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Calculating  
Inheritance Tax:  
A Step-by-Step  
Guide for  
Advisers



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Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

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# Learning Objectives

By the end of this session, you will be able to:

Identify and explain the key components that form part of the UK Inheritance Tax calculation

Apply a step by step methodology to determine an individual's IHT liability using current legislation

Describe how the IHT treatment of pensions will change from April 2027 and outline how this impacts future calculations

# Inheritance Tax



# Case study – Alice



- Alice is aged 73 and in good health
- Alice is a widow as her husband Bob passed away in 2020
- This was Alice and Bob's second marriage. They were both divorced previously and each have a child from their previous relationships
- On Bob's death he left all his assets to Alice other than his share of the property which was left to a Will trust which gives Alice a right to live in the house. On Alice's death Bob's share of the property passes to his son Alex.
- Alice has various assets including:
  - Cash and investments
  - Her share of the house
  - An AIM ISA
  - A Money purchase pension inherited from Bob
- Alice's Will leaves everything to her daughter Sarah other than a gift to charity which supports research into the illness that resulted in Bob's death

# The UK IHT calculation

	"Net estate" (after liabilities)	
LESS		
	Exemptions	
LESS		
	Reliefs	
LESS		
	Residence NRB/NRB	
EQUALS		
	Taxable estate	
	Apply tax at the relevant rate(s)	
	Deduct reliefs e.g. quick succession relief	



The net estate

# What assets are subject to UK IHT?

Long Term Resident in UK

~~Domiciled within the UK~~



Not Long Term Resident in UK

Non UK domiciled



You will be “long term resident” if you have been UK resident for at least 10 out of the 20 tax years immediately preceding the tax year of death

# Assets included in the estate



Cash and  
investments



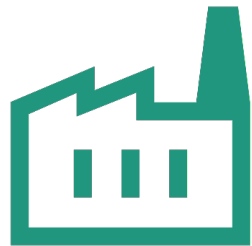
Property



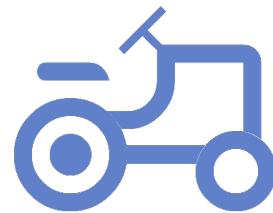
Land



Personal  
Possessions



Business  
property



Agricultural  
property



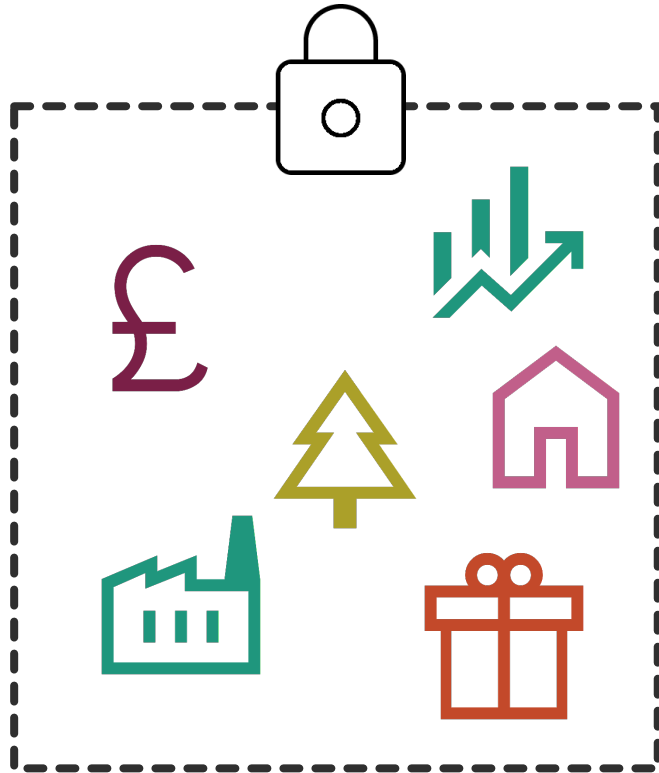
Gifts with  
reservation



Certain trust  
property

Jointly owned assets – the deceased's share is included in their estate!

# Qualifying Interest In Possession Trusts



- Trust set up on death of the settlor in which deceased has an interest in possession (immediate post death interest “IPDI”)
- Trust set up before 22 March 2006 in which deceased has an interest in possession
- Trust in which deceased has a “transitional serial interest”

# Liabilities

Deductible
Mortgage
Secured/unsecured loans
Credit cards
Tax liabilities up to date of death
Unpaid household bills
Reasonable funeral costs

The liability must be repaid for the deduction to be allowable

Deduction is restricted where money is borrowed to acquire business relief assets or excluded property

# Alice's net estate



Live assured?

Tax on death?

