceeds of the sale of a home prior to death. It does not apply to second homes or buy-to-let properties.
- Leave the house to one or more "direct descendants". This includes children, grandchildren or step-children, but not nephews, nieces, cousins, siblings or friends.

The value of the relief will be restricted if any of the following applies:

- If the house is worth less than the allowance (£350,000 per couple or £175,000 for a single person), it will be restricted to the value of the home.
- If the estate is worth more than £2 million, the allowance is reduced by £1 for every £2 the estate exceeds the £2 million threshold. This means for large estates, the residence nil-rate band could be zero.

Business and Agricultural Relief Allowance

From 6 April 2026, every individual will have a £2.5m Business Relief and Agricultural Relief allowance that enables up to £2.5m of qualifying investments to be left with 100% relief from inheritance tax. In a similar way to the nil rate band, if the first spouse to die does not utilise their Business Relief Allowance, their surviving partner benefits from a £5m allowance. (See Business Relief qualifying investments on page 20 for more information).

Pensions and the residence nil-rate band

The undrawn pension pot of people who die after 6 April 2027 will be included in their estate. As a result, many more estates might expect to be too valuable to benefit from the residence nil-rate band without careful planning.

This guide contains references to new rules, some of which are not yet enacted into law. The content is based on current guidance and draft legislation as at the date of publication and may be subject to change.

Inheritance tax for married couples

Inheritance tax rules and allowances will work differently if you are married compared to if you are single.

Single

If you are single when you die and have never been married (or are divorced), your inheritance tax allowance (or "nil-rate band") is £325,000. If you own or owned a home, you may also benefit from an extra £175,000 allowance (the "residence nil-rate band"). If your estate is worth more than this, tax will be charged at 40% on the balance.

Unmarried partners

Unmarried couples are treated as single people for inheritance tax. This can have some very important implications, including for unmarried couples with children.

Married couples

If you are married or in a civil partnership, anything that you give during your lifetime or leave on death to your spouse is exempt from inheritance tax.

Your nil-rate band will be available to set against any assets left to someone other than your spouse. If this totals more than £325,000, the balance will be subject to inheritance tax at 40%.

Any nil-rate band that is unused by the estate of the first spouse to die is transferred to the surviving spouse. So if the first spouse leaves everything to the surviving spouse, when the second spouse dies their estate will be entitled to a £650,000 nil-rate band. And potentially an additional £350,000 residence nil-rate band if they qualify.

The total combined allowances for a married couple are:

£650,000 nil-rate band
£350,000 residence nil-rate band
£5 million Business Relief Allowance

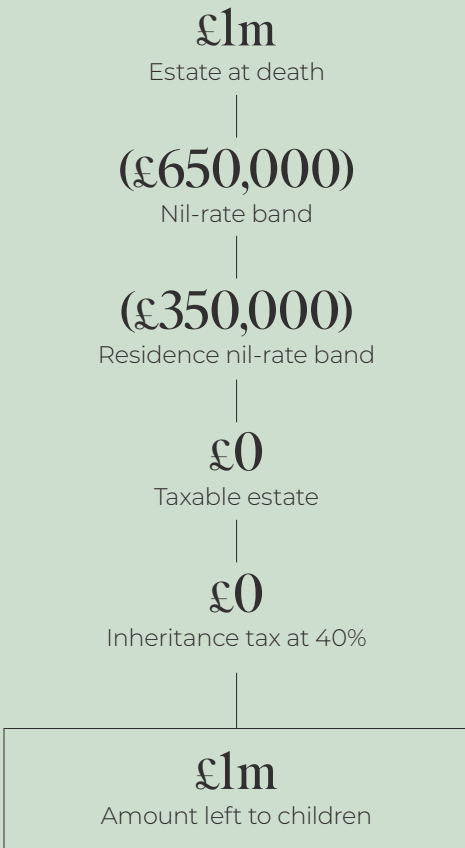
Meet James



James is a widower with two adult children and an estate valued at £1 million. When his wife died, she left her entire estate to him.

On James's death, his estate can claim her unused nil-rate band of £325,000, giving a combined nil-rate band of £650,000. If James leaves his home to his children, the residence nil-rate band of £350,000 also applies.

Together, these allowances fully cover the value of the estate, resulting in no inheritance tax to pay, and the full £1 million passing to his children.



These examples are illustrative only. This is not a comprehensive statement of tax law and should not be read as advice. Tax reliefs depend on individuals' personal circumstances and may be subject to change.

Meet John



John is single and never married or had children. John owns a home, but doesn't qualify for the residence nil-rate band as he doesn't have any direct descendants to leave it to.

