

# Inheritance Tax Explained

How Inheritance Tax works — the nil-rate bands, the 40% rate, the gifts and reliefs that reduce it, and the planning that protects more of your estate for your family.

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NIL-RATE BAND	RESIDENCE NIL-RATE BAND	IHT RATE	ANNUAL GIFT EXEMPTION
<b>£325,000</b>	<b>£175,000</b>	<b>40% (36% to charity)</b>	<b>£3,000</b>

## 01 What Inheritance Tax is

Inheritance Tax (IHT) is paid on your estate — property, money and possessions — after you die, and on some gifts made in your lifetime. Most estates pay nothing, thanks to the nil-rate bands.

**i** IHT is usually settled by your estate, not paid personally by the people who inherit.

## 02 The nil-rate bands

Two allowances decide whether your estate pays anything:

- The nil-rate band is £325,000 — no IHT below it
- The residence nil-rate band adds up to £175,000 when you leave your home to direct descendants
- Together, a married couple can pass on up to £1 million free of IHT
- Anything above the bands is taxed at 40%

**i** Unused allowances transfer to a surviving spouse or civil partner.

## 03 Gifts you can make tax-free

Several gifts fall outside IHT entirely:

- £3,000 a year (the annual exemption) — you can carry one unused year forward
- Small gifts of up to £250 per person
- Wedding gifts (up to £5,000 from a parent)
- Regular gifts made out of surplus income
- Anything left to a spouse, civil partner or charity

**i** Larger gifts are "potentially exempt" — free of IHT if you live seven years after making them.

## 04 The seven-year rule

A larger gift is fully exempt if you survive seven years. Die within that window and it is added back to your estate, with taper relief reducing the tax on gifts made three to seven years before death.

## 05 Reliefs that cut the bill

Beyond the allowances, specific reliefs can reduce or remove IHT:

- Business Relief — up to 100% on qualifying business assets (the rules tighten from April 2026)
- Agricultural Relief on qualifying farmland
- Leaving 10% or more of your net estate to charity cuts the rate from 40% to 36%

**i** The April 2026 reforms make reviewing business and agricultural assets especially worthwhile.

## 06 Planning that protects your family

A few steps make a large difference:

- Make a Will — intestacy rarely splits an estate the way you would choose
- Review it as the law and your circumstances change
- Use trusts carefully, and only with advice
- Keep a record of gifts — dates and amounts

## Common questions

### How much can I leave before Inheritance Tax?

£325,000 (the nil-rate band), plus up to £175,000 more if you leave your home to children or grandchildren. A married couple can combine their allowances to pass on up to £1 million.

### Do I have to pay tax on gifts?

Many gifts are exempt — £3,000 a year, small gifts, and regular gifts from surplus income. Larger gifts are free of IHT if you live for seven years after making them.

## What is the Inheritance Tax rate?

40% on the value of your estate above the nil-rate bands, reduced to 36% if you leave at least 10% of your net estate to charity.

### NEXT STEP

## Get expert eyes on your tax

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