<u>Asset</u>	<u>Value</u>	<u>Included in net estate</u>
House half owned personally	£230,000	Yes
House half in Will trust	£230,000	Yes
Cash	£150,000	Yes
Stocks and shares ISAs	£300,000	Yes
AIM ISA	£100,000	Yes
GIA	£100,000	Yes
Investment Bond	£250,000	Yes
Beneficiary drawdown pension	£600,000	No (yet!)
Cars	£50,000	Yes
Jewellery	£25,000	Yes
Possessions	£15,000	Yes
<b>Net estate</b>	<b>£1,450,000</b>	

# Alice's IHT calculation

	"Net estate" (after liabilities)	
LESS		
	Exemptions	
LESS		
	Reliefs	
LESS		
	Residence NRB/NRB	
EQUALS		
	Taxable estate	
	Apply tax at the relevant rate(s)	
	Deduct reliefs e.g. quick succession relief	



# Exemptions

# Exemptions applicable on death



Gifts between spouses and civil partners\*



Gifts to qualifying political parties



Gifts to UK charities/sporting clubs



Gifts for national purposes



Gifts to UK registered housing associations

\*restricted to NRB where UK LTR transfers to non-UK LTR

# Exemptions applicable on Alice's death



Gifts between spouses and civil partners\*



Gifts to qualifying political parties



Gifts to UK charities/sporting clubs



£100,000



Gifts for national purposes



Gifts to UK registered housing associations



\*restricted to NRB where UK LTR transfers to non-UK LTR

# Alice's IHT calculation

	"Net estate" (after liabilities)	£1,450,000
LESS		
	Exemptions	
LESS		
	Reliefs	
LESS		
	Residence NRB/NRB	
EQUALS		
	Taxable estate	
	Apply tax at the relevant rate(s)	
	Deduct reliefs e.g. quick succession relief	

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Reliefs

# Business and Agricultural Relief



Agricultural relief is available at 100% or 50% on qualifying assets

- Agricultural land or pasture
- Some woodland
- Farm buildings, cottages, farmhouses subject to certain conditions



Business relief is available at 100% or 50% on qualifying assets

- Available to sole traders, partnerships and companies
- Shares in unquoted companies (including AIM shares)
- 2 year ownership period

# Business and Agricultural Relief

Agricultural relief is available at 100% or 50% on qualifying assets

- Agricultural land or pasture

## The £1 million allowance

Any unused amount of the £2.5 million allowance can be transferred to a surviving spouse or civil partner from 6 April 2026. If the first death was before 6 April 2026, it will be assumed the entirety of the £2.5 million allowance will be available for transfer to the surviving spouse or civil partner.



- Available to sole traders, partnerships and companies
- Shares in unquoted companies (including AIM shares)
- 2 year ownership period

# Business and Agricultural Relief

Agricultural relief is available at 100% or 50% on qualifying assets

- Agricultural land or pasture

## The £1 million allowance

A new allowance will apply to the combined value of property in an estate qualifying for 100% business property relief and 100% agricultural property relief. For example, the allowance will cover £1 million of property qualifying for business property relief, or a combined £400,000 of agricultural property relief and £600,000 business property relief qualifying for 100% relief.

- Available to sole traders, partnerships and companies
- Shares in unquoted companies (including AIM shares)
- 2 year ownership period



# Business and Agricultural Relief

Agricultural relief is available at 100% or 50% on qualifying assets

 GOV.UK

[Home](#) > [Environment](#) > [Food and farming](#)

Press release

## **Inheritance tax reliefs threshold to rise to £2.5m for farmers and businesses**

£1m Agricultural and Business Property Reliefs threshold increased to £2.5m from April 2026 – allowing spouses or civil partners to pass on up to £5m in qualifying agricultural or business assets between them

- 2 year ownership period

# Business Relief Schemes

Unlisted business relief schemes will see 100% relief restricted to £2.5 million (per person)

Relief on qualifying AIM shares reducing to 50% from 6<sup>th</sup> April 2026.

**Effectively IHT at 20% on AIM shares!**

# What reliefs apply to Alice's estate?



<u>Asset</u>	<u>Value</u>
House half owned personally	£230,000
House half in Will trust	£230,000
Cash	£150,000
Stocks and shares ISAs	£300,000
<b>AIM ISA</b>	<b>£100,000</b>
GIA	£100,000

Business relief = £100,000 x 100% = £100,000

Possessions	£15,000
-------------	---------

But if Alice survives the next 15 days the relief is only 50%!!!

# Alice's IHT calculation

	"Net estate" (after liabilities)	£1,450,000
LESS		
	Exemptions	£100,000
LESS		
	Reliefs	
LESS		
	Residence NRB/NRB	
EQUALS		
	Taxable estate	
	Apply tax at the relevant rate(s)	
	Deduct reliefs e.g. quick succession relief	



# The Nil Rate Bands

# The Nil Rate Bands



Nil Rate  
Band  
£325,000



Residence  
Nil Rate  
Band  
£175,000

Both frozen until 5<sup>th</sup> April 2031!!

