

The Transact Inheritance Tax Index 2025



Contents

Executive summary	3
Main features of the IHT framework.....	5
Inheritance Tax Index methodology.....	7
Impact of the changes.....	8
What action can be taken?	12
Adviser views on anticipated strategies.....	15
The case for estate planning advice.....	16

Executive summary

The Transact Inheritance Tax Index

The Transact Inheritance Tax (IHT) Index monitors changes in British household wealth since 2006, using data from the Office for National Statistics' Wealth and Assets Survey. This data is used to estimate the number of households that may be liable to IHT and the amount of tax that might be due. Whether an individual's estate is subject to IHT, and the amount of tax payable, will not only be subject to the value of the deceased's estate on death, it will also be influenced by regulatory changes to the basis for the calculation of IHT. Good examples of this are the introduction of the residence nil rate band (RNRB), an additional IHT allowance available to deceased homeowners and, more recently, the proposals to include pension wealth in estate calculations from April 2027. Given that household wealth is concentrated in property and pensions, these changes have a profound impact on the number of households potentially liable to IHT and the total IHT liability. Whilst the introduction of the RNRB led to a steady reduction in the number of households liable, the inclusion of pension wealth sees a dramatic reversal of this trend, potentially leading to a threefold increase, with nearly one in five households becoming liable for IHT.

These upcoming changes are expected to reshape the financial landscape for millions of households, and significantly increase the number of individuals who could benefit from tax planning advice to maximise the inheritance available to their descendants.

Key findings

A sharp rise
in affected
households

Including pension wealth in estate valuations will more than triple the number of households potentially liable for IHT—from 6.0% to 18.8%—increasing from 1.6 million to 5.1 million households.

A fourfold increase
in taxable wealth

The total value of potential household IHT liability is projected to rise from £472 billion to £1,924 billion.

A disproportionate
impact by age and
region

Households with a representative person over age 55 will see a jump in IHT exposure from 1.2 million to 3.8 million. The burden will be most pronounced in London and the South East, where over 25% of households are expected to exceed the £1 million threshold.

A widespread lack
of awareness

Fewer than 30% of homeowners are fully aware of the 2027 changes, and a third remain completely unaware. While wealthier individuals show greater awareness and preparedness, there is a clear need for financial guidance in the broader population.

A strategic shift in
planning

We should expect to see an increase in lifetime gifting with greater use of exempt transfers, potentially exempt transfers (PETs) and chargeable lifetime transfers (CLTs), as a primary mitigation strategy. For many, it may become more tax-efficient to withdraw and gift pension funds during retirement, despite the income tax implications.

An increase in inter-generational planning opportunities

Almost half of advisers (44% of respondents in a Transact survey) believe that the IHT changes will have a **positive impact** on their business and will provide increased inter-generational planning opportunities.

An increase in the use of trusts, gifts and bonds

Advisers expect the use of trust-based planning, gifting out of surplus income, and investment bonds to be key financial strategies likely to be deployed to manage intergenerational wealth transfers and tax liabilities.

Conclusion

The planned IHT changes in 2027 will lead to a fundamental transformation in estate planning, with a dramatic increase in both the number of affected estates and the scale of potential liabilities. Individuals—especially those with significant pension assets—are likely to benefit from an urgent reassessment of their financial plans. Professional advice will be essential to navigate this evolving landscape and to implement effective, tax-efficient estate plans.

Main features of the IHT framework

The current regulatory framework for Inheritance Tax (IHT) is contained in the Inheritance Tax Act 1984, although it has undergone some key changes since enactment and more significant changes are due to come into effect over the next two years.

Under the current system, IHT at a rate of 40% is applied on the value of a deceased's estate above the available tax-free allowances and exemptions. These allowances include a standard 'nil-rate band', an additional 'residence nil-rate band', and numerous other exemptions and reliefs that together determine how much (if any) of an individual's estate is subject to IHT. Below are the main elements of the current IHT framework:

Nil-rate band (NRB)

Every individual has a £325,000 NRB – the portion of their estate that is not subject to IHT. This threshold has remained unchanged since 2009 and is currently frozen until April 2030. No IHT is due on estates below £325,000. For married couples or civil partners, any unused NRB can be transferred to the surviving spouse or civil partner potentially allowing up to £650,000 of property and assets to be passed on without incurring an IHT charge.

Residence nil-rate band (RNRB)

In addition to the NRB, an estate can claim up to £175,000 as an additional allowance when a primary residence is left to direct descendants of the deceased individual (e.g. children or grandchildren). As with the NRB, any unused RNRB can be transferred to a surviving spouse or civil partner, potentially providing scope for a further £350,000 of property and assets to be passed to beneficiaries without paying IHT.

However, the RNRB is reduced if the value of the estate exceeds £2 million. The reduction is applied at a rate of £1 of allowance for each £2 of estate value in excess of £2 million, meaning that the RNRB is fully tapered away at £2.35 million (for individuals) or £2.7 million (for married couples or civil partners on second death).

If both the NRB and RNRB are passed on in full to a surviving spouse or civil partner, there is the potential to pass on property and assets up to £1 million incurring an IHT charge.

Spouse and civil partner exemption

Transfers to a surviving spouse or civil partner are wholly exempt from IHT. If an individual leaves their entire estate to their spouse, no tax is due when they die. Moreover, as noted above, any unused portion of the deceased's tax exemptions and allowances can be claimed by the survivor's estate. This means married couples and civil partners effectively get a double allowance (up to £650,000 of NRB, or £1m if the full amount of the RNRB is also available) when the second partner dies.

