

Case studies for

ESTATE PLANNING

in a changing landscape

Business Relief, Pensions & Strategic
Responses from 6th April 2026

In association with





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The breadth, quality and resilience of the proposition have been widely recognised, including multiple five-star Defaqto ratings and the 'Leading Retirement Proposition' award at the 2025 UK Platform Awards. Together, these strengths position Fidelity as a trusted partner for advisers looking to build stronger client relationships and deliver consistent, long-term value.

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About the Manager

PXN Investments brings together the expertise of Praetura Investments and Par Equity to create one of the UK's largest venture and investment managers focused on the North of England, Scotland, and Northern Ireland.

As the adviser and investor-facing business of the group, PXN Investments manages more than £640 million in assets across Business Relief (BR) qualifying services, Venture Capital Trusts (VCTs), Enterprise Investment Scheme (EIS), Knowledge-Intensive EIS (KI EIS), natural capital investments, and institutional mandates.

We help investors and advisers build diversified, tax-efficient portfolios designed to support long-term growth and better financial outcomes.

Combining more than 13 years of lending experience, our inheritance tax planning service helps advisers support their clients' estate planning goals by giving investors access to specialist lenders who administer thousands of small loans supporting businesses across the UK economy. Praised for its exceptional track record in asset-backed commercial lending, the service has won Best Emerging BR Manager at the Growth Investor awards two years in a row.

In venture capital, PXN combines deep regional networks with significant capital resources to address the structural imbalance in the UK venture capital market, offering investors access to high-growth opportunities often overlooked by London-centric funds. The PXN team is known for its award-winning tax-efficient investment products, rigorous due diligence and exceptional service.

Our Investment Solutions

We offer a range of tax-efficient investment solutions designed to help financial advisers plan for their clients' futures, including:

Business Relief (BR)

PXN (Praetura) Inheritance Tax Planning Service targets 100% inheritance tax relief after two years by investing in BR-qualifying trading companies that lend to UK SMEs.

Enterprise Investment Schemes (EIS)

Since 2012, we have managed our award winning Par EIS Funds to support enterprise software and deep tech companies across the North of the UK.

Venture Capital Trusts (VCT)

PXN (Praetura) Growth VCT specialises in early-stage technology investments backing innovative founders mostly based in the North of the UK.

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Now that we are in the 2026/27 tax year, we have seen the introduction of the changes to Business Relief ('BR') and Agricultural Property Relief ('APR') allowances first announced in 2024's Budget. Whether it's the introduction of a £2.5m limit for 100% BR/APR on unquoted qualifying assets, the capping of the BR available on AIM quoted shares to 50% or the upcoming imposition of IHT on pensions, there are plenty of reasons why investors will be reviewing their portfolios now and in the coming months.

Seneca Partners has offered its IHT Service since 2014 and has built up a reputation for delivering on or above target returns of 4% p.a. (described as *"the most consistent returns in the sector"*), available as growth or a quarterly income, in a service that offers a low-cost charging structure. (*"Over seven years, the total fees for the Service come in at 10.0% in comparison to the market average of 18.73%"*).

Trading as secured commercial lenders, the investee companies within the Seneca IHT Service have a diverse portfolio of assets held as security that includes commercial and residential property.

One recent example is funding to assist a borrower with the purchase of a landmark, Grade A workspace and high-quality mixed-use building located directly opposite Woking station, providing c. 60,000 sq. ft. of office, retail and residential accommodation. The Seneca IHT Service lending is at 50% loan to value, fully secured on a first legal charge basis on an asset in a prime, well-connected location with strong underlying tenant demand and a diversified, visible income stream.

The Seneca IHT Service can be included within an investor's £2.5m band for 100% BR/APR, making it an attractive home for individuals seeking to move their existing Business Relief qualifying assets into an asset-backed unquoted BR solution. Replacement Property Relief will certainly be of interest to those investors, as it means that they won't have to serve another two years before their investment should qualify for Business Relief.

It might also prove to be a good home for any unspent tax-free cash drawn from a pension, as money invested should qualify for Business Relief after only two years.

With a 100% record for Business Relief being granted when it should have been, and always delivering liquidity within our stated notice period, no wonder more and more advisers are considering the Seneca IHT Service as a part of the recommendations they make.

If you'd like to find out more, please don't hesitate to get in touch, especially as we're currently offering advised clients no fees on entry where they are moving funds from an existing AIM portfolio.

* Source: Hardman & Co, January 2025

** Source: Martin Churchill's Tax Efficient Review, May 2025

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Important Information

This document is intended for financial advisers and professional intermediaries only.

It does not constitute personal financial advice or a recommendation. Estate planning outcomes depend on individual circumstances, prevailing legislation, and HMRC interpretation, all of which may change. Advisers should ensure suitability, tax advice, and regulatory requirements are met before implementing any strategy.

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EXECUTIVE SUMMARY

Estate planning is entering a period of structural change. From 6th April 2026, amendments to Business Relief (BR) and the changes to Inheritance Tax (IHT) treatment of pensions from 6th April 2027 will alter long established planning assumptions. Strategies that have historically been relied upon for IHT mitigation - particularly BR qualifying investments and pension preservation - may now result in substantially changed outcomes.

Legislative uncertainty in particular, has led some clients to favour a “wait and see” approach in the hope of revised government policy. But this strategy carries material risks, with potential consequences including:



Reduced planning flexibility if changes are implemented with limited notice



Loss of opportunities available under current legislation



Increased IHT exposure if death occurs before planning is completed

Advisers must balance caution with preparedness, ensuring clients understand both the risks of inaction and the value of implementing flexible, reviewable strategies ahead of confirmed legislative change.

This publication examines a range of estate planning solutions available to advisers, how the IHT changes could impact them, along with case studies offering potential solutions. The overarching conclusion is clear: diversification, flexibility, and proactive advice are becoming increasingly central to effective estate planning.

A diversified approach often delivers more robust long-term outcomes than reliance on a single planning tool. The following solutions may be used individually or in combination.

WHY ESTATE PLANNING MATTERS

beyond Inheritance Tax

Estate planning has always been a core component of holistic financial advice, but its importance has increased significantly in recent years with substantial changes to rules highlighting the need for adviser reviews. Legislative change, rising asset values, evolving family structures and increasing intergenerational wealth transfer have combined to make effective estate planning both more complex and more essential. It does however represent a tremendous opportunity for advisers, but only if they engage with the inheriting generation which is set to receive more passed down wealth than any before them.

For advisers, estate planning is no longer confined to mitigating inheritance tax (IHT). Instead, it encompasses a wide range of objectives, including controlling the transfer of wealth, protecting beneficiaries, managing family and financial dynamics, ensuring clarity of intent, respect of the client's wishes and reducing the administrative and emotional burden on loved ones at death. At its heart, good estate planning is about certainty, control and communication, as well as retention of beneficiary AUM which is of great interest to consolidators.