# The Transferable Nil Rate Band

1

Applies no matter when first spouse died

2

Chargeable transfers use NRB on death

3

Unused % can be claimed by spouse on their death

4

You can claim from more than one spouse

5

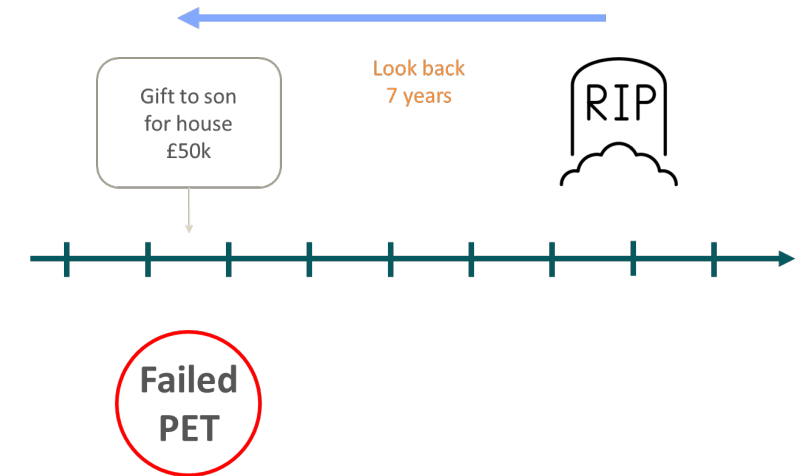
Capped at having 200% NRB



# How much NRB can Alice claim?

Bob died in August 2020. In the 7 years before his death he made the following gifts:

- £3,000 p.a. cash gift to his granddaughter
- £50,000 cash gift to his son Alex in 2014



*This is the last Will and Testament*

I, Derek Smith, residing at 13 Orchard Crescent, Glasgow, G42 OXF in order to settle the succession to my estate on my death provide as follows:

- 1) I appoint as my executors, my wife **Alice Smith**, residing with me as aforesaid. Failing my wife I appoint **Janine Gordon**, residing at 169 Cathedral St, Edinburgh, EH26 4ST, and **Jonny Smith** residing at 71 McTaggart Rd, Livingston, EH68 2YF (hereinafter called "my executors")
- 2) I direct my executors to pay all my debts and funeral expenses and any Government Taxes and duties which may be chargeable with reference to my death.

Bob's Will distributed his estate as follows:

- Bob's share in the house (valued at £200k) to a life interest trust with Alice as the life tenant
- The residuary estate to Alice absolutely

# How much unused NRB can Alice claim?

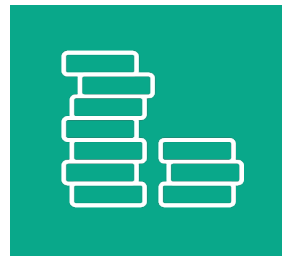


£50,000 gift to Alex



**CHARGEABLE**

£3,000 x 7 gifts to granddaughter



EXEMPT  
(Annual/NEEOI)

Gift of residuary estate to Alice



EXEMPT  
(INTER-SPOUSE)

£200,000 share in house left to "IPDI" trust



EXEMPT  
(INTER-SPOUSE)

£50,000 of Bob's NRB used on his death – 84.62% available to claim

Alice has 184.62% x £325,000 NRB = £600,000

# Residence Nil Rate Band

1

Clients who die after 5<sup>th</sup> April 2017

2

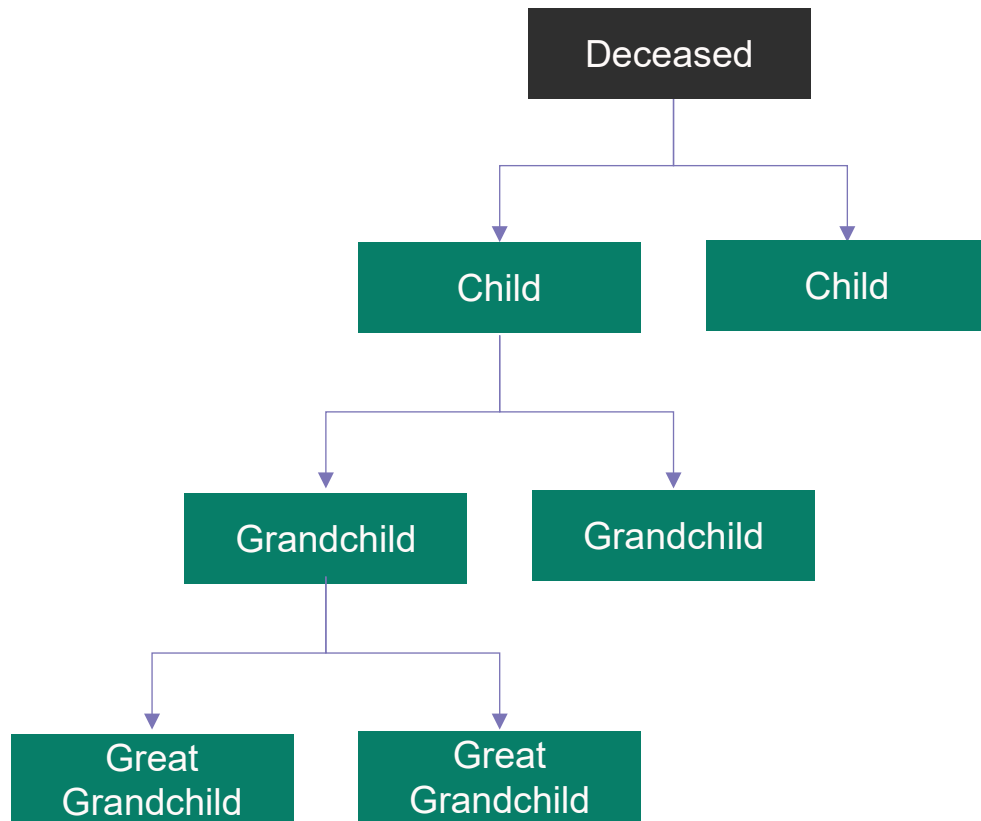
Estate must include home (or assets if downsizing applies)