Exemption for discretionary pension death benefits

Under current regulations, following death, most pensions do not form part of the deceased's estate. This exemption has existed for many years but changes to tax law since 2014 have created an environment where pensions are particularly effective as an estate planning vehicle. Currently, when a pension holder dies, their beneficiary may be able to keep the death benefits in a pension arrangement with no tax being paid on the transfer and no income tax due on the pension income if the previous pension holder died prior to age 75. Prior to 2014,

this option was only available to spouses or dependants (up until age 23), and all withdrawals were subject to income tax.

Lump sum death benefits were also available, but subject to a 55% tax charge if the deceased had started drawing pension income. If the deceased had not received any income payments, an additional tax would be applied if their fund on death exceeded the lifetime allowance.

Changes introduced in April 2016 gave any individual nominated to benefit scope to hold death benefits in a drawdown arrangement, creating an environment for intergenerational transfers of wealth outside one's. The removal of the lifetime allowance charge in April 2023 meant that there was no cap on the tax-free amount that could be transferred to a beneficiary's pension following death of the member.

Recent changes

The Autumn Budget 2024 announced a fundamental change that will remove the IHT exemption for pensions. From 6 April 2027, unused funds in defined contribution (DC) pensions and any resulting death benefits will be brought into scope for IHT and will be treated as forming part of the deceased's estate. The government's stated intention is to curb the use of pensions as an intergenerational wealth transfer tool and to align their tax treatment with non-discretionary pension death benefits and other forms of savings and investment. The spousal exemption will continue to apply, meaning pension funds passed to a surviving spouse or civil partner will remain exempt from IHT.

These changes have particularly severe impacts for individuals who die aged over 75. In such circumstances there is currently an income tax charge on any death benefits, based on the beneficiary's marginal rates. From April 2027, the pension fund will first be subject to assessment for IHT at 40%, with a subsequent income tax charge when the fund is paid to the beneficiary, giving rise to potential total tax liabilities of 67%.

In addition to this, there are second order effects in relation to the calculations of the RNRB. Including the value of unused pensions in the valuation of an individual's estate will increase the number of households with wealth exceeding £2m. At this point the RNRB begins to reduce, up to an estate value of £2.7m, when it is completely removed, leading to further increases in the IHT that will be payable.

This legislative change represents a paradigm shift in financial planning. For many individuals, the long-established and logical strategy of using pensions to assist with IHT planning may be inverted. From 2027, it may become more tax-efficient to draw down pension funds during retirement, particularly any benefits that can be paid tax-free (e.g. tax-free cash or beneficiary pension income) if the income can be gifted using other IHT exemptions.

Inheritance Tax Index methodology

The Trajectory Partnership sourced data on household wealth for the UK from the Office of National Statistics (ONS) for the period of 2006 to 2022. The data is produced every two years (as Waves of data) and breaks down total household wealth into four components: property, financial, physical and pension wealth. To calculate the value of the estate for IHT purposes, valuations are compared with and without the inclusion of pension wealth. These values can then be compared against the Total Household Threshold (THT), which are set to different levels to take account of the available NRB and RNRB. When estimating the potential financial liability the current IHT rate of 40% was applied.

As an example, if a household consists of two adults who are a married couple or in a civil partnership then, if their total wealth (either including or excluding pension wealth) is greater than the THT, they will have a potential liability.

They each have an NRB of £325,000 plus £175,000 RNRB. Including both of these allowances means that as a couple, they have up to £1 million as a tax-free allowance, assuming the second of them to die fully inherits the other person's allowances and the estate is below the £2m threshold (where the estate is greater than £2m the RNRB is tapered until it is lost entirely if the estate is valued at more than £2.7m.) It is also possible to compare the position with a threshold of £650,000 (i.e. using just the joint NRB) to assess the impact of the introduction of the RNRB.

Estimates were made at both a national and regional level (excluding Northern Ireland), with the analysis focusing on the number of households liable, the proportion of the total liability from each region and the percentage of households liable in each region.

Impact of the changes

To show the impact of the pension changes on the percentage of all households liable to IHT, Chart 1 (below) shows the percentage both before and after the inclusion of pension wealth in Wave 8 (the latest wave that data is available for). As can be seen, the inclusion of pension wealth increases the percentage of households liable to pay IHT from 6.0% to 18.8%. Excluding pension wealth, we can see a reduction in the percentage of households liable from Wave 5 to Wave 8, from 9.4% to 6.0%. The primary reason for this reduction is the inclusion of the final phases of the RNRB.