On John's death, his estate can claim his £325,000 nil-rate band, but not the residence nil-rate. £730,000 after tax will pass to his nephew.



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Why inheritance tax planning is important

Major changes to inheritance tax have been made recently. When combined with frozen tax allowances and rising property values, many families risk leaving an inheritance tax bill behind.

Inheritance tax planning is no longer something that only the very wealthy need to think about, with twice the number of estates expected to be impacted by 2030 than are today.¹

Taking time to plan can help loved ones both financially and administratively at what is a difficult time.



Most people would like to leave as much as possible on their death, so let's look at the main options to reduce the inheritance tax payable.

¹ Source: Inheritance tax receipts UK 2024 | Statista / Inheritance tax - Office for Budget Responsibility (obr.uk)

Effective ways to plan for your estate

If the value of your estate exceeds the nil-rate bands, even after transferring these bands between couples, there are other options to reduce your inheritance tax liability.

1. LIFETIME GIFTS
2. TRUSTS
3. EQUITY RELEASE
4. LIFE ASSURANCE
5. BUSINESS RELIEF ON QUALIFYING INVESTMENTS
6. ISAs

The detail provided here is a high-level, informative summary of inheritance tax and should not be read as advice. Please consult an independent Financial Adviser for personalised advice that takes into account your specific circumstances.



1. Lifetime gifts

If you are comfortable with giving away some of your wealth during your lifetime, it is worth understanding the inheritance tax consequences of various gifting options. Remember that once a gift is made, you no longer own or control it, so should be confident of your financial circumstances.

Gifts with an immediate benefit

There are a number of allowances that reduce the value of your estate for inheritance tax as soon as they are made, meaning that they deliver a benefit no matter when you die.

- **Gifts to spouse**

Gifts to your spouse or civil partner are exempt.

- **Gifts on special occasions**

Gifts of up to £5,000 to children when they get married, £2,500 to grandchildren and £1,000 to anyone else are also exempt.

- **Regular gifts from excess income**

If you do not spend all of your income each year, you can use it to make gifts. If these are made with regularity (for example every year for a number of years) they can be immediately exempt. They must be made from excess income, rather than capital.



It is good practice to keep records of gifts you have made, to help your executors administer your estate later on.

Lifetime gifts (continued)

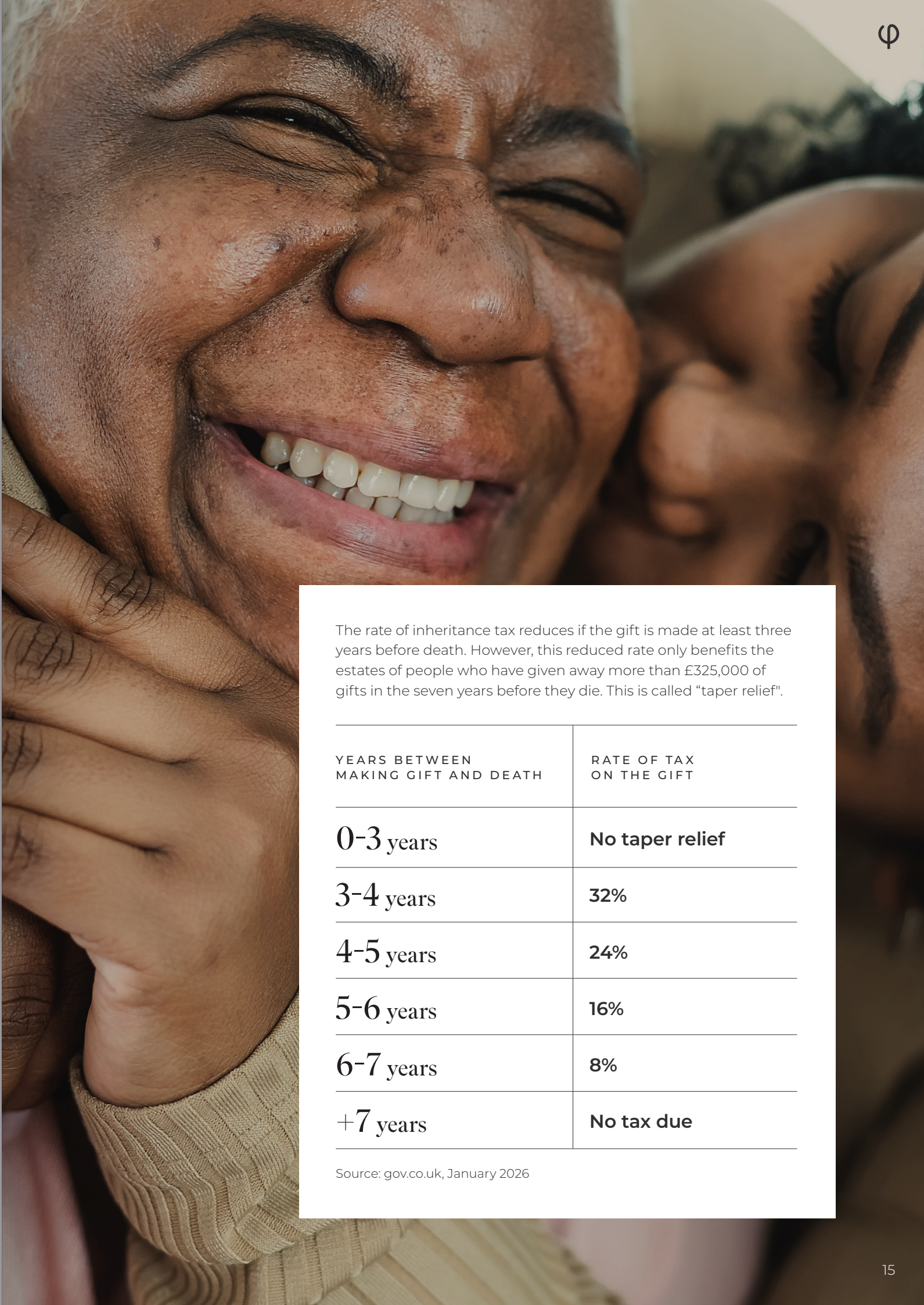
Gifts that take seven years to become exempt

