# Ultra-high net worth families: the liquidity challenge

Inheritance tax and trusts | Personal tax | Property Tax

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How high net worth and ultra-high net worth families can manage inheritance tax liabilities and fund succession through effective liquidity planning.

## Key Points

### What is the issue?

For HNW and UHNW families, substantial wealth held in businesses, property and investments can create liquidity challenges when inheritance tax becomes payable, particularly following changes to agricultural and business property reliefs.

### What does it mean to me?

Tax advisers must consider not only the potential inheritance tax liability but also how it will be funded, taking account of asset ownership, available reliefs, payment

deadlines and succession objectives.

**What can I take away?**
Life insurance, instalment arrangements and other funding options can help families meet inheritance tax liabilities without selling valuable assets. Regular reviews and appropriate trust arrangements are essential to effective succession planning.

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When significant wealth is tied up in property, private businesses and long-term investments, meeting an inheritance tax liability can present a challenge that extends well beyond calculating the tax due, particularly where liquidity is limited. Effective planning requires advisers to consider where the funds will come from, when they will be needed and how the next generation can inherit wealth without unnecessary disruption.

A family may have considerable wealth on paper, yet relatively little readily available cash. Its assets might include a successful private business, a portfolio of investment properties, a substantial family home or long-term investments. These assets can support wealth across generations, but they cannot always be realised quickly without affecting the family's wider financial or succession plans.

For tax advisers working with high net worth (HNW) and ultra-high net worth (UHNW) clients, this creates an important distinction between having sufficient wealth to meet an inheritance tax liability and having the liquidity to pay it when required.

The challenge is particularly relevant where families want to preserve a business, retain property or maintain an established investment strategy. Selling assets to meet a tax bill may be possible, but it could undermine wider succession objectives or create pressure at an already difficult time. Liquidity planning should therefore form part of the wider conversation about intergenerational wealth transfer, rather than being left until a liability arises.

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## Understanding the liquidity gap

Inheritance tax is generally charged at 40% on the taxable portion of an estate above the available nil-rate band, after taking account of applicable exemptions and reliefs. The standard nil-rate band remains £325,000, while the residence nil-rate band can provide a further £175,000 where the relevant conditions are met. The

residence nil-rate band is tapered for estates worth more than £2 million, based on the estate's value before deducting reliefs such as business property relief (BPR) or agricultural property relief (APR). Unused allowances may also be transferred between spouses or civil partners, subject to the rules.

Consider a family whose wealth is concentrated in a trading business, investment property and a diversified portfolio. The business may be profitable, and the property may generate regular rental income, but neither necessarily provides immediate access to the cash needed to settle an estate's tax bill. Extracting funds from the business could affect working capital or trigger additional tax liabilities, while selling investment property may involve lengthy transactions and associated costs.

The timing is important. Under the Inheritance Tax Act (IHTA) 1984 s 226, inheritance tax on a deceased person's estate is generally due by the end of the sixth month after the month of death, with interest arising on amounts paid late. Payment is normally required before probate can be obtained, although qualifying assets may be eligible for payment by instalments over ten years under IHTA 1984 s 227.

This can leave executors needing to arrange substantial funds before the estate administration is complete and before assets can be readily accessed or distributed. HMRC's Direct Payment Scheme allows participating banks and investment providers to transfer funds directly from the deceased's accounts to HMRC before probate, provided sufficient funds are available.

The resulting liquidity gap is not necessarily evidence of poor planning. It may simply reflect the way wealth has accumulated over many years. However, it is a risk that can often be identified and addressed in advance.

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## The changing inheritance tax landscape

Liquidity planning has become especially relevant as the rules governing inheritance tax reliefs have evolved.

From 6 April 2026, the rules for APR and BPR changed. Under Finance Act 2026 Sch 12, the 100% rate of relief is now subject to a combined £2.5 million allowance for qualifying agricultural and business property, with qualifying value above that

allowance generally receiving relief at 50%. Unused allowance may be transferable between spouses or civil partners, potentially increasing the combined allowance to £5 million. This is an allowance for property qualifying for 100% relief, rather than operating as an additional inheritance tax nil-rate band.