Chart 1

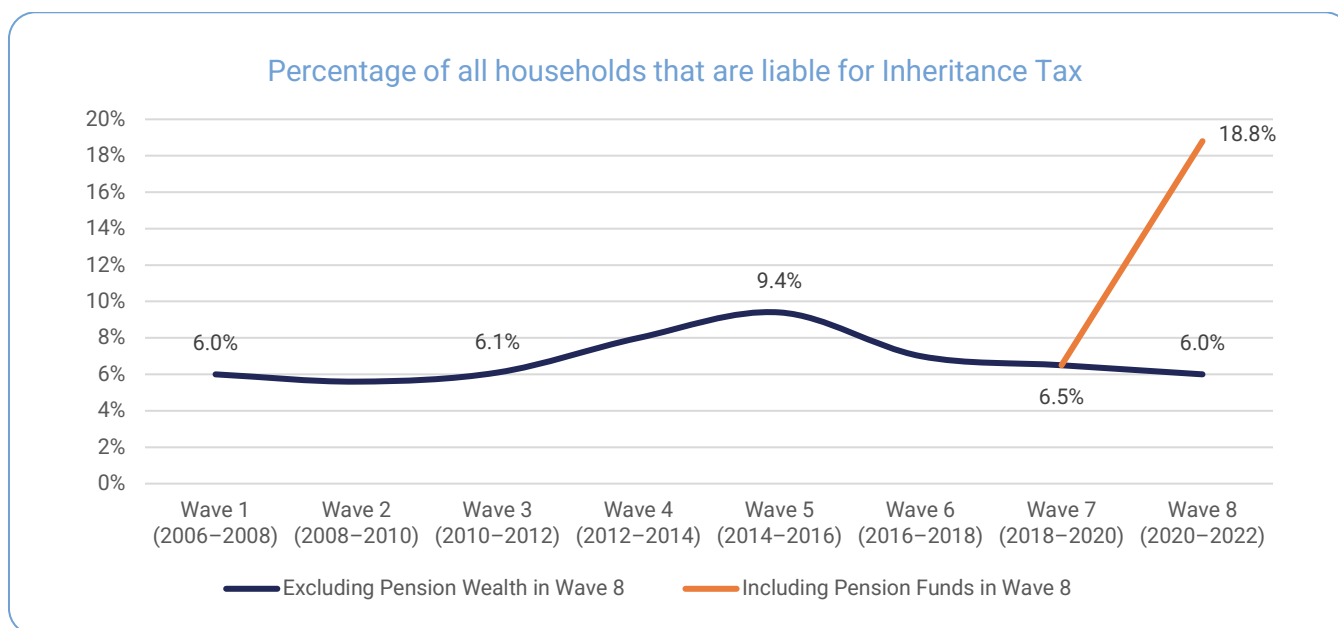
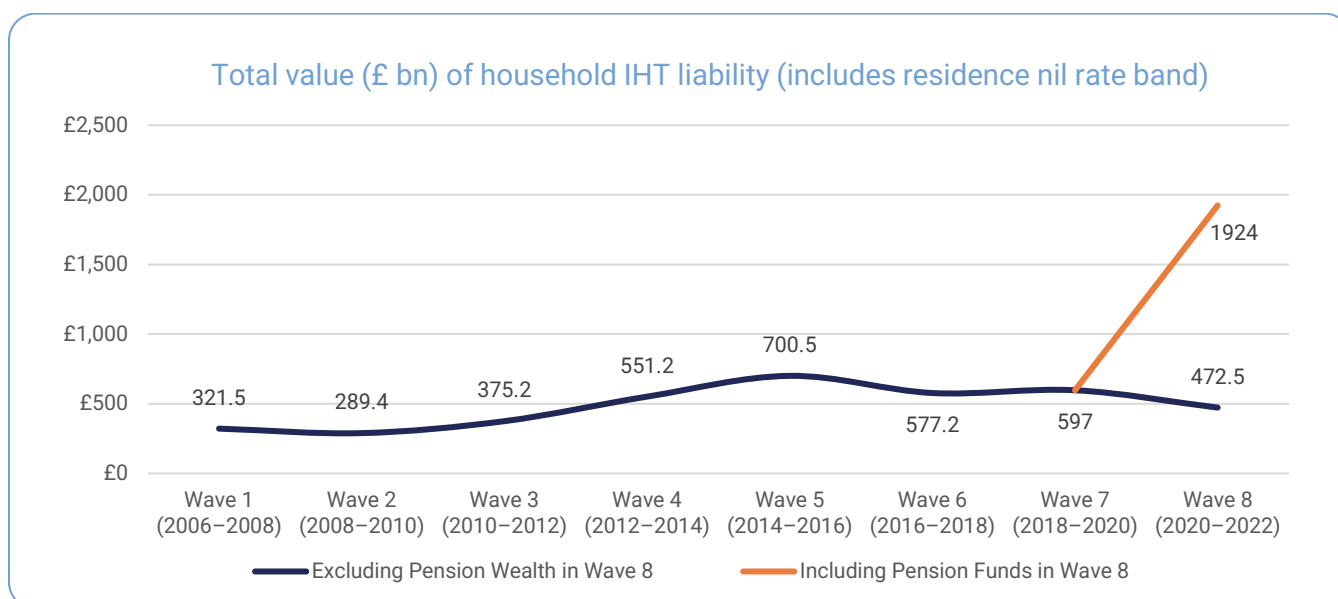