Outside these exemptions, other gifts made during a lifetime are not immediately exempt. They typically become exempt once seven years have passed. Because of this they are referred to as “potentially exempt transfers”. There is no maximum limit on the amount that you can gift in this way.

If you die within seven years of making a gift, the £325,000 nil-rate band will be applied against it in priority. This will reduce, potentially to nil, the value of the nil-rate band available to set against the assets you own at death. If the value of lifetime gifts that become chargeable exceeds the nil-rate band, inheritance tax will be payable in respect of the balance of the gift.



If you retain a benefit from assets you gift, they are likely to be counted as part of your estate when you die. This includes giving away your home if you continue to live in it without paying market rent.



The rate of inheritance tax reduces if the gift is made at least three years before death. However, this reduced rate only benefits the estates of people who have given away more than £325,000 of gifts in the seven years before they die. This is called “taper relief”.

YEARS BETWEEN MAKING GIFT AND DEATH	RATE OF TAX ON THE GIFT
0-3 years	No taper relief
3-4 years	32%
4-5 years	24%
5-6 years	16%
6-7 years	8%
+7 years	No tax due

Source: gov.co.uk, January 2026

2. Trusts

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).

There are different types of trust that achieve different outcomes, but often what they have in common is protecting assets for certain people, delivering flexibility and sometimes inheritance tax efficiency.

Common reasons to consider trusts for estate planning include:

- **Gifting assets early to reduce the inheritance tax burden, but delaying when younger beneficiaries can receive wealth.**
- **Protecting assets from divorce or bankruptcy in the future to retain them in the family.**
- **Giving a surviving spouse the right to live in the marital home for their lifetime, but ensuring it will ultimately pass to children.**

Trusts can be established during your lifetime, or on death via your will.



Discretionary trusts

Discretionary trusts are popular for inheritance tax planning due to their ability to remove assets from an estate (similar to lifetime gifting) without having to give children or grandchildren immediate access to wealth. No beneficiary has an absolute right to income or assets from the trust, with the trustees responsible for deciding how and when to distribute funds among the beneficiaries.

If the value of assets settled exceed £325,000 (the nil-rate band), an immediate inheritance tax charge applies. There are also ongoing charges every ten years that the trust remains in existence. But the amounts in the trust will not form part of your estate on death as long as you live for more than seven years. And the value is not part of anyone else's estate while it remains in trust, making this a valuable way to plan to protect wealth from inheritance tax and other threats such as divorce or bankruptcy over longer periods and potentially across generations.



Discounted gift trusts

A settlement is made into a type of discretionary trust that hold assets for beneficiaries, but also pays the settlor fixed regular payments for the rest of their life. The value of the settlement is “discounted” by the amount the settlor is expected to receive back, based on their life expectancy. The discount is bigger the greater the expected return to the settlor.

The estate is immediately reduced by the amount of this discount, and after seven years the balance of the settlement is outside the estate for inheritance tax. If the income isn't spent, the capital will build back up in the settlor's estate and be subject to inheritance tax on death.