MOVING BEYOND A SINGLE GENERATION MINDSET

Traditional financial planning has often focused on the client's lifetime objectives—income, capital preservation and tax efficiency during retirement. Estate planning requires a broader lens. It demands consideration not only of what happens at death, but also of how wealth will support multiple generations over time. Advisers play a key role in helping clients shift mindset—from *“what do I need?”* to *“what do I want my wealth to achieve over time?”*

Effective estate planning allows clients to:

- ✓ Decide who benefits, when and in what form
- ✓ Balance fairness with individual need
- ✓ Support younger generations without undermining financial responsibility
- ✓ Protect family wealth from dissipation, divorce or financial mismanagement



FAMILY CENTRED PLANNING

Modern families are increasingly complex. Second marriages, blended families, cohabiting couples, dependent adults, estranged relatives and vulnerable beneficiaries are now common. These dynamics make estate planning more nuanced and heighten the risks of unintended outcomes if planning is inadequate or outdated.

Advisers are uniquely positioned to facilitate structured conversations that clients may otherwise avoid. Without careful planning, intestacy rules, outdated wills or incomplete beneficiary nominations can create outcomes that are not only tax inefficient but deeply misaligned with client wishes and therefore with the Consumer Duty.



MANAGING EXPECTATIONS AND REDUCING CONFLICT

One of the most overlooked benefits of estate planning is its role in conflict reduction by eliminating ambiguity, perceived unfairness, or lack of communication.

Advisers can help clients:

- ✓ Clarify their intentions clearly and formally
- ✓ Structure estates to reduce discretionary decision making after death
- ✓ Consider the emotional as well as financial impact of decisions
- ✓ Align planning with the client's broader legacy narrative
- ✓ Communicate elements of their planning to family members during their lifetime, even if getting all parties together to discuss wishes and requirements is not always easy!





WHY A VALID, UP TO DATE WILL IS ESSENTIAL

A will remains the cornerstone of any estate plan. Without a valid will, assets are distributed in accordance with intestacy rules, which may bear little resemblance to a client's wishes and often fail to account for modern family structures. Advisers play an essential role in identifying gaps, prompting action, and coordinating with legal professionals.

Having a will in place allows clients to:

- ✓ Appoint executors and trustees they trust
- ✓ Define how assets are distributed
- ✓ Make provisions for minors or vulnerable beneficiaries
- ✓ Structure gifts through trusts where appropriate
- ✓ Align estate distribution with tax planning strategies
- ✓ Speed up the probate process

Outdated wills can be the result of life events such as marriage, divorce, births, deaths and asset changes. These can all render an existing will inappropriate or ineffective, while the evolution of tax legislation can have a similar impact. Advisers should treat wills as living documents, reviewed regularly as part of ongoing advice.



PENSIONS AND THE IMPORTANCE OF EXPRESSION OF WISHES FORMS

Pensions have historically played a significant role in estate planning due to their favourable tax treatment and flexibility. Unlike most other assets, pension death benefits do not pass through a will, but are typically distributed at the discretion of scheme trustees/administrator.

This discretion is guided primarily by the member's expression of wishes (also known as a beneficiary nomination). As such, expression of wishes forms are vital to help ensure that pension death benefits are paid in line with the client's intentions. Without one, trustees may still distribute benefits appropriately, but the absence of guidance increases the risk of delay, dispute or unintended outcomes.

Common issues include:

-  Forms that name an ex-spouse or deceased individual
-  Nominations that do not reflect current family dynamics
-  Lack of alignment with will and broader estate strategy (pensions sit outside the estate for distribution purposes and as a result, wills don't control pensions nominations)
-  Lack of completion
-  Lack of detail to enable benefits to be paid in the desired manner. Sometimes a short letter alongside the nomination can provide the trustees/administrator with additional information over the client's intentions.

Advisers should ensure that expression of wish forms are completed, reviewed regularly, and consistent with the client's overall objectives. The changes to pensions and IHT coming into force in 2027 makes it imperative the nominations are reviewed now.

It should also be remembered that whilst pension freedoms introduced many different options for pension death benefits, some older schemes do not permit all these options so it shouldn't be assumed they are available.



ESTATE PLANNING AND VULNERABLE BENEFICIARIES

Many clients require additional protection, whether due to age, disability, addiction, or lack of financial capability. In such cases, outright gifting may be inappropriate or even harmful. This may of course also apply to their beneficiaries.

Estate planning tools such as trusts (within wills or alongside) can provide structure and oversight, ensuring that assets are used for the beneficiary's benefit without exposing them to unnecessary risk.

Advisers should be alert to:

-  Mental capacity considerations
-  State benefit interactions
-  Long term care needs
-  Family dynamics and potential conflicts of interest
-  The importance of having up to date powers of attorney in place

Continue ►

Bringing the different generations together to enable estate planning can be challenging but with the right positive positioning to emphasise the preservation of client choice, independence and family harmony rather than simply transferring wealth, it can be done. Other tips include speaking to key family members in advance of family discussions to understand priorities, sensitivities and expectations, ensuring all voices are heard, using scenarios to help consideration of practical options and providing simple education on wealth stewardship, responsibilities and long-term planning.

Adapting communication styles and methods across generations, ensuring older clients feel in control of both the process and the outcomes and selecting the advisers who are best placed to engage different generations can also facilitate useful conversations.



THE COST OF INACTION

The absence of effective estate planning often leads to outcomes that are financially inefficient and emotionally damaging. Delays in administration, higher tax liabilities, family disputes and legal challenges are all common consequences of poor preparation. Helping clients understand the implications of “*doing nothing*” is often more powerful than technical explanations of planning mechanisms.



ADVISER RESPONSIBILITY AND ONGOING REVIEW

Estate planning is not a one-off event. It requires regular review and proactive engagement as client circumstances and legislation evolve. Advisers who integrate estate planning into their ongoing service proposition demonstrate long term value and deepen client relationships.



Section

ESTATE PLANNING SOLUTIONS AND MANAGING THE CHANGES



1 CHANGES TO BUSINESS RELIEF

Business Relief was available in its unlimited form for many decades, allowing uncapped qualifying business assets to be transferred with up to 100% relief from IHT. As a result, most taxpayers never thought about proactive planning to maximise its benefits.

But restrictions came into force from 6th April 2026, with the introduction of a 100% Business Relief allowance of £2.5m per individual applicable to both Business Relief and Agricultural Property Relief qualifying unlisted assets. Above that threshold, only 50% Business Relief is available, meaning IHT is chargeable at 20%. Meanwhile, Business Relief qualifying AIM quoted shares are now only eligible for 50% Business Relief, as opposed to 100% previously.

The impact is likely to be most pronounced for:



Clients using BR qualifying assets primarily for IHT mitigation rather than commercial objectives



Portfolios with a high concentration in Business Relief investments



Clients in later life, where liquidity, certainty, and timing risk become more critical

Business Relief qualifying investments remain relevant but require careful assessment, particularly in relation to:



Larger estate sizes (soon to be larger still when unused pensions are scheduled to become part of the estate for IHT purposes)



Investment volatility and liquidity



Client age, health, and planning timeframe

Such considerations mean that Business Relief may be increasingly positioned as a useful component of an estate plan rather than a standalone solution. Its utility is boosted by the availability of life cover as a risk management tool: Perhaps the most obvious foreseeable harm present in Business Relief is the potential of the holder of the Business Relief qualifying assets dying before having held them for a minimum of two years.