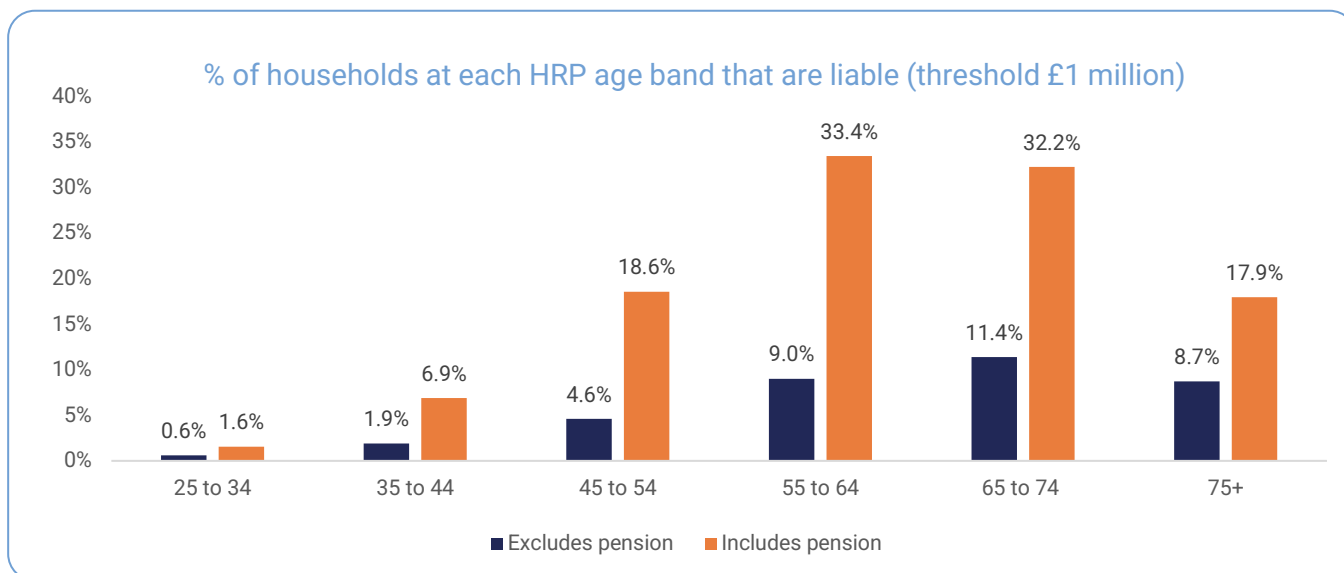
Chart 2 (below) shows how these changes impact the total value of IHT liability. The introduction of pension wealth in Wave 8 increases the total potential household IHT liability from £472bn to £1,924bn.

Chart 2



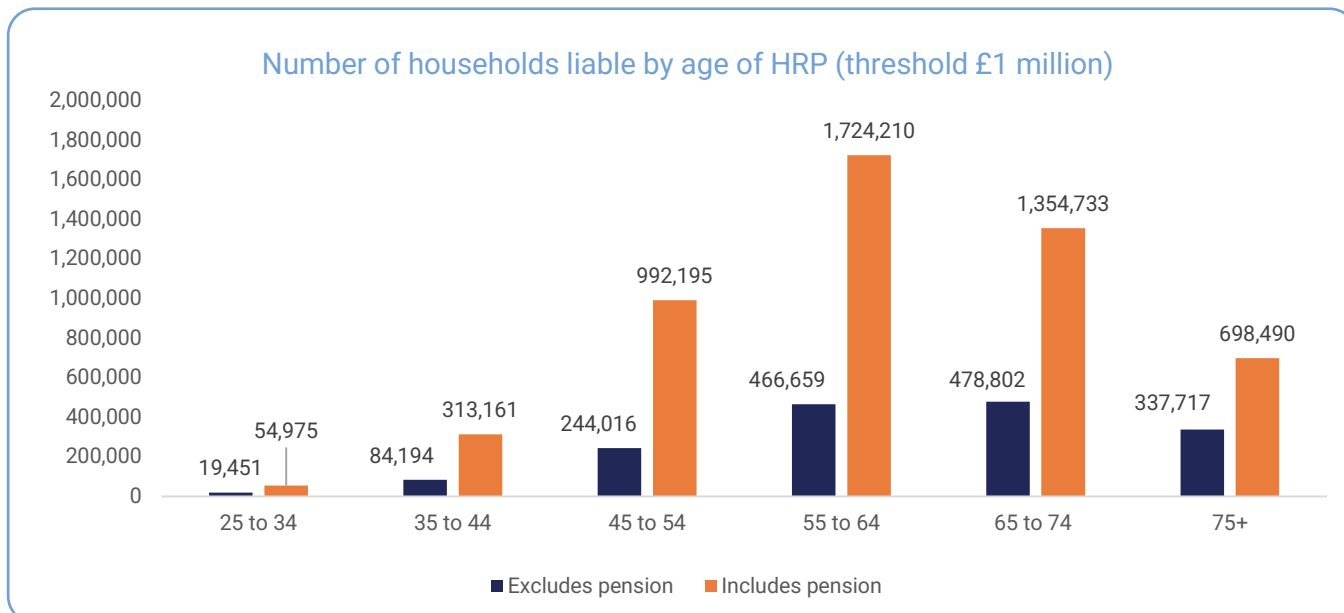
When analysing the potential impact of the pension changes it is important to consider the age profile of the population and the wealth distribution across the ages. For Wave 8, the age distribution of the % households that are liable for IHT is shown below in Chart 3, along with the total value of the potential IHT liability. Note, the data is based on the age of the household representative person (HRP). This is the individual who owns or pays rent on the property or is the highest earner, or is the oldest person if incomes are equal. The full amount of the RNRB is assumed to be available.

Chart 3



The total number of households for each age band is shown below in Chart 4.

