Gifting to reduce an Inheritance Tax bill? Here are 5 things to check first

In the Autumn Budget 2025, the chancellor announced that Inheritance Tax (IHT) thresholds would remain frozen for a further year, until 2031.

Upcoming changes will also see unused pensions included in an estate for IHT purposes for the first time from April 2027.

These measures could see estates facing a larger IHT liability, or coming into the scope of IHT when they may previously have been exempt.

Research has suggested that families concerned about being caught in the IHT net are taking steps to mitigate their bills. According to MoneyAge (6 October 2025), 23% of people are planning to give away money to reduce their IHT bill, with 8% saying they would even give away their home.

While gifting can help to lower your IHT liability, it's not always a simple or straightforward solution.

Read on to discover five things you need to know before you consider gifting as part of your financial strategy.

Understanding the current Inheritance Tax landscape can help you clarify whether your estate is likely to incur any liability

There are a number of rules surrounding IHT, and having a grasp of them can help you decide whether gifting could be a beneficial option.

The current nil-rate band, the amount you can pass on free from IHT, is set at £325,000 (now frozen until 2031). This means that anything above £325,000 will be taxed at 40%.

However, the residence nil-rate band offers an extra allowance of £175,000 if you leave your main residence to your children or grandchildren (this can include those you've adopted or fostered, or stepchildren).

Together, these two thresholds mean that you could have an estate worth £500,000 free from IHT.

In most cases, anything you leave to your spouse or civil partner, even above the threshold, is free from IHT.

You can also transfer your allowances to your spouse or civil partner when you die, or they can do the same for you. This means that, in some cases, a couple could have a £1 million estate they can leave without generating an IHT bill.

Gifting is a popular way to reduce the value of an estate to bring it below these thresholds.

However, it's not as simple as just giving your money away, and the government has introduced rules to prevent people from simply offloading their wealth to avoid IHT.

1. *Gifts aren't automatically exempt from Inheritance Tax*

You can gift up to £3,000 annually free from IHT, and you can also make smaller one-off gifts of up to £250 per person. Gifts of any amount to your spouse or civil partner are also IHT-free.

Gifts above £3,000 are usually known as potentially exempt transfers (PETs), which means they only become fully exempt from IHT after seven years.

In some cases, PETs can be eligible for taper relief over the seven years, with the level of IHT applied dropping incrementally until it reaches 0%.

Another option is to make regular gifts, as opposed to lump sums, out of your everyday income. These can be tax-free if they meet three specific criteria.

- They are regular, forming part of your normal expenditure.
- Gifts are made from your income, such as pension, rental, or dividend income.
- You can still maintain your usual standard of living after making the gift.

Talk to us to find out if making any of these gifts could help to lower your IHT liability.

2. *Gifting could potentially affect your long-term finances*

You need to give careful consideration to how much you're gifting, so that your generosity doesn't leave you short in later years.

The rising cost of living means you may need to factor in an increased income to cover your everyday expenditure and household bills.

Health and care costs are another significant later-life consideration. It's impossible to know if you'll need care, or to what extent, but care costs in particular can really whittle away your wealth.

According to the UK Care Guide (1 October 2025), the average cost of a live-in home carer ranges from £650 to £1,500 per week, while average care home fees range from £27,000 to £39,000 per year, with costs rising further if you need nursing care.

It's always a good idea to talk to your financial planner before gifting, to ensure your strategy is robust enough to withstand inflation and potential care costs.

3. *There could be challenges associated with gifting certain assets*

While gifting your home may seem both extremely generous and a logical way to mitigate IHT, there can be some complications you need to navigate.

If you plan to continue living in your home, this will be considered a "gift with reservation of benefit" and will still count as part of your estate for IHT purposes.

However, if you pay full market rent (not just a nominal amount), this can remove the property from your estate, but you need to be willing and able to make rental payments.

4. *Is the gift right for your loved ones?*

While gifting is a generous gesture, it's always worth checking that it won't backfire. For example, if you make large gifts to your adult children, they could potentially push them into a higher tax bracket or make them no longer eligible for benefits.

If you gift them your property, as well as the issues outlined earlier, they could face a Capital Gains Tax (CGT) bill if it isn't their main residence and they sell it.

Doing some due diligence before making any gifts can ensure they're beneficial for the intended recipient.

5. *Could there be a more tax-efficient way to pass on your wealth?*

Gifting isn't always the most tax-efficient way to pass on your wealth, either. In some cases, putting some of your wealth into a trust can be an option to remove it from your estate.

You could also take out a life insurance policy, which is then written in trust. The policy would then pay directly to the trustees, rather than your estate, and can be used to pay an IHT bill.

Trusts can be extremely complex, and we'd always urge you to take financial advice before proceeding.

Please note: This blog is for general information only and does not constitute financial advice, which should be based on your individual circumstances. The information is aimed at retail clients only.

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