3

Inherited by “lineal descendants”



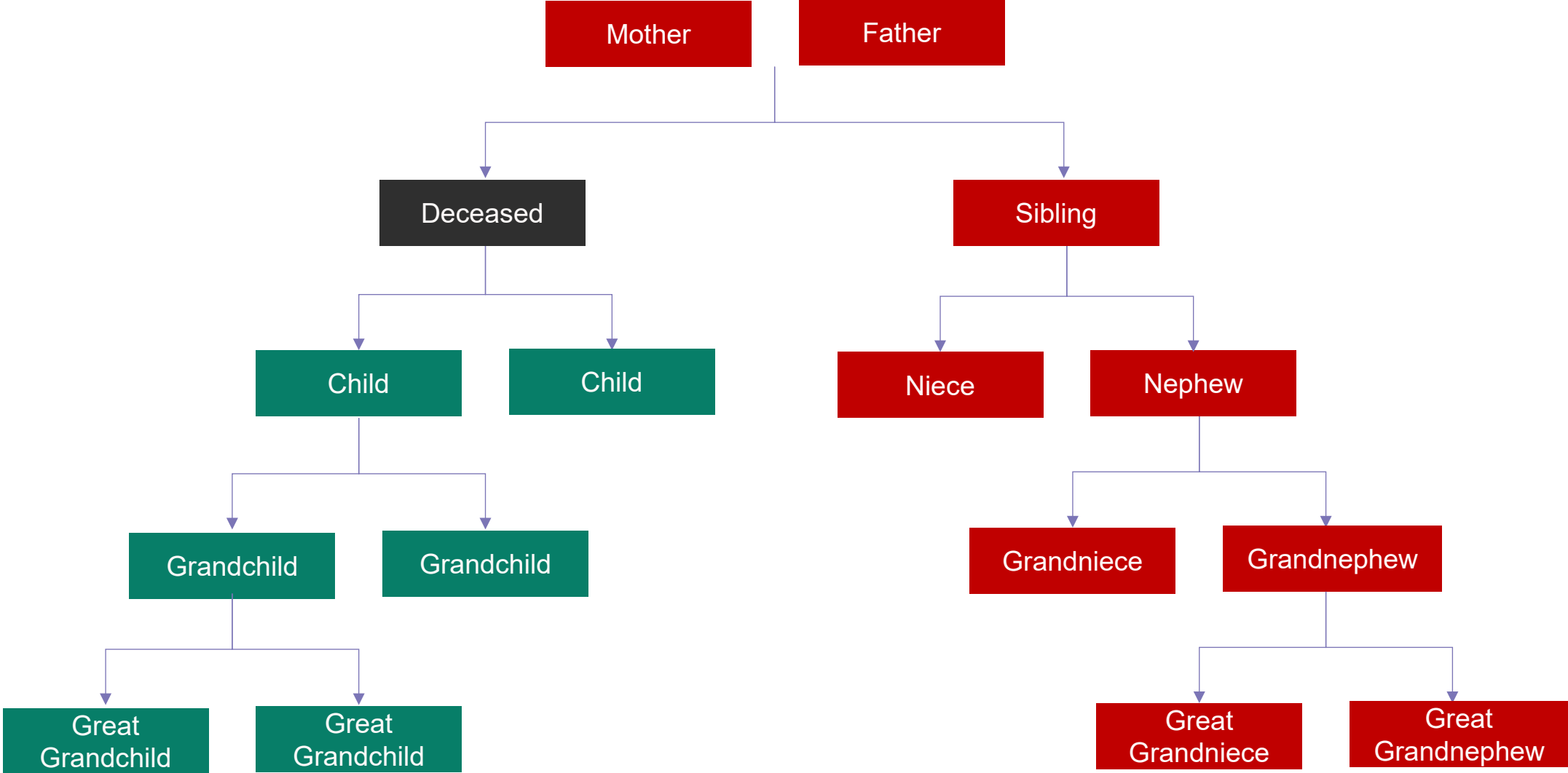
# Lineal descendants



Also includes:

- Stepchildren
- Foster children
- Spouses/civil partners of children, grandchildren etc