Life assurance written in trust can provide:

- ✓ A defined lump sum to meet IHT liabilities
- ✓ Certainty where BR eligibility or future pension treatment is unclear
- ✓ Protection for beneficiaries without requiring asset sales

This approach is particularly effective as a risk mitigation strategy during transitional legislative periods and where older clients, with shorter life expectancies may need to move assets from estate planning solutions that previously offered 100% IHT relief.



AFTER THE TAX-FREE CASH

One possible response to the new pension IHT challenge.

From April 2027, unused pension funds and death benefits will fall within the estate for inheritance tax. For clients with substantial defined-contribution pots that were never going to be drawn for income, the pension may become materially less attractive from an inheritance planning perspective.

For some clients, advisers may increasingly reassess how pension wealth is structured as part of wider estate planning.

Business Relief may form part of that discussion. Subject to qualifying conditions being met, Business Relief remains one of the few planning solutions capable of delivering relief after a two-year qualifying period, while PXN's approach gives that capital a productive role supporting real UK trading businesses. BR may also sit alongside other planning tools - for example, gifts out of normal expenditure - rather than replacing them.

Client

David, 74

Retired senior professional

Total Estate

£2.9m

Family

Widower, two adult children

SIPP value

£1.4m | Uncrystallised*

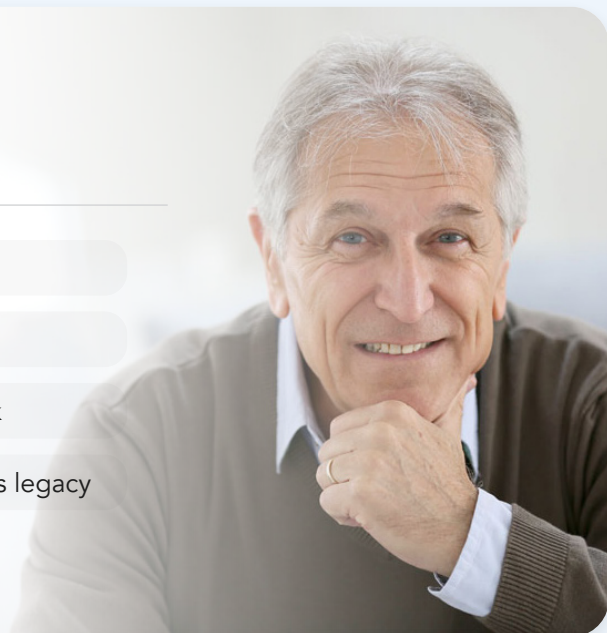
Other assets

Home £950k | ISAs £350k | GIA £200k

Pension role

Modest income need — earmarked as legacy

* Tax-free cash (TFC) capped at the lump sum allowance (£268,275)



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① The challenge

Before the 2024 Autumn Budget, David's plan was straightforward. Live off ISAs and his GIA, leave the pension untouched, and keep it outside the estate for inheritance tax purposes. The April 2027 changes turn that plan on its head. At £2.9m, David's estate is above the £2m threshold at which the Residence Nil Rate Band tapers away entirely - a further reason to revisit the structure.

His adviser identifies **four issues**:

- ⚠ The pension, previously outside the estate for Inheritance Tax purposes, will sit inside David's estate from April 2027.
- ⚠ Drawing the full pot down at once would push most of it into the 45% additional rate - an outcome no adviser would recommend.
- ⚠ Each tranche of net proceeds, once outside the pension, may require an alternative structure aligned with wider estate-planning objectives.
- ⚠ With David at 74, the two-year qualifying period for Business Relief means delay carries real cost.

② The solution

The adviser proposes a phased strategy that takes David's full tax-free cash entitlement while he is still 74, then phases the taxable drawdown over multiple years. Each year the balance is deployed into PXN's estate planning service, the Praetura Inheritance Tax Planning Service, building a rolling portfolio of tranches at different stages of BR qualification.

Year	Action	NET into BR	BR status of earlier tranches
Year 1	Crystallise to take full £268,275 TFC	£268,275	Year 1 tranche begins two-year clock
Year 2	Taxable drawdown of £100k	£52,568	Year 1 tranche half-way to IHT exemption
Year 3	Repeat tranche	£52,568	Year 1 fully qualifying for 100% BR
Year 4+	Continue rolling strategy	As needed	Successive tranches qualify on rolling basis

Figures are illustrative. Actual tranche sizes, tax outcomes and deployment timing depend on the client's circumstances and prevailing rates.

Continue ►

③ Why the phased approach works for David

✓ Tax smoothed across years

By spreading withdrawals, David keeps each year's taxable income inside the higher-rate band and avoids the 45% additional rate. The phased approach also limits the personal-allowance taper, which removes £1 of allowance for every £2 of income over £100,000.

✓ Allowance preserved

The strategy may help preserve available BR allowance capacity, with headroom for the rest of the estate.

✓ Layered BR clocks

Each tranche acquires BR status independently - building a layered estate plan rather than relying on a single qualifying date

✓ Productive deployment

Capital is placed into unquoted UK-trading businesses - the kind of investment Business Relief was originally designed to support.

PORTFOLIO COMPANY SPOTLIGHT

What David's money actually does.

Business Relief investments are not abstract structures - investors hold shares in BR-qualifying companies. This money goes back into the UK economy, helping finance established UK trading businesses which in turn hire employees, serve customers and strengthen supply chains.

Example loan

Community Foods

A long-established UK distributor of natural, organic and free-from foods, supplying retailers, wholesalers and manufacturers nationwide - and one of the businesses backed by the Praetura Inheritance Tax Planning Service.

✓ WHY LENDERS LENT TO THEM

Defensible position in organic dried foods, a clear growth plan, and asset-backed security.

✓ WHAT THE INVESTMENT ENABLED

Expansion of production and warehousing at the 80,000 sq ft Witham site, plus supply-line investment for peak trading.



④ Why this matters for David

David spent his career working with British businesses. The idea that his legacy might quietly support more of them sat naturally with him. Rather than simply remaining within a pension structure, the Praetura Inheritance Tax Planning Service gives that capital somewhere productive to go.

Two years after each tranche is deployed, it qualifies for 100% Business Relief. The estate-planning outcome is the headline - but the story behind it, that David's capital continues supporting companies still operating, employing people, and serving customers, is the part most clients remember.

⑤ The outcome

Over time, part of David's pension wealth transitions into BR-qualifying assets as part of a broader estate-planning strategy. His adviser has sought to reduce a potential future inheritance tax exposure - and David has the satisfaction of knowing where his money has gone and what it does.

