Inheritance tax: an era of change for lifetime gifting

Inheritance tax and trusts | Personal tax



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Significant inheritance tax reforms expected in the 2025 Autumn Budget could impact lifetime gifting, estate planning and pension assets.

Key Points

What is the issue?

The UK government is preparing sweeping inheritance tax reforms that could reshape how wealth is transferred between generations.

What does it mean to me?

These reforms could significantly limit traditional estate planning strategies and increase clients' future tax exposure. Advisers and families will need to reassess gifting, business succession and pension planning.

What can I take away?

Early action and close monitoring of the upcoming Budgets will help clients stay prepared and protect long-term wealth.

With the Autumn Budget due on 26 November 2025, tax advisers across the UK are preparing for what could be (in combination with the 30 October 2024 Budget) the most significant overhaul of the inheritance tax regime in a generation. While the government's priority of increasing tax receipts and revenue is well understood, the scope and direction of the proposed changes raise substantial concerns – not just for taxpayers, but also for the stability and fairness of our tax system.

As we welcome the introduction of the upcoming reforms to reduce agricultural and business property reliefs (APR and BPR) from April 2026 and the inclusion of pensions within the inheritance tax net from April 2027, it appears that further reforms are on the cards, most notably the abolishment or overhaul of the seven-year gifting rule. The inheritance tax reform is certainly a direct challenge to many of the longstanding tools on which tax advisers and their clients rely.

This article provides a comprehensive overview of the current rules and the potential direction of travel for the government, their implications for private client and business succession planning, and the steps that advisers should consider now to protect client interests.

Anticipated changes

The following measures have already been announced or signalled as being under serious consideration.

Reduction in business and agricultural reliefs: Agricultural and business reliefs currently allow qualifying assets to be transferred with up to 100% inheritance tax relief. The government has confirmed that it will scale back the scope of these reliefs, duly capping the relief applied at 100% to the first £1 million of qualifying assets. Qualifying assets of a value in excess of this cap will attract relief at 50%. Qualifying AIM shares will attract relief at 50%.

Inclusion of pension assets in the inheritance tax net: At present, uncrystallised defined contribution pensions and certain death benefits may be passed on free of inheritance tax, particularly where the pension holder dies before age 75. This preferential treatment is to be withdrawn, with pensions to be treated as part of the deceased's estate for inheritance tax purposes.

Reform or abolition of the seven-year gifting rule – the potentially exempt transfer (PET) regime: Allowing gifts made more than seven years before death to escape inheritance tax has underpinned estate planning for decades. Proposals include:

- extending the applicable period from seven to ten or more years;
- abolishing PETs altogether and applying a lifetime inheritance tax allowance;
- introducing a flat-rate lifetime gift tax akin to the US or continental European models;
- removing taper relief; and
- reducing or eliminating existing annual exemptions (£3,000 annual exemption, small gift exemption, marriage gift exemptions, etc.).

These would significantly impact how, when and why clients make gifts.

Implications and considerations for tax advisers

The potential loss of PETs represents a material departure from the UK's longstanding reliance on lifetime giving as a legitimate means of succession planning and tax mitigation.

Tax advisers must now re-examine all lifetime gifting strategies in progress. Questions to consider include:

- Should gifts be accelerated before potential changes come into force?
- Will gifts made under current rules be grandfathered or subject to retrospective taxation?
- Should existing plans be adapted to include alternative structures (e.g. discretionary trusts, family investment companies)?

The possible erosion of both PETs and agricultural and business relief in combination presents timing and liquidity risks that advisers must now stress-test with clients.

Agricultural and business relief have historically enabled family-owned businesses and farms to transition across generations without triggering liquidity crises. The planned reduction in these reliefs, especially if coupled with more aggressive taxation of lifetime transfers, raises the likelihood of forced sales of land or business interests to cover inheritance tax liabilities. This may result in the loss of control to third-party investors, as well as the disruption of generational succession planning.

Advisers must now engage in early scenario planning, particularly around liquidity forecasting at death and the use of insurance or debt strategies to manage cash flow during estate administration.

Successive governments have encouraged retirement savings through tax incentives, particularly via pensions. Advisers have often recommended retaining pension wealth as a tax-efficient tool for intergenerational transfer, particularly given the inheritance tax exemptions on certain pensions.