Immediate post-death interest trust

An IPDI trust is typically used in the wills of married couples to leave assets for the lifetime enjoyment of the surviving partner, but securing ultimate ownership for children. They often allow the surviving spouse (often referred to as the Life Tenant) to remain living in the family home, or to benefit from the income of an investment portfolio, but prevents them from gifting away any of the capital value of the asset.

If the Life Tenant is the surviving spouse of the original settlor, no inheritance tax will be payable when the assets are settled into trust. The assets will form part of the Life Tenant's estate even though they cannot control who they are left to.



Loan trust

Rather than making a gift, the settlor lends money to the trust. The trustees invest the money for the benefit of the beneficiaries, expecting to do so over a long timeframe. Any growth in the value of the trust is never part of the settlor's estate, but the loan remains part of it.

The settlor can ask for part or full repayment of the loan at any time. This type of trust is typically used when someone doesn't feel comfortable about gifting capital, in case they need it in the future.

A loan trust means any investment growth on the loan is outside the estate but the value of the loan is not. The loan capital will form part of the settlor's estate if not repaid by the time they die.

3. Equity release

Equity release is a way to use the equity in your home without selling or downsizing.

Typically, it's a loan against property, taken out either to provide a lifetime income stream or to free up capital for making lifetime gifts. The proceeds of the loan are free of income and capital gains tax. It works like a conventional mortgage, except you don't have to repay anything during your lifetime (though there are schemes that allow you to repay some or all of the interest). On your death, or if you need to move into a care home, the property is sold and the loan plus unpaid interest is repaid.

As the debt will be repaid from your assets when you die, your taxable estate will be smaller.

How can equity release mitigate inheritance tax?



Spending the equity released will have the effect of reducing the estate.



Gifting the equity released will reduce the value of the estate provided more than seven years passes between making the gift and death.

4. Life assurance

Life assurance doesn't reduce how much inheritance tax is payable, but it can be used to preserve the assets you plan to leave.

WHOLE OF LIFE ASSURANCE

This type of policy will pay a lump sum to your beneficiaries when you die. This can be used to pay inheritance tax on your estate. Whole of life assurance tends to have higher premiums (than term assurance) that on certain policies can be reviewed and increased over time.

TERM INSURANCE

Term insurance will pay out only 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. You can make sure that if you die within the seven-year period, any inheritance tax liability can be covered by the term insurance.

It is sometimes thought of as a way to pay the inheritance tax bill yourself, rather than leaving it for the estate.



It can often be helpful to write an insurance policy into trust, so that proceeds from the policy after death will be outside your estate for inheritance tax purposes.

5. Business Relief qualifying investments

Business Relief (BR) is a tax-efficient way of investing. It was established around 50 years ago to enable family-owned businesses to be inherited without incurring a large tax bill that could risk the future of the company. It has been expanded over the years to apply to investments in unquoted companies, then AIM-traded companies.

Provided qualifying investments have been owned for at least two years when the investor dies, they benefit from a reduced rate of inheritance tax applied to the shares. Qualifying investments are higher risk, so the tax relief can compensate for some of the additional risks associated with investing.

This section does not cover the rules that applied prior to 6 April 2026.



From 6 April 2026, everyone has a £2.5 million individual Business Relief Allowance.

This applies to investments in the shares of unquoted companies (and where relevant agricultural investments and other business assets) and enables them to be left free from inheritance tax.

Investments that exceed this allowance, and any investments in AIM shares, benefit from 50% relief.

Qualifying investments

Investments that qualify for 100% relief

Shares in certain unquoted companies benefit from 100% relief from inheritance tax up to £2.5 million per investor.

Not all companies qualify for Business Relief, so it is important to seek advice as to whether an investment will qualify. Specialist investment managers can set up portfolios featuring companies that qualify for BR, or private opportunities may be found.

Investments that qualify for 50% relief

Qualifying investments in unquoted shares that exceed £2.5 million benefit from a 50% reduction in the rate of inheritance tax (20% effective tax rate).

Investments in shares listed on the Alternative Investment Market (AIM) also benefit from a 50% reduction in the rate of inheritance tax (20% effective tax rate). There is no cap or maximum limit.

Business Relief (continued)

Holding period

Investments qualify for relief after two years. Provided qualifying shares have been held for at least two years when the investor dies, they can be left to the investor’s beneficiaries free from inheritance tax (if within the Business Relief Allowance, otherwise at a 50% reduction).