These changes make it important for advisers to revisit assumptions that may have underpinned a client's succession plan for years. For qualifying assets exceeding the available allowance, the reduction in relief can produce an effective inheritance tax rate of 20% on the excess value, before taking account of other exemptions and allowances.

Consider an individual whose estate includes shares worth £10 million in a family trading company, a £3 million investment property portfolio and £2 million in other investments. Assuming the shares qualify for BPR and the full £2.5 million allowance is available, the first £2.5 million of shares would receive 100% relief. The remaining £7.5 million would qualify for relief at 50%, leaving £3.75 million potentially subject to inheritance tax. At 40%, this represents £1.5 million of tax attributable to the business shares, before the application of any available nil-rate band.

The wider estate would also generate an inheritance tax liability, but the immediate difficulty could be finding the funds to meet it. Although the family owns assets worth £15 million, much of that wealth may be tied up in the company or investment properties. Funding the tax could therefore require substantial disposals, potentially disrupting the family's longer-term plans.

This does not mean that every affected family will need to sell assets or arrange insurance. The outcome will depend on the composition and ownership of the estate, the reliefs available, any lifetime gifts and the family's wider circumstances. Transferred allowances and the ownership of assets through trusts may also affect the relief available.

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## Building liquidity into succession planning

A useful starting point is to distinguish between wealth, income and liquidity. Advisers should look beyond the headline estate valuation and consider how much capital could realistically be made available within the relevant timeframe.

A practical liquidity review might include:

- **Cash and readily accessible investments:** What funds are available, who owns them, and how much is already earmarked for other purposes?
- **Business assets:** Could the business provide funds through dividends, borrowing or a disposal of shares without affecting working capital, investment plans or its ability to trade?
- **Property:** Would a sale or refinancing be realistic, particularly where properties are held through companies or other structures, and what would the implications be for the family?
- **Existing borrowing:** Could further borrowing be secured, and would the cost and repayment obligations be acceptable? Are there restrictions under existing lending arrangements?
- **Insurance arrangements:** Is there an existing policy intended to provide funds on death, and is its cover still appropriate? Who would receive the proceeds, and how quickly could they be accessed?
- **Family objectives:** Is preserving a particular business, property or investment portfolio more important than maintaining the current ownership structure?

The answers can help establish whether a funding shortfall exists and how it might be addressed. Advisers should distinguish between immediate cash requirements and amounts that may be met over a longer period through instalment arrangements.

They can also reveal where the succession plan relies on an assumption that may no longer hold true. For example, a plan might depend on a business being sold following the owner’s death, even though the next generation has since expressed a strong desire to retain it.

The objective is not necessarily to eliminate every potential liability. It is to ensure that the family understands the options available and can make informed decisions before time pressure or bereavement complicates matters.

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## The role of life insurance

For some families, life insurance can form part of a solution to the liquidity challenge. A suitably structured policy can provide a lump sum following a valid claim, giving beneficiaries or trustees access to funds without requiring the immediate sale of business interests, property or investments.

Whole-of-life insurance is one option worth considering where the objective is to provide funds whenever death occurs, rather than to cover a risk over a fixed term. Depending on the policy, cover can continue for the insured person’s lifetime, provided the contractual conditions are met and any required premiums are maintained. For HNW and UHNW clients, the distinction between guaranteed and reviewable premiums can be particularly important. With reviewable premiums, costs may increase as the insured person ages, affecting the policy’s long-term affordability.

The level of cover should be considered alongside the wider estate plan. It may be intended to cover the full anticipated liability or only the portion that could not comfortably be funded from other resources.

For example, the owner of the £10 million family company discussed earlier faces a potential inheritance tax liability of £1.5 million attributable to the shares. If the next generation intends to retain the company, life insurance could provide funds towards that liability without requiring the sale of shares or the extraction of substantial capital from the business. However, the availability of interest-free instalments for qualifying business property may mean that insuring the entire liability is unnecessary.

The appropriate amount of cover will depend on the projected liability, the availability of other funds, the client’s affordability and the extent to which the plan relies on future reliefs or exemptions. Life insurance is not always suitable. Premiums can be significant, particularly for older applicants or those with relevant medical conditions. Cover is subject to underwriting, and a policy may become difficult or expensive to arrange if planning is left until later in life.