The April 2027 reform is, for many clients in David's position, the single biggest estate-planning challenge of the decade. It is also an opportunity to reconsider how pension wealth is ultimately deployed within a broader estate-planning strategy.

This approach will not be suitable for every client and depends on wider financial circumstances, objectives, tax position and attitude to risk.

Estate position at year 5

	Without planning	After phased planning (illustrative, Year 5)
Estate inside scope for IHT	£2.25m	£1.78m
Of which BR-qualifying (100% relief)	£0	£373k
IHT exposure	£900k	~£713k
Net to beneficiaries	£2.0m	~£2.09m
IHT saved		~£187k



Important Information

This case study is illustrative. David is a composite client used to demonstrate the planning principles described. Figures are simplified examples that assume no other taxable income, exclude investment growth and depend on prevailing allowances; actual outcomes will differ. Without planning figure assumes an unaltered estate snapshot. On a like-for-like basis adjusted for income drawn over the period, the comparable IHT saving is ~£137k. Tax treatment, pension rules around age 75 and the April 2027 inheritance tax changes depend on individual circumstances and may change in future. Figures assume a doubled nil-rate band of £650,000 reflecting transferable allowance from David's late spouse. The value of investments can fall as well as rise, and investors may not get back the amount originally invested. Investments in unquoted companies are higher risk and harder to sell than shares listed on the main market. Business Relief is given at HMRC's discretion and qualification depends on the investment continuing to meet the relevant conditions. Investors should read the relevant offer documents in full and seek independent tax and financial advice before investing.

CAUGHT BETWEEN A ROCK AND A HARD PLACE?

Today, we're going to look at a situation that a number of advisers have found themselves in, with the help of David. David is a financial adviser and whilst that is not his real name, the example we are going to use is a genuine one.

David has been reviewing a client's portfolio, in readiness for that client's annual review. Their portfolio includes an AIM portfolio that has unfortunately lost 20% of its value over five years. (It has actually lost a bit more than that, but 20% is an easier figure to work with when relaying the story). His client's £200,000 is now worth around £160,000.

Whilst he had lost faith in that portfolio, David has so far put off transferring the money into something else in the hope that the portfolio would recover most if not all of what it had lost. He does not like the idea of crystallising the loss. (The proverbial rock).

However, the portfolio now only qualifies for 50% Business Relief upon that client's passing and therefore, if the investment remained valued at £160,000 and exceeded the available nil rate band, it would cause the estate to suffer £32,000 of inheritance tax. That would mean the £200,000 would be worth a net £128,000 to the beneficiaries. (The proverbial hard place). This ignores the effect of any product-based fees and charges, a caveat that applies throughout this example.

David is wondering whether or not he should recommend his client **transfer their money from the AIM portfolio into an unquoted BR investment.**

Client

Andrew

AIM portfolio

£160k

current value (was £200k)

Portfolio loss

-20% over 5 years | £200,000 > £160,000

BR qualification

Only 50% Business Relief now applies

IHT exposure

£32,000 IHT liability | net to beneficiaries: £128,000



Transferring the client's money into an unquoted BR investment

Before we look at the potential benefits of transferring the client's money into an unquoted BR investment, we should consider two potential downsides:

- ⚠ Transferring the money crystallises the loss made
- ⚠ There will be some 'downtime' between cashing in the AIM portfolio and the new shares being purchased in the unquoted BR investment

The good news is that transferring the money to an unquoted BR offer would mean that the client would be invested in an asset that should qualify for 100% Business Relief (if within their £2.5m allowance) after two years of ownership. That's worth repeating. Despite the potential for Replacement Property Relief, 100% relief would only be available after two years!

Why? Section 107(2) of the Inheritance Tax Act states that Replacement Property Relief "*shall not exceed what it would have been had the replacement or any one or more of the replacements not been made*". Therefore, if the client dies and their estate is relying on Replacement Property Relief, the rate that applies would be 50% (i.e. the rate that would have applied had the transfer not taken place). Once the new unquoted asset has been owned for two years, Replacement Property Relief is no longer needed, so 100% Business Relief applies thereafter.

Let's assume for the moment that the client then lives for five years before passing away and that their investment grows by 4% p.a. Their £160,000 would be worth c. £194,664 (an increase of c. 22%). Being an unquoted BR investment, this should qualify for 100% Business Relief (if it is within their £2.5m allowance).

Why 4% p.a.? There is at least one BR investment that has achieved that every year for the last nine years (we'll let you guess which one) although, as we all know, past performance is not a guide to future returns.

What if the client stays invested in their AIM portfolio?

Obviously, leaving the money in the existing AIM portfolio does not crystallise a loss. However, as we've said, the AIM portfolio would only get 50% Business Relief. Therefore, to match the £194,664k in the unquoted BR example above, the AIM portfolio would need to be worth just over c. £243,330 after five years before inheritance tax is deducted. To get £160,000 to that in 5 years requires growth of 52% over the period (which is equivalent to a compound rate of c. 8.75% p.a.).

Whilst past performance is no guide, do you know many AIM portfolios that have managed that over the last five years?

That's only one example. Let's consider some different lengths of time:

2 YEARS

If the client lives for 2 years

- An unquoted BR solution growing at 4% p.a. would be worth £173,056
- An AIM portfolio would need to grow to £216,320, before IHT deducted
- That's an increase of **35.2%** (equivalent to c. 16.28% p.a.)

3 YEARS

If the client lives for 3 years

- An unquoted BR solution growing at 4% p.a. would be worth c. £179,978
- An AIM portfolio would need to grow to £224,973, before IHT deducted
- That's an increase of **40.6%** (equivalent to c. 12.03% p.a.)

10 YEARS

If the client lives for 10 years

- An unquoted BR solution growing at 4% p.a. would be worth c. £236,839
- An AIM portfolio would need to grow to £296,048, before IHT deducted
- That's an increase of **85%** (equivalent to c. 6.35% p.a.)

In other words, the longer the client lives, the less amount of out-performance is needed.

Continue ►

What should David recommend?

Ultimately, that's between David and his client. This was quite an extreme example and, certainly, not all AIM portfolios have lost more than 20% over five years.

It may depend on how long a term the client is comfortable planning over and how confident they are that the AIM portfolio will outperform the unquoted BR investment by a sufficient amount.

Of course, we have only considered the current situation. For example, as more clients move out of AIM portfolios, will the demand for AIM shares reduce? If it does, what will happen to the value of the AIM portfolios that remain?

Whatever David and his client decide, we wish them well.

The Seneca IHT Service

To help those financial advisers who have clients looking to transfer funds from an AIM Portfolio into the Seneca IHT Service, we have extended our offer to waive our initial fee and cover any dealing fees for the purchase of shares on any new application forms received by 30th September 2026, subject to receiving cleared funds by that date. This offer is only available to clients who have taken advice from, and made their application via, their financial adviser.

If you would like to find out more about our IHT Service, please click [here](#).

Client Team Contact

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 01942 295 985

Please note

Invested capital is at risk and you may lose money. Tax rules and regulations are subject to change and qualification will depend on personal circumstances. The above comments should not be interpreted as investment or tax advice.