# Lineal descendants



# Residence Nil Rate Band

1

Clients who die after 5<sup>th</sup> April 2017

2

Estate must include home (or assets if downsizing applies)

3

Inherited by “lineal descendants”

4

Restricted the value of the property (less liabilities secured on it)

5

Maximum 200% RNRB on second death



# The £2m Taper threshold

Do not  
deduct  
reliefs  
(e.g. BPR)

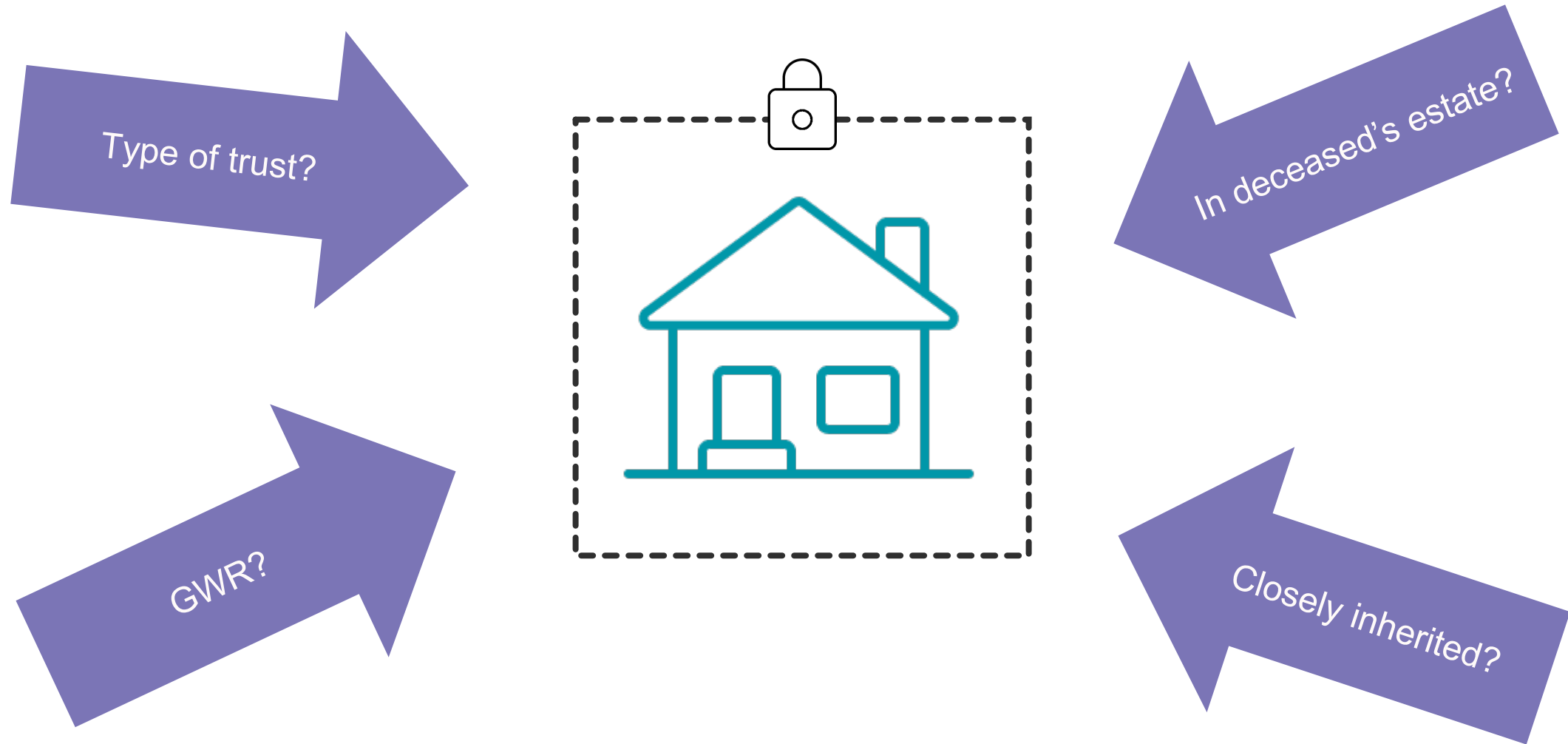
Do not  
deduct  
exemptions  
e.g. spouse

Do not add  
back  
lifetime gifts

Applies on  
first and  
second  
death!

Only RNRB rule that applies to TRNRB for  
deaths before 5 April 2017 is the £2million tapering

# Trusts and the RNRB



# How much RNRB can Alice claim?



Is there any unused RNRB to claim?

Was Bob's estate in excess of £2m when he died?



100% of Bob's unused RNRB available

# Is Alice eligible for the RNRB?



Is there a property in Alice's estate?

Was the property used as her main residence?

Is the home passing to a direct descendant?

Below taper threshold?

Is the residential interest > or + to the RNRB?