The proposed changes from April 2027 mark a distinct reversal in the government's approach, and advisers should now revisit:

- whether to prioritise pension drawdown vs. preservation;
- death benefit nominations;
- pension contributions made late in life with an inheritance tax motive; and
- the suitability of pensions as a wealth transfer vehicle.

This development further illustrates a broader concern – the increasing unpredictability of long-term tax policy.

Alternative strategies

Given the scope of reforms, tax advisers should consider a broad toolkit of alternative strategies, as set out below.

Discretionary trusts: Trusts of this nature are subject to the relevant property tax regime. That being said, they may offer a more predictable tax profile in the face of alterations to the rules around PETs. While the 20% lifetime charge and ten-year anniversary charges create some drag, they provide flexibility around the timing of benefits; asset protection, for example, where there are vulnerable beneficiaries; and separation from the estate of both settlor and beneficiaries (in most cases).

Family investment companies: Family investment companies continue to be useful where clients are open to corporate structures. Benefits include the segregation of voting and economic rights; the retention of control while passing value; access to corporate tax rates; and flexibility in succession via share transfers.

While HMRC's scrutiny of family investment companies has increased, they remain a valuable option for larger estates and families with longer-term investment goals.

Alphabet shares and freezer/growth shares: For clients looking to phase the succession of a family business, advisers should consider share structuring, including:

- alphabet shares to allow dividend flexibility between family members and the controlled distribution of voting rights;
- growth shares to pass future value only, avoiding immediate capital gains tax or inheritance tax exposure; and
- freezer shares to cap the value retained by the senior generation.

These strategies can be effective when paired with shareholder agreements and robust governance.

Life insurance for inheritance tax cover: For clients facing future liquidity issues, especially those with illiquid estates or diminished reliefs, life policies held in trust can fund inheritance tax liabilities without inflating the estate. Advisers should review policies to ensure alignment with changing inheritance tax projections, verify trust documentation and trusteeship, and factor in ongoing premiums, which may become burdensome with age.

With increased focus on lifetime transfers, tax advisers should emphasise detailed documentation of the nature and value of gifts, details of the donor and donee, the purpose of the gift and the available exemptions and reliefs. Accurate record keeping will assist to support defensible positions if historic gifts are queried under new rules.

It may also be that we see a more aggressive stance taken by HMRC on lifetime planning and thus a greater reliance on their powers under the general anti-abuse rule and targeted anti-avoidance rules. Advisers must be alert to the line between commercial arrangements and contrived avoidance, the risk of 'phoenix' gifting schemes that could be retroactively challenged, and any transitional or backdated

elements of the new rules. A cautious, principles-based approach to planning is essential to avoid future disputes.

Contradiction with government growth objectives

Chancellor Rachel Reeves has repeatedly underscored business investment, entrepreneurship and intergenerational prosperity as pillars of the UK's economic strategy. However, many of the proposed inheritance tax changes appear to penalise long-term planning and increase uncertainty. This is particularly relevant for family businesses, farms and the moderately wealthy households engaging in responsible financial planning.

If the government proceeds without transitional protections or strategic coherence, the reforms could create a hostile environment for succession, undermining confidence in tax policy.

The tax and legal professions, through bodies such as STEP, CIOT and the Law Society, should continue to advocate for clarity and transitional guidance on any gifting rule changes, recognition of the unique liquidity pressures facing certain sectors and preservation of legitimate and longstanding planning strategies.

Preparing for the Budget

With the Autumn 2025 Budget approaching, and potential changes coming into force from April 2026 and April 2027, tax advisers should:

- initiate reviews of estate plans currently in place, especially those involving PETs or pension planning;
- assess client exposure to reduced agricultural and business reliefs and model liquidity shortfalls at death;
- consider whether to accelerate any gifts or share transfers before rule changes;
- document all lifetime gifts and their rationale with robust record-keeping; and
- educate clients on the increased risks and uncertainties in long-term planning.

The landscape of inheritance tax in the UK is on the brink of a profound shift. Tax advisers must now assist clients to navigate a technically complex and evolving set of rules and generally help their clients to make informed, resilient decisions in an

environment where certainty is in short supply.

Ultimately, effective tax policy should encourage responsible planning, not punish it. As the debate over inheritance tax reform continues, tax professionals have a vital role to play, not just in adapting to change, but in shaping it.

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