2 CHANGES TO IHT RULES FOR PENSIONS

The changes to the treatment of IHT and pensions are well documented, but in short from 6th April 2027, most unused pension funds and pension death benefits will be included in the value of a person's estate for inheritance tax (IHT) purposes. Death-in-service benefits payable from a registered pension scheme will remain outside the scope of IHT.

As part of these changes, from 6th April 2027 personal representatives will be responsible for reporting and paying any IHT due on unused pension funds or death benefits.

The pension benefits brought into scope on death include:

- ✓ Drawdown and flexi-access drawdown
- ✓ Dependant's drawdown and flexi-access drawdown
- ✓ Nominee's and successor's flexi-access drawdown
- ✓ Uncrystallised funds lump sum death benefits
- ✓ Annuity value protection lump sums

Importantly it will still remain the case that assets left to a spouse or civil partner on first death are not normally subject to IHT. However, an IHT liability may arise later when the surviving spouse or civil partner (as the inheritor) dies.

It remains to be seen how difficult in practice it will be for personal representatives and scheme administrators to liaise appropriately to ensure that the correct inheritance procedures are met and that the tax due is paid on time. It may be that further consolidation of pension funds takes place in the run up to and after the new rules have come into force as advisers and clients seek to simplify matters in advance of a pension members death.

For over a decade, pensions have traditionally been treated as a highly efficient intergenerational planning vehicle, largely sitting outside the estate for IHT purposes. But, from 6th April 2027, historic pension-based legacy planning will be far less likely to work.

Key considerations include:

- ✓ Whether pension funds will continue to remain outside the estate
- ✓ The trade-off between income withdrawal and estate preservation
- ✓ The impact on beneficiaries, particularly adult children and non-dependants
- ✓ Whether tax free cash should be taken and if so where it should be invested
- ✓ Whether income should be taken/increased and if so where it should be invested
- ✓ Whether any excess lump sums and/or income should be gifted using the relevant allowances and also the 'normal expenditure' rule

For clients with larger estates, pensions are increasingly one component within a wider estate planning strategy. As rules evolve, advisers may need to:

- ✓ Encourage diversification away from pensions if it was being used as the sole legacy vehicle
- ✓ Combine pension drawdown with other retirement solutions and alternative estate planning tools
- ✓ Review beneficiary nominations and death benefit planning more frequently

This shift provides an opportunity to broaden client conversations and introduce solutions that offer greater certainty and control over wealth transfer outcomes.



RETHINKING PENSION WEALTH IN THE CONTEXT OF IHT

Planning for the inclusion of defined contribution schemes in the IHT net

It is fair to say that the policy landscape for pensions and inheritance tax (IHT) is undergoing a significant shift. From 6th April 2027, unused defined contribution (DC) pension funds are set to be brought within the scope of a client's estate for IHT purposes. This marks a fundamental change to the long-standing position that DC pensions, in most circumstances, sit outside the estate and pass tax efficiently to beneficiaries.

This is a pivotal moment for financial advisers. Pension wealth can no longer be viewed purely as a tax-advantaged succession vehicle. Instead, it must be integrated within holistic estate planning. The key consideration is no longer how to preserve pension funds indefinitely, but how to deploy them intelligently during the client's lifetime to mitigate IHT exposure while maintaining financial security.

This article examines how lifetime financial planning – particularly structured, regular gifting from pension income – can play a central role in managing a potential IHT liability.

The changing role of defined contribution pensions

Historically, advisers have often encouraged clients to preserve DC pension pots and draw from other assets first, given the favourable IHT treatment of pensions. However, once these funds become part of the estate, this approach needs to be reconsidered.

The estate and beneficiaries of clients with significant unspent pension wealth may now face a potential double tax charge – IHT at 40% on benefits over nil-rate bands and potential income tax on extraction (depending on the age of the member on death and the beneficiary's own tax status). This creates a compelling case for reconsidering drawdown strategies.

Rather than allowing pension funds to accumulate and be taxed heavily on death, there is a growing rationale for:



Increased pension withdrawals during a client's lifetime



Redistribution of surplus income and/or capital to beneficiaries



Strategic planning to utilise available IHT exemptions effectively

Regular gifting from pension income: a core planning tool

One of the most under-utilised yet powerful tools in the IHT planning toolkit is the exemption for **"normal expenditure out of income"**. Where structured correctly, gifts made from surplus income fall immediately outside the estate and are exempt from IHT - without the need to survive seven years.

Key conditions

To qualify, gifts must:

- ✓ Be made out of income (not capital)
- ✓ Be regular and form part of a habitual pattern
- ✓ Not reduce the donor's standard of living.

For clients drawing income from pensions – particularly those with significant secured or predictable income streams – this exemption is very relevant.

Practical application

Advisers will need to work closely with clients to:

- ✓ Establish a clear baseline of income versus expenditure
- ✓ Identify genuine surplus income
- ✓ Formalise a regular gifting strategy (e.g. monthly or annual transfers)
- ✓ Maintain robust documentation to evidence intent and affordability.



Taxable pension income, annuity income and other regular income can be suitable funding sources for normal-expenditure gifting. Where pension withdrawals include tax-free cash, advisers should ensure the gifts can be supported by genuine surplus income and documented accordingly. The discipline of regular withdrawals, matched with planned gifting, supports both compliance with the exemption and effective long-term wealth transfer.

Practical case study: using pension income to mitigate IHT

Client

John, 67 & Mary, 66

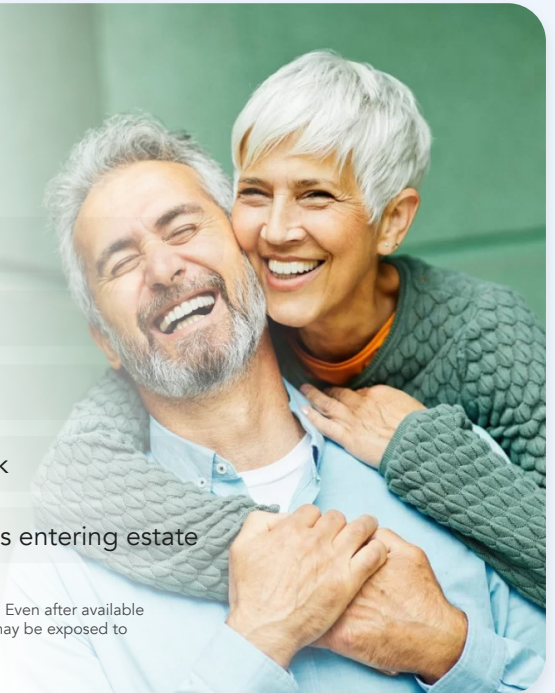
Retired senior professional

Total Estate

£3m

Children	2 adult children (Emma and David)
Grandchildren	4 grandchildren (ages 3, 6, 10, 13)
DC pension value	£1.5m Combined uncrystallised*
Other assets	Home £900k Investments & cash £600k
Pension role	IHT exposure from next year — pensions entering estate

* From 6 April 2027, John and Mary's unused DC pensions will be included in their estate for IHT purposes. Even after available nil-rate bands and residence nil-rate bands (assuming full availability), a significant portion of their estate may be exposed to IHT at 40%.