Chart 4



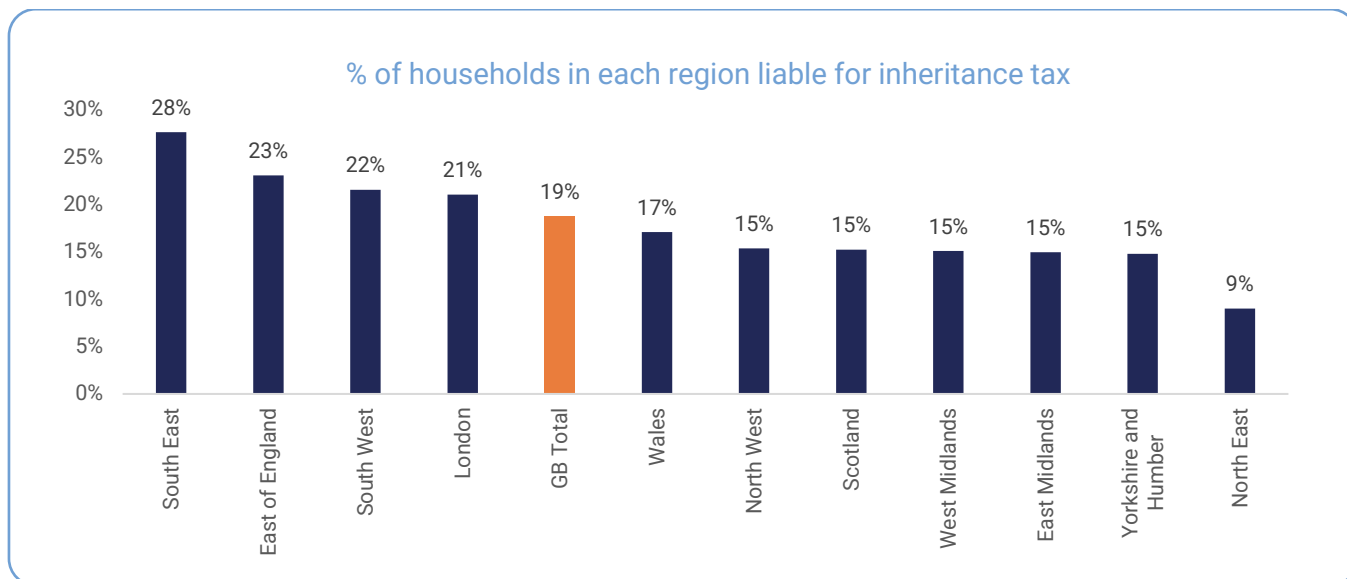
Based on these charts, 9.0% to 11.4% of households aged between 55 and 74 currently have household wealth that exceeds the £1 million threshold, but this is likely to rise to over 30% of households when pension wealth is included from April 2027. For households where the HRP is aged 75 or older, the inclusion of pension wealth will more than double the number of households who are potentially liable from 8.7% to 17.9%. The overall number of

households where the HRP is over age 55 and their wealth exceeds £1 million increases from 1.2 million to 3.8 million once pension wealth has been included in the value of the estate.

Regional differences

Regional differences in wealth create differential impacts. This can be seen in Chart 5 below showing the percentage of households in each region potentially liable for IHT.

Chart 5



When including pension wealth, just under a fifth of households (19%) across Britain are in excess of the £1m threshold. This is more likely in London, the South West and the East of England where at least a fifth of households exceed the threshold, and the South East where over a quarter of households exceed this amount.

Number of liable households as an index

Chart 6 below shows the number of households liable to IHT as an index prior to the inclusion of pension wealth. The phased introduction of the of the RNRB leads to a steady decline from Wave 6 which continues to Wave 8.

Chart 6

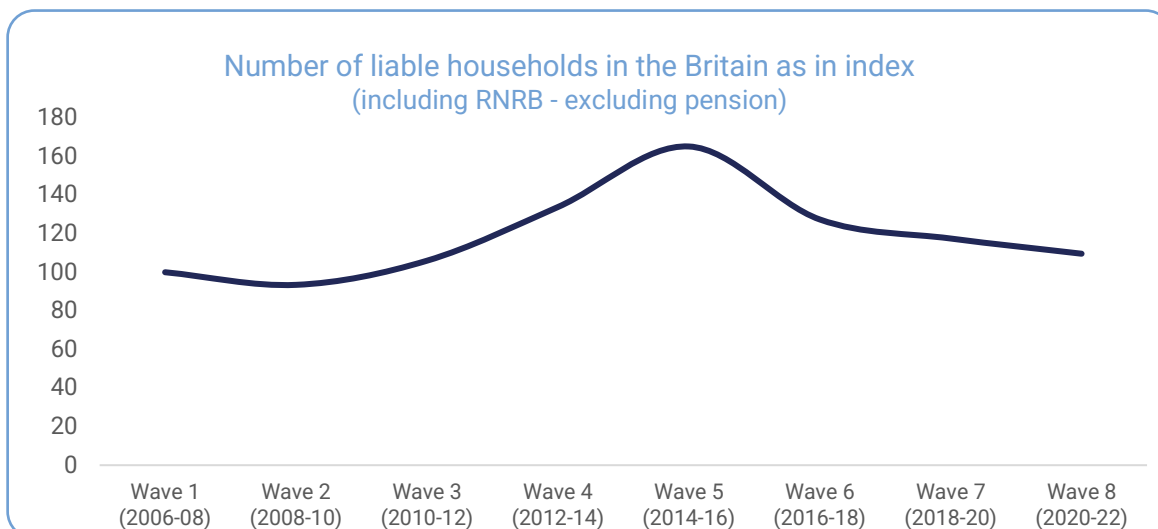
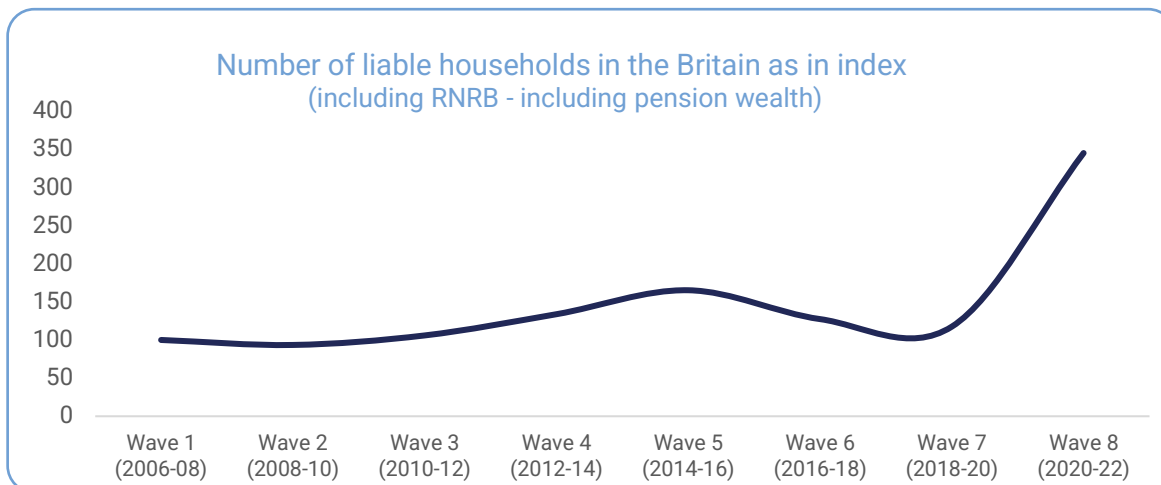