Special situations

- Married couples and civil partners benefit from a joint two-year qualifying period. If the original investor dies within two years of investing and leaves the investment to their spouse, no inheritance tax will be payable because the transfer is between spouses. When the second spouse dies, Business Relief will be granted provided the combined period of investment is at least two years.
- If a qualifying investment is sold, some or all of the proceeds can be invested into a different qualifying business or portfolio. If the investor dies within two years of making the new investment, relief will be granted provided qualifying shares have been owned in total for at least two of the five years before death.

Married couples and the £2.5 million allowance

The allowance entitles anyone to leave up to £2.5 million of qualifying unquoted shares, which will benefit from 100% relief. Each individual in a married couple or civil partnership will utilise some or all of their allowance if they leave unquoted Business Relief-qualifying shares to a beneficiary other than their spouse. Investments left between a married couple will not utilise any of the allowance.

Any unused allowance will pass to their surviving spouse, creating a potential £5 million Business-Relief Allowance. It is not necessary that the first spouse owned BR-qualifying investments, or that they die after 5 April 2026 for this extra allowance to be available.



Benefits of Business Relief-qualifying investments

- Unlike “gifting” assets, you retain full control over and access to your wealth.
- Your investments benefit from inheritance tax relief after two years, effective much faster than making gifts.
- There is potential for your investments to grow.
- It can be much more straightforward to invest in companies that qualify for Business Relief than other forms of planning, such as setting up trusts.



Risks of Business Relief-qualifying investments

Investing in AIM-traded and unquoted companies carries risk.

- The value of shares in smaller or unlisted companies can move around more than shares in quoted companies.
- The amount you invest is at risk. You could get less back than your original investment.
- Shares can be harder to sell due to the smaller or unlisted nature of qualifying companies
- Tax rules can change, which could affect the tax reliefs available. No company can guarantee that it will always qualify for Business Relief.

Meet Robert

Robert has a very valuable estate that exceeds the combined £1 million nil-rate band and residence nil-rate band allowances. He works with his Financial Adviser to use £500,000 of his Business Relief Allowance by investing in qualifying shares.



This example is illustrative only. This is not a comprehensive statement of tax law and should not be read as advice. Tax reliefs depend on individuals’ personal circumstances and may be subject to change.



6. ISAs

With ISAs there is no income tax or capital gains tax payable. They create a valuable savings and investment wrapper which is very tax-efficient during a lifetime.

No income tax or capital gains tax is paid on investments held in an ISA. Investors who have saved and invested prudently for their lifetimes can hold significant investment values within their ISA wrappers.

Withdrawing investments from the ISA wrapper exposes them to lifetime taxes. This can limit the attractiveness of considering ISA pots for estate planning purposes. But the impact of inheritance tax on a large ISA pot can be expensive.

In 2013, new rules introduced the option to hold AIM shares in a stocks and shares ISA. As a result, investors can choose to invest some or all of their ISA pots in AIM companies that qualify for Business Relief. ISAs invested in this way benefit from paying no capital gains on growth, no income tax on dividends, and a reduced rate of inheritance tax on death provided they have been held for at least two years.

Business Relief on AIM shares

AIM-traded Business Relief-qualifying shares benefit from 50% relief from inheritance tax, reducing the usual 40% rate to 20%. There is no maximum value limit to this benefit.

What is AIM?

The Alternative Investment Market (AIM) is the London Stock Exchange's market for smaller, growing companies from the UK and across the globe. AIM is the world's most successful and established market for dynamic high-growth companies. In 1995, AIM launched with ten companies valued at £82 million. Today, AIM is home to around 616 companies, with a total market value over £68 billion (as at end of January 2026, LSE data, 2026).



Your inheritance tax checklist

Work out how much your estate is worth:

£

Property

£

Savings
(including your ISAs)

£

Investments

£

Other assets

£

Life assurance
(if not written in trust)

£

Any likely inheritance from others

£

Undrawn pension (from 6 April 2027)

Work out how much you owe:

£

Mortgage

£

Loans

£

Credit card debts

£

Overdraft

£

Any other financial obligations

£

Net worth

If you think your estate could trigger an inheritance tax bill, you should consider talking to a Financial Adviser.

Take this checklist along with you and have a think about the ways you might consider planning for inheritance tax:

Spend it, or give it away

Insure it

Put it into a trust

Consider making investments that utilise the Business Relief Allowance

Additional information

Additional information



Get in touch

We're here to help

We recommend you speak to a Financial Adviser in the first instance, as we cannot offer investment or tax advice.

If you have any other questions contact us on **020 7408 4077** or email us at **clientrelations@pumainvestments.co.uk**

For further information, please visit **www.pumainvestments.co.uk**

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