The planning challenge

Historically, John and Mary planned to:

- Leave their pensions largely untouched
- Draw from their ISAs and other assets first
- Pass on pension wealth tax efficiently on death.

However, with pensions now potentially subject to IHT, this strategy could result in up to **£600,000+** being payable in IHT on the pension holdings alone (40% of £1.5m, ignoring tapering for simplicity).

Their adviser recommends a shift towards lifetime planning and controlled wealth transfer.

Continue ►

Step 1 Establish surplus income

John and Mary agree to increase pension withdrawals.

Item	Amount	Notes
Combined pension withdrawals	£120,000 / yr	PCLS £30,000 + taxable income £90,000, paid via phased drawdown
Net of tax	~£99,000 / yr	After income tax, in addition to State Pension
Annual expenditure	£48,000 / yr	Regular living costs
Surplus income available	£51,000 / yr	Available for regular gifting from income

This surplus creates an opportunity for **regular gifting from income**.



Step 2 Structuring gifts from income

Their adviser helps them formalise a plan:

- ✓ Commit to gifting **£51,000 annually**
- ✓ Set up **standing orders** to demonstrate regularity
- ✓ Document intention clearly (critical for HMRC).

Initial allocation of annual gifts

1

Grandchildren

£11,520

Junior pension contributions

£2,880 net per child (£3,600 gross with tax relief) × 4 grandchildren

Over time, assuming modest growth, each pension could grow substantially due to the long investment horizon.

Illustrative example | 3-year-old grandchild

£3,600 / yr × 15 years × 5% growth ≈ **£77,000** by age 18

2

Grandchildren

£10,000

Junior ISA contributions

Split across 4 grandchildren — supports medium-term needs (education, first car, etc.)

3

Children

£29,480

Pension funding for Emma & David

Remaining surplus gifted to adult children, invested into their own pensions

Continue ►

Step 3 IHT impact over time

If maintained for 10 years, the strategy results in:

- ✓ £510,000 gifted out of income
- ✓ This sum is immediately outside the estate (no seven-year clock)
- ✓ A potential IHT **saving of £204,000** (40% of £510,000).

In addition:

- The pension fund value is likely reduced through withdrawals
- Growth has been shifted into tax-efficient environments for beneficiaries

Step 4 Additional planning considerations



Managing income tax

- ✓ Utilise personal allowances and basic rate bands
- ✓ Phase withdrawals where possible
- ✓ Accept some 40% income tax on withdrawals to expedite wealth transfer.



Flexibility and security

- ✓ John and Mary will retain sufficient capital outside their pensions
- ✓ Review annually to ensure sustainability. Consideration should be given to whether guarantee of income (annuity or similar) would be appropriate at each review
- ✓ Keep expression of wish forms up to date
- ✓ Should either John or Mary die, then the plan would need to be reviewed
- ✓ If John and Mary would like to leave any money to charity, then a discussion should be had to whether to bequeath some of the pension funds on second death



Documentation

To support the **normal expenditure out of income exemption**, John and Mary should:

- ✓ Record income vs. expenditure annually
- ✓ Keep written confirmation of intent
- ✓ Use consistent payment patterns (standing orders).



The outcome

By acting early, John and Mary:

- ✓ Gradually reduce their IHT exposure
- ✓ Support children and grandchildren in a structured, tax-efficient way
- ✓ Convert pension wealth into intergenerational planning opportunities
- ✓ Retain full control and financial security during their lifetime.
- ✓ Are likely to see their pension funds reduce, given their level of withdrawals, but they have their £600,000 in investments and cash to fund future retirement needs.

The broader advice opportunity

The inclusion of DC pensions in the IHT net represents more than a technical change – it is a catalyst for deeper, more holistic advice.

It requires advisers to:

- Integrate retirement and estate planning more closely
- Engage clients in proactive intergenerational discussions
- Shift the narrative from wealth preservation to wealth utilisation.

For many clients, this will be unfamiliar territory. Advisers who can clearly articulate the rationale and implement structured, tax-efficient strategies will add significant value.

Conclusion

The evolving treatment of defined contribution pensions fundamentally alters their role within financial planning. No longer a straightforward IHT shelter, pension wealth must now be actively managed throughout a client's lifetime.

Regular gifting from pension income – particularly when combined with contributions to pensions and ISAs for younger generations – offers a powerful means of mitigating IHT while supporting family outcomes.

For advisers, the challenge is to design strategies that are not only tax efficient but also aligned with clients' broader objectives, sustainable over time, and well-documented.

In this new landscape, the most effective plans will be those that transform pension wealth from a passive store of value into an active instrument of intergenerational financial planning.

3 THE CASE FOR ANNUITISATION

It is likely to be the case that annuities will be recommended by advisers more often to help manage the IHT changes in some client circumstances. Joint life annuities, value protection lump sums and any guaranteed payments that are payable to a spouse/civil partner are exempt from IHT, and in some circumstances this could be advantageous.

It might also suit some individuals to maximise their guaranteed income with a single life annuity now, in the knowledge that other assets available can be sheltered in a more IHT efficient environment. Countering this is of course the potential they may provide benefits lower than expected if a client dies early, unless there is some form of protection. Also, there is usually a lack of flexibility if circumstances change in the future.

It should also be remembered that the decision of whether to annuitise or go/stay in drawdown is not a binary one. It may be that these changes make it more appropriate for advisers to recommend more than one retirement product for an overall solution. For example, advisers may recommend partial annuitisation to remove or potentially remove funds from the IHT estate but leave more flexibility open to other funds which can be altered as client circumstances change. Obviously, it is also possible that the income could form at least part of a structured gifting plan.

Additionally, the other advantages of annuities may warrant renewed consideration where:

- ✓ Certainty of income is a priority
- ✓ Exposure to pension tax charges is a concern
- ✓ Clients seek simplification in later life

While annuities reduce flexibility, they can contribute to a balanced, risk aware estate planning strategy.

It is also worth remembering that though so called 'fixed term annuities' are not annuities in themselves, they can provide a flexible source of income and attractive death benefits with the ability to alter the strategy at the end of the term.

4 TRUSTS IN ESTATE PLANNING

Trusts are a core estate-planning tool often used by advisers. They separate legal ownership (held by trustees) from beneficial enjoyment (received by beneficiaries). Used well, a trust can control how and when wealth passes, protect beneficiaries who are vulnerable or financially inexperienced, and support inheritance tax (IHT) planning by reducing the value of the settlor's taxable estate over time. Trusts can also provide governance and flexibility: trustees can respond to changing family circumstances, investment conditions and legislation, within the powers set out in the trust deed.

In practice, advisers also use trusts to manage family succession (including second marriages), to ring-fence assets intended for children, and to ensure proceeds from life policies can be paid quickly and to the right people. The choice of trust is driven by individual client circumstances and objectives.