Owned share	Trust share
-------------	-------------



# Alice's IHT calculation

Estate value used for tapered RNRB			
		"Net estate" (after liabilities)	£1,450,000
	LESS		
		Exemptions	£100,000
	LESS		
		Reliefs	£50,000
	LESS		
		Residence NRB/NRB	
	EQUALS		
		Taxable estate	
		Apply tax at the relevant rate(s)	
		Deduct reliefs e.g. quick succession relief	

# Is Alice eligible for the RNRB?



Is there a property in Alice's estate?

Was the property used as her main residence?

Is the home passing to a direct descendant?

Below taper threshold?

Is the residential interest > or + to the RNRB?

Owned share

Trust share



200% RNRB Available £350,000

But.....

Assumed estate growth of 5% p.a.



# And.....



<u>Asset</u>	<u>Value</u>	<u>Included in estate</u>
House half owned personally	£230,000	Yes
House half in Will trust	£230,000	Yes
Cash	£150,000	Yes
Stocks and shares ISAs	£300,000	Yes
AIM ISA	£100,000	Yes
GIA	£100,000	Yes
Investment Bond	£250,000	Yes
Beneficiary drawdown pension	£600,000	Yes
Cars	£50,000	Yes
Jewellery	£25,000	Yes
Possessions	£15,000	Yes
<b>Net estate</b>	<b>£2,050,000</b>	

Tapered

# Alice's IHT calculation

	"Net estate" (after liabilities)	£1,450,000
LESS		
	Exemptions	£100,000
LESS		
	Reliefs	£50,000
LESS		
	Residence NRB/NRB	
EQUALS		
	Taxable estate	
	Apply tax at the relevant rate(s)	
	Deduct reliefs e.g. quick succession relief	



# Charitable gifts and the reduced rate of IHT

# What are the tax benefits?

Any legacy left to a charity is exempt from IHT

IHT rate of 36% on the remaining taxable estate\*

\*If at least 10% of the baseline amount is left to a qualifying UK charity

# What are the three key components?



Survivorship



Settled  
Property



General

# Example (Alice)

<u>Asset</u>	<u>Value</u>	<u>Included in estate</u>	<u>Component</u>
House half owned personally	£230,000	Yes	General
House half in Will trust	£230,000	Yes	Settled Property
Cash	£150,000	Yes	General
Stocks and shares ISAs	£300,000	Yes	General
AIM ISA	£100,000	Yes	General
GIA	£100,000	Yes	General
Investment Bond	£250,000	Yes	General
Cars	£50,000	Yes	General
Jewellery	£25,000	Yes	General
Possessions	£15,000	Yes	General

Alice is planning on leaving £100,000 to a qualifying UK charity!

# Baseline Calculation

	Survivorship	Settled Property	General	Total
Assets	N/A	£230,000	£1,220,000	£1,450,000
Less: Business Relief	N/A	N/A	(£50,000)	(£50,000)
Less: Charitable Gift	N/A	N/A	(£100,000)	(£100,000)
Less: Available NRB and TRNB	N/A	(£106,154)	(£493,846)	(£600,000)
Add back: Charitable Gift	N/A	N/A	£100,000	£100,000
Baseline Amount	N/A	£123,846	£676,154	£800,000
<b><u>10% of Baseline Amount</u></b>	<b><u>N/A</u></b>	<b><u>£12,385</u></b>	<b><u>£67,615</u></b>	<b><u>£80,000</u></b>

**Alice's legacy of £100,000 will attract the IHT rate of 36%!**

# Summary

- 1 Establish the value of each component
- 2 Calculate each component's baseline amount
- 3 Check whether the size of the charitable legacy is at least 10% of the baseline amount.
- 4 Consider merging components
- 5 Apply 36% or 40% IHT to the chargeable amount

# Alice's IHT calculation

	"Net estate" (after liabilities)	£1,450,000
LESS		
	Exemptions	£100,000
LESS		
	Reliefs	£50,000
LESS		
	Residence NRB/NRB	£950,000
EQUALS		
	Taxable estate	£350,000
	Apply tax at the relevant rate(s) 36%	£126,000
	Deduct reliefs e.g. quick succession relief	



# Reliefs on specific assets

# Other reliefs

Relief for loss on sale of shares (12 months)

Double charge relief (Gift with Reservation)

Relief for loss on sale of land (4 years)

Quick succession relief

Infected blood compensation scheme

# Alice's IHT calculation

	"Net estate" (after liabilities)	£1,450,000
LESS		
	Exemptions	£100,000
LESS		
	Reliefs	£50,000
LESS		
	Residence NRB/NRB	£950,000
EQUALS		
	Taxable estate	£350,000
	Apply tax at the relevant rate(s) 36%	£126,000
	Deduct reliefs e.g. quick succession relief	



Apportioning the tax

# Apportioning the NRB/RNRB

Free Estate	
Net estate	£1,220,000
<b>less Exemptions</b>	£100,000
<b>less Reliefs</b>	£50,000
<b>Chargeable</b>	<b>£1,070,000</b>

