


Will you leave an Inheritance Tax bill?

To understand if you'll leave an inheritance tax (IHT) bill you need to look at a few things. Read this short article to find out what you should be looking at.

 a 5-minute read

Figuring out the size of your estate is the first step

It can be surprising what is included in your estate for inheritance tax purposes and what's not. For example, did you know that any gifts to your loved ones you've made in the last seven years could be included, but the value of your pension might not be?

So, to start you should add up the value of your property, savings, investments and other assets, eg cars. Also, if you're entitled to income from a trust or live in a property held in trust, the value of the trust fund may need to be added too.

Then, imagine you turned your house upside down. Anything that falls out should be included. So, your TVs, laptops, furniture, antiques, jewellery, any valuable collections. You can see how quickly it would all add up. But does that mean inheritance tax would apply to all of it?

Please read on to find out more.

This information is based on our current understanding of taxation law and practice in the UK which may change. The amount of tax you pay and relief you receive depends on your own personal circumstances which may also change in the future.



There are allowances that you need to be aware of

The good news is you won't pay inheritance tax on the full value of your estate. There are tax-free allowances before inheritance tax applies. The first tax-free allowance to be aware of is £325,000. You may have heard it being called the nil-rate band, but let's call it a tax-free allowance just now to keep things simple. This means you'll only be liable for tax on the value of your estate over the £325,000 allowance.

There's another big allowance, but it has some rules around it. The tax-free property allowance of £175,000 – or residence nil-rate band to give it its technical name – may apply if you leave your home to your children or grandchildren.

So, if you add the two allowances together (£325,000 and £175,000), you can potentially leave £500,000 tax-free, as long as you leave your home to your children or grandchildren.

You can double your allowances to leave even more tax-free

Did you know, if you're married or in a civil partnership you can leave everything to your partner completely free from inheritance tax? However, this doesn't mean you can ignore inheritance tax.

For example, if you die first, everything would pass to your partner tax-free. But when they die, there could be inheritance tax due.

The good news is your partner can use your unused allowances. So, if you leave everything to them they can use your tax-free allowances of up to £500,000 plus their own £500,000. This means they can potentially leave £1 million tax-free.

Plan now for the future

If you want to save your loved ones from having an unnecessary tax bill, it's important to plan ahead.

The allowances mentioned in this article are just the start of inheritance tax planning. There are many other ways to reduce or prevent an inheritance tax bill.

Financial advisers are best placed to talk you through all your options.

IHT – a snapshot

Some important figures to keep in mind:

£325,000 is your tax-free allowance

£175,000 is your tax-free property allowance

40% tax applies above the tax-free allowances

£216,000 was the average IHT bill in 2019/20*

*Source: HMRC.

What to do next ?

With the help of an adviser, you can cut through complex issues and plan a brighter future with peace of mind for all. M&G Wealth Advice provides financial advice using a carefully selected range of products from Prudential and other providers. This is known as restricted advice.

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