Trusts can:



Control timing and conditions (for example, delaying access until a chosen age, event or milestone).



Protect beneficiaries where there are concerns around vulnerability, divorce, bankruptcy or financial immaturity.



Reduce IHT exposure by moving assets (or future growth) outside the estate, while preserving an appropriate degree of control where needed.

Advisers should consider the combined tax position across IHT, income tax and capital gains tax (CGT), alongside trustee duties, administration and reporting. A trust is rarely "set and forget": it works best where the client and trustees review it periodically as circumstances and legislation change.

Types of trust:

BARE TRUST

A bare trust (also called an absolute trust) is the simplest form of trust. The settlor places assets into trust for a named beneficiary, and the trustees hold and administer those assets on the beneficiary's behalf. Where the beneficiary is a minor, trustees manage the trust until the beneficiary reaches legal age (normally 18, or 16 in Scotland).

The beneficiary has an absolute right to both income and capital. Once they reach the relevant age, they can call for the trust assets and take control at any time.

Bare trusts are often used in family planning because income and gains are normally taxed as the beneficiary's, which can be efficient where the beneficiary has unused allowances or a lower marginal rate.

Common uses include gifts to children or grandchildren and holding investments for a specific purpose, such as education costs, with the beneficiary taking control at adulthood.

The main drawback is inflexibility: the beneficiary is fixed and generally cannot be changed. If the beneficiary dies, the trust assets form part of their estate (rather than reverting automatically to the settlor).

Tax Treatment of a Bare Trust:

→ **Income Tax**

Income is taxed on the beneficiary at their marginal rate. If a parent sets up a bare trust for a minor child, income over £100 per tax year is taxed as the parents.

→ **Inheritance Tax**

The transfer into trust is a Potentially Exempt Transfer (PET). If the settlor survives seven years, no IHT is due. There are no ten-yearly periodic or exit charges. If the beneficiary dies, the trust assets are included in the beneficiary's estate.

→ **Capital Gains Tax**

Gains are taxed on the beneficiary, using their annual CGT exemption. Transfers out to the beneficiary do not normally trigger CGT.

DISCRETIONARY TRUST

A discretionary trust allows trustees to decide how, when and to whom income or capital is distributed.

Potential beneficiaries do not have fixed entitlements; trustees exercise discretion, taking account of circumstances at the time decisions are made.

The deed typically defines a wide class of beneficiaries (often across generations) and may exclude the settlor to meet planning aims. This breadth allows trustees to adapt to changing family, financial and tax circumstances without the need to rewrite the trust.

Settlors often provide a non-binding letter of wishes to explain intentions and priorities, helping trustees apply discretion consistently. Trustees must still act in beneficiaries' best interests and keep appropriate records, reviewing investment decisions alongside the adviser.

Because no beneficiary owns trust assets outright until an appointment is made, discretionary trusts can offer strong protection against for example bankruptcy or divorce. Importantly, the death of a potential beneficiary does not automatically move trust assets into that person's estate.

They are commonly used where the settlor wants ongoing control, especially if beneficiaries are young, financially inexperienced or vulnerable, or where circumstances or requirements may change in the future.

Tax Treatment of a Discretionary Trust:

→ **Income Tax**

Trustees pay tax on trust income. Dividends are taxed at 39.35% and other income at 45%, after a shared tax-free allowance of £500.

→ **Inheritance Tax**

Gifts into the trust are Chargeable Lifetime Transfers (CLTs). Amounts above the nil-rate band are taxed at 20% (or 25% if the settlor pays the tax). A ten-year periodic charge of up to 6% may apply on value above the available nil-rate band and exit charges can apply when capital is distributed (based on time since the last ten-year anniversary).

→ **Capital Gains Tax**

Trustees pay CGT at 24% with an annual allowance of £1,500. Holdover relief may be available when assets are transferred into or out of the trust.



Trust planning has been impacted by the changes to Business Relief from 6 April 2026, before which Business Relief and Agricultural Property Relief could be applied repeatedly through trust structures without a monetary cap. The new restrictions on discretionary trust use and gifting rules mean that relief is limited by the £2.5m cap per settlor, with 50% relief applying thereafter or to AIM quoted shares. In addition, a lifetime charge to IHT applies immediately if the £2.5m, 100% allowance is exceeded on assets settled into trust, although the 20% lifetime entry charge can be cut to 10% by claiming the 50% allowance available to BR and/or APR qualifying assets with a value above £2.5m. Ten-year anniversary and Exit charges are also impacted.

LOAN TRUST

A loan trust can be an alternative to an outright gift. It allows the client to retain access to their original capital, while aiming to keep any investment growth outside their estate for IHT purposes.

This can suit clients who are concerned about giving away capital too early (for example, to retain a safety net for later-life spending), but who still want future growth to accrue for beneficiaries.

To set up the trust, the client appoints trustees (often including themselves) and makes an interest-free loan to the trustees of the amount to be invested. The loan is repayable on demand, so the client can access the capital when required.

A loan trust will not normally create an immediate IHT charge because lending is not a gift. However, the outstanding loan remains part of the client's estate for IHT until it is repaid or waived.

Trustees typically invest the loan into one or more single-premium investment bonds. Any growth above the outstanding loan belongs to the trust and sits outside the client's estate.

The client can request repayment at any time (lump sums, ad-hoc withdrawals or regular payments). Repayments are funded by bond withdrawals, and each withdrawal is treated as a partial repayment of the original loan.

Withdrawals can continue until the loan is repaid. Up to 5% per year of the original investment can normally be withdrawn without an immediate income tax liability (tax is deferred); higher withdrawals may create chargeable gains.

At any stage, the client may waive all or part of the outstanding loan. Any amount waived is treated as a PET or a CLT (depending on the trust structure and circumstances), so exemptions and the nil-rate band position should be reviewed.



→ **No immediate IHT charge on set-up**

creating a loan trust is not a gift, so there is normally no PET/CLT at outset and usually no IHT reporting requirement solely because the loan trust has been created.

→ **Outstanding loan remains in the estate**

the value of the unpaid loan is included in the settlor's estate for IHT until repaid or waived.

→ **Growth is outside the estate**

any investment growth above the outstanding loan is held for beneficiaries outside the settlor's estate.

→ **Bond withdrawals**

up to 5% per annum of the original investment can usually be withdrawn without an immediate income tax charge (tax deferred); excess may create chargeable gains.

→ **Waiving/gifting the loan**

waiving can create a PET (absolute trust) or CLT (flexible/discretionary);
gifting the loan to an individual is a PET (spouse exemptions may apply).

→ **Trust-level IHT charges**

if the trust is within the relevant property regime, periodic and exit charges may apply, usually calculated after deducting the outstanding loan.

Advisers should consider whether a trust must be registered with HMRC's Trust Registration Service (TRS). Broadly, most UK express trusts are within scope unless a specific exclusion applies, but registration deadlines and ongoing obligations can differ depending on whether the trust is taxable or non-taxable. Protection-only trusts are often excluded while they hold only qualifying insurance policies.