For this reason, an early conversation about the potential need for liquidity can be valuable, even if the eventual decision is not to proceed with insurance.

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## Policy ownership and trust arrangements

The way a life policy is owned and arranged can have important implications for the wider estate plan. Where proceeds are payable to the deceased’s estate, they will generally increase its value for inheritance tax purposes. A new policy can be written into trust from the outset, or an existing policy assigned to trustees, so that the proceeds will generally fall outside the deceased’s estate for inheritance tax

purposes, provided the arrangements are properly structured.

The trust used (bare or discretionary) will depend on an individual's personal circumstances, and the choice of trustees and beneficiaries should be carefully considered. A bare trust gives beneficiaries an immediate entitlement to the trust property, while a discretionary trust allows trustees to determine how and when funds are distributed among the potential beneficiaries.

A trust arrangement helps to ensure that proceeds are available to the intended recipients without waiting for the full estate administration process. However, the legal, tax and practical implications must be considered carefully. Where the proceeds are intended to fund an estate's inheritance tax liability, advisers should establish how the money will reach the executors or beneficiaries, whether through a loan or another appropriate arrangement.

Advisers should also consider how the premiums are funded and whether the payments themselves have any inheritance tax implications. Premiums paid by the insured person for a policy held in trust may constitute gifts, although the normal expenditure out of income exemption under IHTA 1984 s 21 may apply where the statutory conditions are satisfied. For families funding substantial premiums from regular income, maintaining evidence of the payments and their affordability can therefore be important.

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## Alternatives and complementary solutions

Life insurance is only one possible approach. Effective planning should consider the full range of options and how they may work together. Some clients may be able to retain sufficient cash or liquid investments to meet an anticipated liability. Others may choose to diversify their assets over time, make lifetime gifts where appropriate, or review the ownership and succession arrangements for a family business.

Borrowing may be another option, although it introduces its own costs, risks and repayment obligations. The ability to service or refinance the debt also needs careful consideration.

Depending on the assets involved, payment by instalments may also be available. Under IHTA 1984 s 227, inheritance tax attributable to qualifying property can be

paid in ten equal annual instalments. From 6 April 2026, the interest-free instalment option was extended to all property qualifying for agricultural property relief or business property relief, regardless of the rate of relief available.

Returning to the earlier example, the £1.5 million inheritance tax liability attributable to the £10 million family company could be paid in ten annual instalments of £150,000, assuming the statutory conditions are met. However, the first instalment remains due six months after the end of the month of death, and any outstanding tax attributable to the property generally becomes payable if that property is sold.

Each approach has advantages and limitations. Retaining cash may reduce investment returns; selling assets may affect family objectives; borrowing may expose beneficiaries or a business to additional financial commitments; and insurance requires ongoing affordability and suitable underwriting.

The right approach will depend on the client’s priorities, family circumstances, asset mix and tolerance for risk, as well as future needs. In some cases, a combination of measures will be more appropriate than relying on a single source of funds. A family might, for example, combine liquid investments, instalment arrangements and insurance to meet its funding requirements.

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## Keeping succession plans on track

A succession plan should not be regarded as a document that is completed once and then left unchanged. For HNW and UHNW families, changes in business valuations, property portfolios, family circumstances and tax rules can affect both the inheritance tax liability and the resources available to meet it.

Regular reviews should therefore consider whether the existing plan remains aligned with the family’s objectives. This includes revisiting projected liabilities, checking existing life insurance cover and trust arrangements, and confirming that the intended beneficiaries and decision-makers are still appropriate.

It is also worth considering how the plan would work in practice. Would the executors know where to find the relevant policy documents? Are the trustees clear about their responsibilities? Would the funds be available in the required timeframe?

For tax advisers, collaboration is often central to this process. Solicitors, investment managers, accountants, financial planners and specialist protection advisers may each have a role in ensuring that the tax strategy, legal structure and funding arrangements work together.

Ultimately, succession planning for HNW and UHNW families is about more than reducing inheritance tax. It may involve preserving a family business, retaining property or ensuring that wealth passes to the next generation without unnecessary disruption.

For families with substantial but illiquid estates, that means asking a fundamental question early: if an inheritance tax liability arose tomorrow, where would the money come from?