Chart 7 below adjust the index to include pension wealth in Wave 8 and leads to a dramatic reversal of this trend.

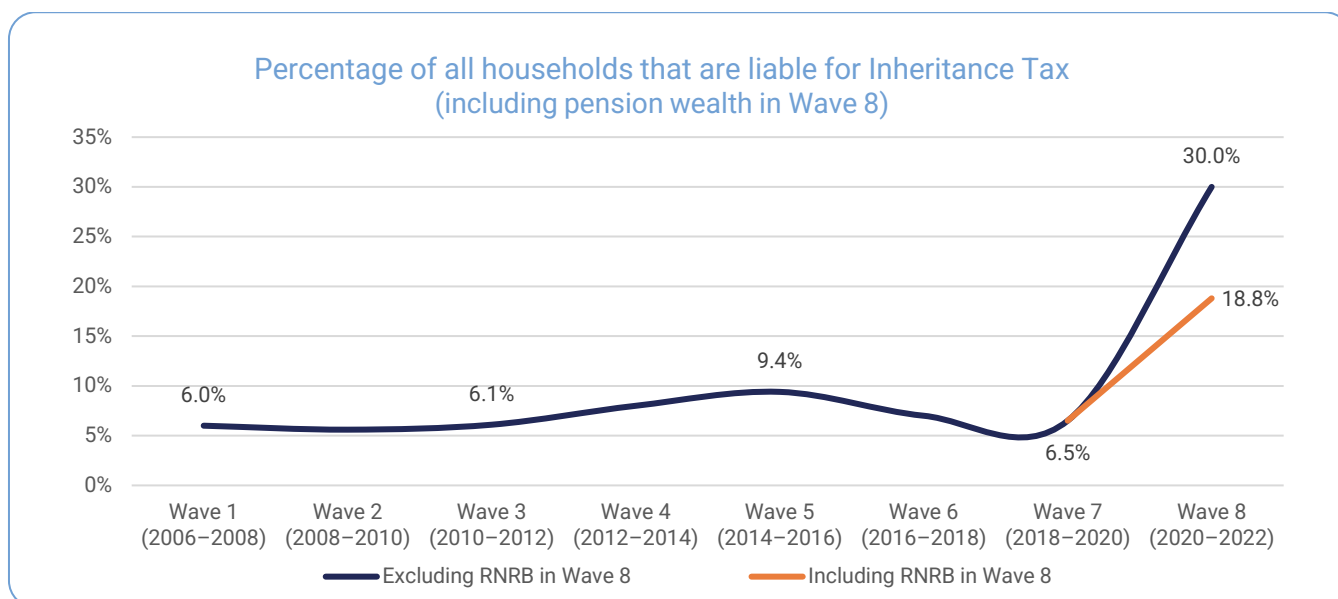
Chart 7



Additional analysis – impact of removing the RNRB

With ever increasing pressure on national finances, the government may seek more ways to increase taxes on wealth. Further changes to the calculation of IHT and the tax-free thresholds that are currently available may be considered. There are arguments against continuing to provide an additional tax-free allowance just for homeowners who leave their properties to direct descendants, for example. Households who do not own their own home and those that do not have children evidently cannot benefit from this allowance, which could be considered unfair. Clearly the removal of the RNRB would lead to an increase in the number of households that would become liable to IHT. Chart 8 below shows this impact by including pension wealth in Wave 8 using both an IHT threshold of £650,000 and also £1m (showing the impact with and without the RNRB).

Chart 8



As can be seen above, with the inclusion of pension wealth in Wave 8, and the removal of the RNRB, the percentage of households liable to IHT increases from 18.8% to 30.0% of all households.

What action can be taken?