Other benefits of using a trust:

✓ **Faster access to benefits**

When in trust, probate is not required to release the benefits provided there is at least one surviving trustee. Trustees, as legal owners, can deal with the claim promptly so beneficiaries receive funds quickly.

✓ **Control over who receives the benefits**

Writing a plan into trust can help ensure intended beneficiaries receive the proceeds and may also protect the benefit from creditors or claims against the estate.

✓ **Tax Efficiency for Trustees**

One useful attractive feature of trusts is that investment bonds can be held within a trust. They are treated as non-income producing for tax purposes on an ongoing basis (i.e., they do not generate annual interest or dividend income that must be allocated to beneficiaries). This can reduce routine income tax administration. Also, unlike directly held collective investments, investment bonds are not subject to CGT on internal fund switches within the policy.

✓ **Simplicity of Assignments and Distributions**

Investment bonds can often be assigned by way of gift (i.e., not for money or money's worth) without creating an immediate chargeable event for tax purposes. This allows trustees to assign policy segments (or clusters) to beneficiaries when making distributions, enabling tax planning to be tailored to each beneficiary's individual tax position

✓ **5% Withdrawal Allowance**

Investment bonds benefit from a 5% tax deferred withdrawal facility, based on the original investment, which can be cumulative. Trustees may withdraw up to 5% of the original premium each policy year without an immediate income tax charge

5 WHOLE OF LIFE PLANS

Whole of life policies are commonly used to help fund anticipated IHT liabilities and can offer:



A guaranteed payout on death (subject to terms)



The ability to write benefits in trust



More predictable estate planning outcomes

They suit clients who prioritise certainty and simplicity in later-life planning.

A whole of life (WOL) assurance plan written under trust is often used to create a dedicated pool of cash to meet a potential IHT bill on death, without forcing beneficiaries to sell estate assets at a poor time. The key advantage is structural: if the plan is correctly written in trust, the death benefit is usually outside the settlor's estate. As a result, the proceeds are not added to the estate for IHT, so the lump sum intended to pay the tax is not itself reduced by the tax it is designed to fund.

Liquidity and speed can be as important as the tax calculation. IHT may become payable before an estate is fully administered, yet many estates are tied up in illiquid assets such as a home or business. A WOL plan held in trust can provide prompt cash on death because the claim can usually be paid to trustees without waiting for probate. Trustees can then make funds available to executors or pay HMRC directly, depending on the trust and wider estate plan.

It is also relatively straightforward to align the sum assured with a client's projected IHT exposure by estimating the liability after allowances and reliefs. Even where a client plans to reduce IHT over time through gifts, exemptions or relief-qualifying investments, there can be a period when the estate remains taxable. WOL cover can bridge that gap, so the family is not left with an unfunded tax bill if death occurs earlier than expected.

WOL planning can work well for cashflow because premiums are typically paid monthly or annually, spreading the cost of a future tax bill. In some cases, premiums can be met from surplus income that might otherwise remain in the estate and suffer IHT (for example, documented normal expenditure out of income). Underwriting and the resulting premium level will, of course, affect suitability and affordability.

Importantly, WOL does not require clients to give away substantial capital up front. Many clients want to plan for IHT but still retain access to wealth for lifestyle, later-life care, emergencies or peace of mind. Compared with large lifetime gifts, a WOL plan can feel less intrusive: the client keeps their existing assets while using a predictable premium to create a separate tax-funding benefit for beneficiaries.

Premium affordability matters because the policy must remain in force for life; many clients prefer guaranteed premiums to reduce the risk of later increases. Regular reviews can also help, as the estate (and potential IHT liability) may grow over time. Note that putting an existing policy with a surrender value into trust can create a transfer of value for IHT, so timing and advice are important.



6 EQUITY RELEASE

Equity release may play a role by:



Reducing the net value of the estate



Providing capital for gifting or lifestyle needs



Improving retirement cash flow

This strategy requires careful consideration of long-term implications and suitability.

Equity release - most commonly a lifetime mortgage - allows homeowners (typically age 55+) to access property wealth. In estate planning it may also reduce a potential Inheritance Tax (IHT) liability because IHT is broadly assessed on the net estate value (assets less allowable debts) above the available nil rate bands. If a lifetime mortgage is outstanding on death (or on moving into long-term care), the loan and rolled up interest are repaid from sale proceeds, reducing the net value of the estate for IHT purposes.

Taking a lifetime mortgage is not itself a taxable event: it is a loan secured on the home rather than income or a capital disposal. The tax impact depends on what the client does with the released funds. From an IHT perspective, benefits may arise because (1) the mortgage is a deductible debt that lowers the net estate and (2) the client may gift some or all of the cash, potentially reducing the estate further if the donor survives seven years. Outcomes will depend on interest roll up, drawdown behaviour and the final loan balance.

Where the strategy involves gifting, transfers are usually Potentially Exempt Transfers (PETs), so the IHT saving may not be achieved if the donor dies within seven years. Suitability hinges on whether the client can afford the gift while retaining enough resources for retirement spending, contingencies and potential care costs - particularly because the lifetime mortgage must still be repaid from the property and interest may continue to compound.

Lifetime mortgages can be set up as a lump sum and/or drawdown facility. Interest usually compounds, which can significantly erode remaining equity over time. Some products allow voluntary interest payments to reduce or prevent roll up, but this introduces affordability and payment risk considerations. Equity release may also affect means tested benefits and future housing choices (for example, downsizing or moving into care). Advisers should weigh product costs and features - such as fees and early repayment charges - against the client's objectives and the realistic IHT impact.

Continue ►

Some schemes offer “inheritance protection” (sometimes described as ring fencing), reserving a portion of property value to pass to loved ones by limiting the maximum amount that can be borrowed. This can help clients balance access to capital with a minimum legacy. The trade-off is that stronger inheritance guarantees typically reduce the available loan, which may limit gifting and therefore reduce potential IHT mitigation.

When a property is inherited with an equity release loan attached, the balance must be repaid—typically within a lender “grace period” (often up to 12 months), although interest may continue to accrue. Beneficiaries usually repay by selling the property, remortgaging into their own names (if feasible), or using other assets. Many plans follow Equity Release Council (ERC) standards and include the “no negative equity guarantee”, meaning the estate will never owe more than the home’s sale value; if the loan exceeds the sale price, the lender writes off the difference.

Used appropriately, equity release can reduce a potential IHT liability by turning part of a taxable property asset into a repayable debt and/or enabling lifetime gifts. However, it also reduces the value ultimately available to beneficiaries. Suitability, informed consent and specialist advice are therefore central to any recommendation



CONCLUSION

Estate planning is undergoing meaningful change. Reforms to Business Relief and pension taxation reinforce the need for early engagement, diversification, and adaptable planning structures. Advisers who proactively reassess existing strategies and broaden solutions sets will be better placed to help clients manage uncertainty and preserve wealth across generations.



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