Inheritance tax shake-up: what it means for planning for the future

Revisiting the Budget announcements around death duties and exploring what they might mean for tax liabilities.

Chancellor Rachel Reeves's decision to leave some inheritance tax (IHT) rules unchanged and to change others could have an impact on financial planning for passing on assets to loved ones.

The current freeze on the inheritance tax thresholds will be extended for a further two years to 5 April 2030, with the nil-rate band remaining at £325,000 and the residence nil-rate band remaining at £175,000 (but tapering away for estates worth more than £2 million).

Rising property and share prices could mean a small number of extra estates end up paying some IHT – the government's own forecast is that the number of taxpaying estates will increase by 1,400 in 2028/29 and 2,900 in 2029/30.

However, the Chancellor has left untouched certain IHT reliefs, such as annual gifts up to £3,000, gifts out of excess income and, of course, gifts that fall out of your estate for inheritance tax if you survive seven years from the date of the gift (funded perhaps by drawing from your pension fund).

IHT on unused pension fund and death benefits

The chancellor did change the rules on unused pension funds and death benefits payable from a pension, which will be brought into a person's estate for IHT purposes from 6 April 2027.

The decision to bring pension pots within the inheritance tax net means those that have planned their retirement based on the existing rules may now need to review and possibly reconsider their financial planning.

A further consequence of this measure is that it may now cause some estates to breach the £2 million threshold at which the residence-nil rate band begins to taper away.

Agricultural and property reliefs

From April 2026, agricultural property relief (APR) and business property relief (BPR) will be subject to new restrictions. These proposals are proving particularly unpopular with farmers who have to date been able to pass on farmland and associated buildings to future generations free of charge.

The current 100% rate of relief will continue for the first £1 million of combined agricultural and business property for individuals and trusts, except for shares designated as 'not listed' on the markets of recognised stock exchanges, such as AIM. However, the rate of relief will be 50% for such assets above the £1 million threshold and for all 'not listed' shares.

The existing 50% rates of business and agricultural relief will continue where they currently apply (e.g. to farmland let before 1 September 1995) and will not be affected by the new allowance.

For certain trusts that were established before 30 October 2024, the £1 million allowance will apply to each trust. The £1 million allowance will be divided between trusts where a settlor sets up multiple trusts on or after 30 October 2024.

The restriction to APR and BPR will be a particular concern for many business owners, whose families may now need to consider how to fund an inheritance tax bill without breaking up or selling the family business.

However, an option to pay inheritance tax in 10 annual instalments will be available on such assets until they are sold.

Environmental land management

From 6 April 2025, agricultural property relief will be extended to cover land managed under an environmental agreement with, or on behalf of, the UK government, devolved governments, public bodies, local authorities or approved responsible bodies.

Detailed professional advice should be sought before any action is taken to change financial planning aimed at ensuring businesses and family wealth can be passed down to future generations.