One of the simplest strategies to reduce IHT liabilities is for individuals to reduce the value of their estate, either through increased spending and consumption, or through lifetime gifting. The IHT treatment of gifts can be complex and will depend on whether the gift qualifies as either an exempt transfer, potentially exempt transfer (PET) or as a chargeable lifetime transfer (CLT):

• Exempt transfers

These include gifts between UK resident spouses or civil partners, and charities. Also included is an annual gift exemption amount of £3,000 per donor per year and a small gift allowance of £250 per person per year.

Also exempt are gifts that qualify as 'normal expenditure out of income'. Currently this is a relatively under used exemption. To qualify it must satisfy three basic conditions.

- The gift must be part of an established pattern of giving
- The gift must be made from surplus income
- After the gift, the donor should have sufficient income to maintain their standard of living.

• Potentially exempt transfers (PETs)

Typically, these are outright gifts made to individuals or bare trusts. There is no IHT charge on these transfers provided the donor survives for seven years from the date of the gift, otherwise the value of the gift is added back into the value of the donor's estate when calculating the IHT due on death. Taper relief is available provided at least three years have passed since the date of the gift.

• Chargeable lifetime transfers (CLTs)

These include transfers into discretionary trusts (and any other transfer that is not exempt or a potentially exempt transfer). If the total value of all CLTs made during the seven years prior to the current transfer exceeds £325,000, an immediate charge to IHT at the lifetime rate of 20% arises on the excess. Trusts are also required to calculate periodic (10 year) charges on the trust property in excess of the NRB at a maximum rate of 6%. Further IHT charges can arise if the donor dies within seven years of making the gift because this triggers a recalculation of the IHT using the death rate at 40% factoring in taper relief and IHT already paid at the lifetime rates.

Individuals who had planned to use their pensions as a legacy, may now wish to consider gifting tax-free lump sums or pension income instead. Withdrawing and gifting any unused tax-free cash is likely to be considered either a PET or a CLT, depending on the recipient. As these gifts take seven years to be considered outside of the donor's estate, individuals might consider acting prior to implementation of the new rules. They may also wish to consider pension income withdrawals. This will be particularly attractive if the gifts meet the criteria for the 'normal expenditure out of income' exemption because the gifted amounts are immediately removed outside their estate. However, it must be noted that income withdrawals from the pension will be subject to income tax at the recipient's marginal rates.

Another factor to consider are the differences in income tax treatment on pension withdrawals. During an individual's lifetime, income tax is charged on withdrawals from their pension based on their marginal rate of tax.

The income tax position on death will vary based on the member's age at death and also the beneficiary's marginal rate of income tax. If the member has any tax-free benefits in the pension scheme, these should preferably be withdrawn after age 75 and prior to death, to avoid both an IHT and an income tax charge arising. These tax-free benefits could be in the form of a pension commencement lump sum, or income from a dependant/nominee drawdown that was established following the death of a member aged less than 75.

While increasing pension withdrawals might be the natural reaction to these changes, a pension continues to provide a tax-exempt environment for growth and income. If the plan is to invest pension withdrawals, the tax position of the new investment structures should be considered carefully as it may not be as advantageous.

Given that pensions offer tax-free roll up of income and gains, individuals might want to consider gifting amounts from their non-pension assets to reduce the value of their estate. However, for gifts to be effective in reducing an IHT liability, the donor must be excluded from benefiting from the gift. If there are uncertainties around future expenditure, particularly if care home fees are required, gifting large sums may not be prudent. However, certain types of trust arrangements do allow for payments to the settlor whilst remaining effective for the purpose of reducing the value of their estate. These include:

- **Gift and loan trusts**

Here the settlor makes a relatively small gift to the trust (within the exempt amount) followed by a much larger loan to the trustees. The gift component, along with any income and gains generated on the loan, are immediately removed from the settlor's estate for IHT purposes. The loan amount can be recalled or gifted by the settlor at any time. Any outstanding loan amount is then repayable on death.

- **Discounted gift trusts**

Under this arrangement the settlor is entitled to regular payments from the trust for life. The capital cost of providing those payments reduces the value of the settlement for IHT purposes (the "discount"). As well as providing the settlor with regular payments, the discount often enables sums to be transferred in excess of the NRB without giving rise to an IHT charge at the lifetime rates for chargeable lifetime transfers.

IHT can also be reduced by purchasing investments that qualify for preferential IHT treatment. In particular, relief for business property (BP) and agricultural property (AP). Assets which qualify as business property (e.g. shares in trading company or interests in a small business) can get 100% or 50% relief depending on the type of asset. Similarly, qualifying farmland and agricultural assets can qualify for up to 100% relief from IHT. These reliefs are designed to allow the continuity of the business or farm in question, which might otherwise need to be sold to raise funds to pay IHT liabilities arising on their value. Currently there is no monetary cap on the amount of relief, but this regime is also being overhauled with the introduction of a combined £1m tax-free threshold for both types of property. Property in excess of the threshold will qualify for IHT relief at a rate of 50% of the standard rate, creating an effective IHT rate of 20% for values in excess of the threshold. Qualifying shares listed on the Alternative Investment Market (AIM) currently enjoy business property relief at a rate of 100%. From April 2026 this will be cut to 50% and these shares will not be able to benefit from the £1m tax-free threshold applicable to BP and AP.