Settled Property	
Trust Value	£230,000
<b>less Exemptions</b>	£0
<b>less Reliefs</b>	£0
<b>Chargeable</b>	<b>£230,000</b>

Chargeable estate £1,300,000

Available NRB + RNRB = £950,000

$$\begin{aligned} & (\text{£}1,070,000/\text{£}1,300,000) \times \text{£}950,000 \\ & = \text{£}781,923 \end{aligned}$$

$$\begin{aligned} & (\text{£}230,000/\text{£}1,300,000) \times \text{£}950,000 \\ & = \text{£}168,077 \end{aligned}$$

# Apportioning the NRB/RNRB

Free Estate	
Net estate	£1,220,000
<b>less Exemptions</b>	£100,000
<b>less Reliefs</b>	£50,000
<b>Chargeable</b>	<b>£1,070,000</b>
Nil rate band	£781,923
<b>Taxable</b>	<b>£288,077</b>

£103,708

Settled Property	
Trust Value	£230,000
<b>less Exemptions</b>	£0
<b>less Reliefs</b>	£0
<b>Chargeable</b>	<b>£230,000</b>
Nil rate band	£168,077
<b>Taxable</b>	<b>£61,923</b>

£22,292



# Pensions and IHT

# Current IHT on pensions

Power of Disposal  
(with some exceptions)

Within estate

Estate entitled

Within estate

Discretionary Disposal

~~Outside estate~~

Within estate

Distribution Arrangements Unchanged

# Alice's net estate







<u>Asset</u>	<u>Value</u>	<u>Included in estate</u>
House half owned personally	£230,000	Yes
House half in Will trust	£230,000	Yes
Cash	£150,000	Yes
Stocks and shares ISAs	£300,000	Yes
AIM ISA	£100,000	Yes
GIA	£100,000	Yes
Investment Bond	£250,000	Yes
Beneficiary drawdown pension	£600,000	No
Cars	£50,000	Yes
Jewellery	£25,000	Yes
Possessions	£15,000	Yes
Net estate	£1,450,000	

# Alice's net estate



<u>Asset</u>	<u>Value</u>	<u>Included in estate</u>
House half owned personally	£230,000	Yes
House half in Will trust	£230,000	Yes
Cash	£150,000	Yes
Stocks and shares ISAs	£300,000	Yes
AIM ISA	£100,000	Yes
GIA	£100,000	Yes
Investment Bond	£250,000	Yes
Beneficiary drawdown pension	£600,000	Yes
Cars	£50,000	Yes
Jewellery	£25,000	Yes
Possessions	£15,000	Yes
<b>Net estate</b>	<b>£2,050,000</b>	

# Alice's IHT calculation

	"Net estate" (after liabilities)	£2,050,000		£600,000
LESS				
	Exemptions	£100,000		
LESS				
	Reliefs	£50,000		
LESS				
	Residence NRB/NRB	£925,000		£25,000
EQUALS				
	Taxable estate	£975,000		£625,000
	Apply tax at the relevant rate(s) <b>40%</b>	£390,000		£264,000
	Deduct reliefs e.g. quick succession relief	N/A		

# Apportioning the NRB/RNRB

Free Estate	
Net estate	£1,220,000
<b>less Exemptions</b>	£100,000
<b>less Reliefs</b>	£50,000
<b>Chargeable</b>	<b>£1,070,000</b>

Settled Property	
Trust Value	£230,000
<b>less Exemptions</b>	£0
<b>less Reliefs</b>	£0
<b>Chargeable</b>	<b>£230,000</b>

Pension Scheme	
Death benefit	£600,000
<b>less Exemptions</b>	£0
<b>less Reliefs</b>	£0
<b>Chargeable</b>	<b>£600,000</b>

Chargeable estate £1,900,000

Available NRB + RNRB = £925,000

$$(\text{£}1,070,000 / \text{£}1,900,000) \times \text{£}925,000 = \text{£}520,921$$

$$(\text{£}230,000 / \text{£}1,900,000) \times \text{£}925,000 = \text{£}111,974$$

$$(\text{£}600,000 / \text{£}1,900,000) \times \text{£}925,000 = \text{£}292,105$$

# Apportioning the NRB/RNRB

Free Estate	
Net estate	£1,220,000
<b>less Exemptions</b>	£100,000
<b>less Reliefs</b>	£50,000
<b>Chargeable</b>	<b>£1,070,000</b>
Nil rate band	£520,921
<b>Taxable</b>	<b>£549,079</b>

Settled Property	
Trust Value	£230,000
<b>less Exemptions</b>	£0
<b>less Reliefs</b>	£0
<b>Chargeable</b>	<b>£230,000</b>
Nil rate band	£111,974
<b>Taxable</b>	<b>£118,026</b>

Pension Scheme	
Death benefit	£600,000
<b>less Exemptions</b>	£0
<b>less Reliefs</b>	£0
<b>Chargeable</b>	<b>£600,000</b>
Nil rate band	£292,105
<b>Taxable</b>	<b>£307,895</b>

£219,631

£47,210

£123,158

# Paying IHT

## Personal Reps

Recovery  
from  
beneficiaries

Same  
beneficiaries?

