

Why more families are losing wealth to Inheritance Tax and how to avoid it

Data shows families are paying unnecessary tax without planning ahead

Planning for your death is unlikely to be a cheery task to tick off your to-do list, but as the rules keep changing and tax thresholds remain frozen, tackling it is more important than ever. Families paid a record £8.5 billion in Inheritance Tax (IHT) in the 2025/26 tax year, 3.6% higher than the £8.2 billion paid the previous year, according to HM Revenue & Customs.

The Office for Budget Responsibility estimates that the government will raise £14.5 billion a year by the 2030s, suggesting that more estates are being brought into the tax net. Against this backdrop, even simple planning errors can prove costly. Many families unknowingly reduce the wealth passed on to loved ones by overlooking key exemptions, misunderstanding gifting rules or failing to plan early enough.

IGNORING THE NIL-RATE BAND ALLOWANCE

One of the most common mistakes is failing to make full use of the current 2026/27 £325,000 nil-rate band, which allows an individual to pass on assets free of Inheritance Tax up to that threshold. Anything above it may be taxed at 40%.

Where property is involved, the residence nil-rate band can also apply, but only in specific circumstances. Failing to structure your estate correctly can result in unnecessary tax.

NOT USING THE RESIDENCE ALLOWANCE CORRECTLY

The residence nil-rate band can increase the tax-free allowance when a main home is passed to direct descendants. However, it is often misunderstood or overlooked.

If an estate is worth more than £2 million, this allowance may be tapered or lost entirely. Without careful planning, families may miss out on significant tax relief that could otherwise reduce their overall liability.

POORLY PLANNED LIFETIME GIFTING

Gifting assets during your lifetime can be an effective way to reduce the size of your estate, but timing and structure are crucial. Gifts made more than

seven years before death are generally exempt from IHT, but those made within this period may still be taxed.

There is also the annual £3,000 gifting allowance, which many people overlook. Over time, unused allowances represent a missed opportunity to reduce future tax bills.

OVERLOOKING REGULAR INCOME EXEMPTIONS

Some individuals do not realise that gifts from surplus income can be exempt from Inheritance Tax, provided they form part of a regular pattern and do not affect their standard of living.

This exemption is often underused, despite being one of the most effective ways to transfer wealth gradually over time without triggering tax liabilities.

KEEPING ASSETS IN INEFFICIENT STRUCTURES

Another common mistake is holding wealth in the wrong type of account or structure. Assets held in taxable estates can increase the overall IHT liability, particularly when investments have grown significantly in value.

Without regular reviews, portfolios may become inefficient for estate planning, leaving beneficiaries with a reduced inheritance.

FAILING TO PLAN EARLY ENOUGH

Perhaps the most costly mistake is leaving planning until too late. Inheritance Tax is not just a concern for the very wealthy; rising property values and frozen thresholds mean that more families are affected each year.

Early planning allows more time to use exemptions, restructure assets and reduce potential tax exposure in a controlled and effective manner. ■

TAKING ACTION BEFORE IT'S TOO LATE

With Inheritance Tax receipts continuing to rise and more estates coming within scope each year, avoiding common planning mistakes has never been more important. Small adjustments made today could significantly affect the wealth passed on to future generations.

If you would like to understand how Inheritance Tax rules may affect your estate or to explore ways to reduce any potential liability, please contact us for further information or to arrange a tailored financial planning review.

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