Investment Bonds in trust

Investment bonds, both onshore and offshore are attractive to trustees for a variety of reasons including:

-
- **Tax efficiency** – investment bonds allow for tax to be deferred until there is a chargeable event (usually on surrender or death of the last life assured). Onshore bonds are subject to basic rate deductions on interest distributions and capital growth in the policy (although dividends are not subject to tax). Offshore bonds are designed for gross roll up.
 - **Tax deferred withdrawals** – withdrawals of up to 5% per annum of the initial premium can be withdrawn for up to 20 years, without giving rise to a tax charge. This can be used to provide beneficiaries with regular payments without creating tax liabilities. They can also be used to provide the settlor with payments under a 'gift and loan' scheme or discounted gift trust.
 - **Policy / segment assignment** – assignment of the bond outside of the trust can transfer the tax liability to beneficiaries enabling them to make use of personal tax allowances and rates.
 - **Administrative simplicity** – an investment income and gains in the bond are not subject to annual self-assessment and no reporting is required until there is a chargeable event.

Adviser views on anticipated strategies

Since last year's UK Budget, and changes to IHT legislation, financial advisers have seen a clear shift in estate planning preferences. In an August 2025 Transact survey among 260 respondents highlighted the top strategies they will use in the coming months. The three most anticipated strategies are:

- Trust-based planning (54%)
- Gifting out of surplus income (47%)
- Investment bonds (44%)

These methods are increasingly favoured for their effectiveness in managing the transfer of wealth whilst mitigating tax liabilities. Trust-based planning offers control and protection, gifting out of surplus income enables tax-efficient lifetime transfers, and investment bonds provide flexible, long-term planning options.

Full survey results

Strategy	% of respondents
Trust-based planning	54%
Gifting out of surplus income	47%
Investment bonds	44%
Intergenerational transfers	33%
Protection plans	33%
Tax-advantaged products	28%
Spending retirement funds	19%
Annuities	19%
Other	5%

Views on the impact that these changes will have on advisers' businesses were mixed. Some 44% thought they would be positive proving greater opportunity for intergenerational planning, 27% believed they were negative and 28% said there would be no impact.

The majority of respondents (59%) highlighted that the IHT changes will increase demand for advice, with clients seeking more specialist support. Advisers also highlighted that clients will now need more complex IHT strategies, creating scope for advisers to broaden their service offering. Some emphasised stronger client engagement, with clients now prompted to actively address IHT issues, leading to more regular reviews and collaborations. They also anticipated the need for more advice on withdrawals and spending retirement funds.

The case for estate planning advice

The natural desire of individuals to maximise the legacies available to their beneficiaries while following an increasingly complex set of rules, coupled with increasing number of households potentially liable for IHT, would suggest that those who may not have previously considered seeking financial advice should start to consider doing so. An FCA authorised financial adviser will help those affected to navigate the complex issue of IHT planning.

Every month, Trajectory survey a nationally representative (UK) sample of 1,500 respondents on a variety of issues, including consumer confidence, spending, personal choice and control, social trust, opportunities in technology, and many more.

In April 2025, working with Trajectory, we added some questions to the survey which looked at levels of awareness and understanding of IHT liability, and the impacts of recent Government changes on their plans. These additional questions were targeted at those who either own their home outright or own their property with a mortgage (787 respondents).

Key findings on IHT awareness and action

A significant portion of homeowners lack a thorough understanding of IHT and the upcoming changes:

- **Limited understanding:** Just one in five homeowners feel they understand IHT "very well". Conversely, four in ten admit they understand the matter "not very well" or "not at all well".
- **Low awareness of 2027 changes:** Fewer than three in ten homeowners (29%) were fully aware of the recent changes to IHT taking effect in 2027. A third (32%) were completely unaware of these changes.

In response to the new IHT rules, a minority of homeowners have taken action, though more are considering it:

- **Action taken:** Only a quarter of homeowners have already made changes to their financial plans as a result of the new IHT rules.
- **Demand for advice:** An additional 18% are contemplating making changes, indicating a significant demand for financial advice.
- **Common adjustments:** The most frequent actions taken include updating wills and estate plans, consulting financial advisors, increasing spending in retirement, and making larger pension withdrawals.

The report clearly indicates that wealthier individuals are more attuned to IHT regulations and are more likely to have taken steps to address them.

- **Higher awareness among wealthy:** Individuals with higher household incomes, greater property values, and larger DC pensions demonstrate a substantially better understanding of IHT and the recent changes. For instance, 90% of those with a DC pension of over £1 million are fully aware of the changes, compared to just 29% of the total homeowner sample.

- **Proactive financial planning:** These affluent groups are also considerably more likely to have already adjusted their estate plans and wills. Over half (58%) of those with DC pensions of £1 million or more have already made changes due to the inclusion of pension wealth in IHT liability.

The complexity of the new IHT rules, combined with a significant lack of public awareness, creates a compelling case for professional financial advice. The report's survey findings show that only one in five homeowners feels they understand IHT "very well," and a third were completely unaware of the 2027 changes. This knowledge gap puts millions of households at risk of facing unexpected and substantial tax liabilities.

While a minority of homeowners have taken action, a significant number are contemplating changes, indicating a clear demand for guidance and advice. Professional advice is crucial for navigating the new landscape, understanding the intricate options for mitigation—such as gifting, trusts, and revised pension withdrawal strategies—and ensuring that estate plans are both effective and tax-efficient.



M283 (2) October 2025

"Transact" is operated by Integrated Financial Arrangements Ltd, 4th Floor, 2 Gresham Street, London EC2V 7AD | Tel: (020) 7608 4900 | Email: info@transact-online.co.uk | Web: www.transact-online.co.uk | (Registered office: as above; Registered in England and Wales under number: 03727592) | Authorised and regulated by the Financial Conduct Authority (entered on the Financial Services Register under number: 190856)