## Beneficiary

Requests  
benefits /  
own  
resources

Income tax  
refund on IHT  
amount

## Pension Scheme

Pension  
Inheritance  
Tax Payment  
Scheme

Prior to  
setting up  
benefits?

# Paying IHT

Personal  
Reps

Recovery  
from  
beneficiaries?

Beneficiary

Requests  
for

Income tax  
refund on IHT  
amount

Pension  
Scheme

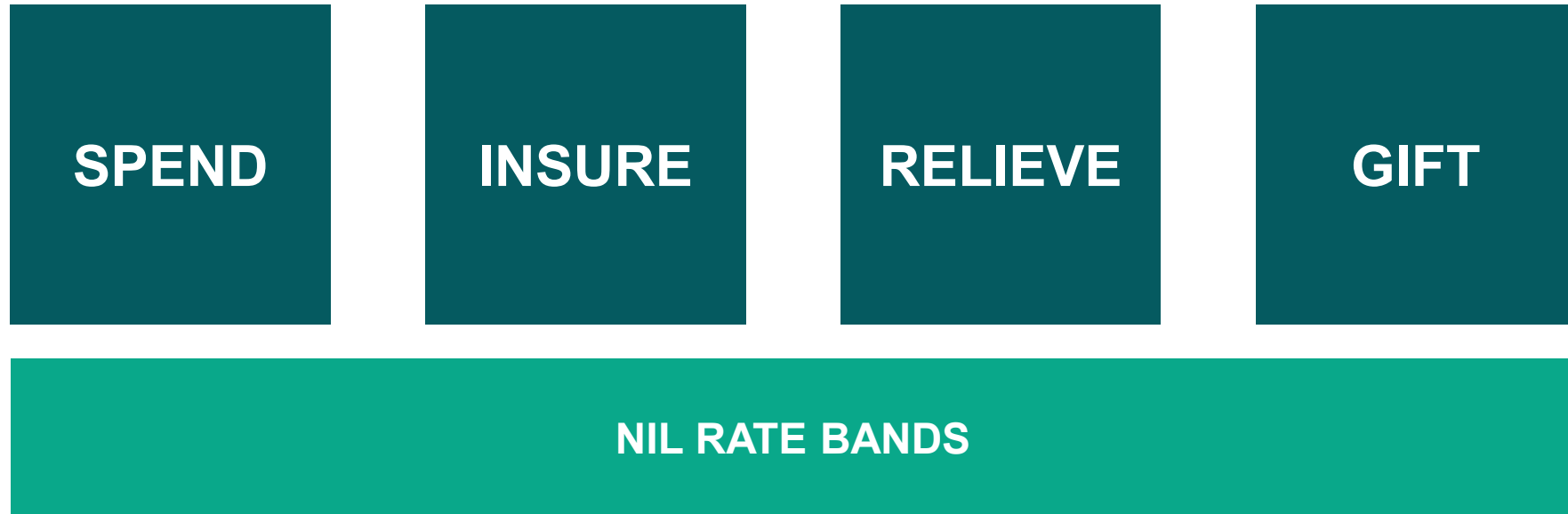
Prior to  
setting up  
benefits?

Personal reps will be able to instruct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and tell scheme to pay IHT

# The UK IHT calculation

	"Net estate" (after liabilities)	
LESS		
	Exemptions	
LESS		
	Reliefs	
LESS		
	Residence NRB/NRB	
EQUALS		
	Taxable estate	
	Apply tax at the relevant rate(s)	
	Deduct reliefs e.g. quick succession relief	

# IHT planning



# Recap Learning Objectives

By the end of this session, you will be able to:

Identify and explain the key components that form part of the UK Inheritance Tax calculation

Apply a step by step methodology to determine an individual's IHT liability using current legislation

Describe how the IHT treatment of pensions will change from April 2027 and outline how this impacts future calculations



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Les Cameron **Manager**

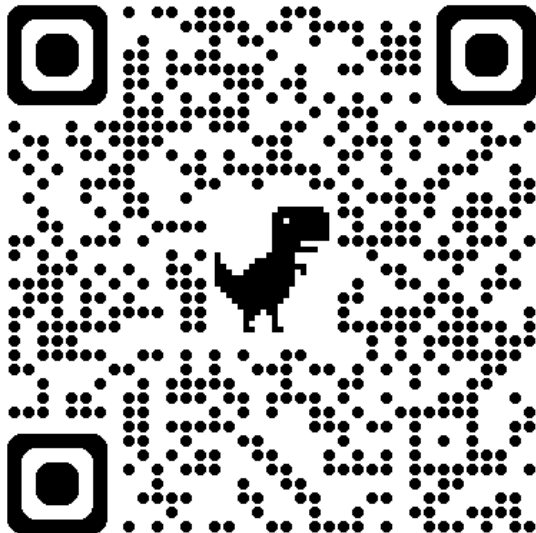
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Thank  
you

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