

# Inheritance tax explained

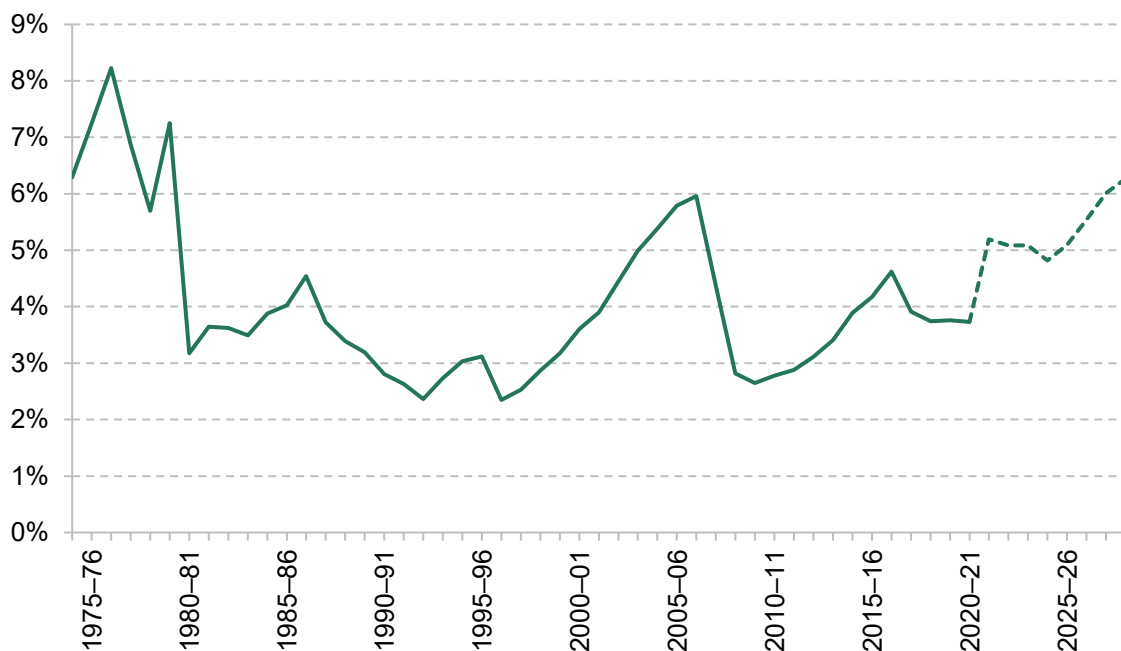
Inheritance tax is levied on wealth bequeathed at death, or given away shortly before death, above a threshold. Around 5% of all deaths attracted inheritance tax in 2022–23.

In recent decades, the share of deaths resulting in the payment of inheritance tax has fluctuated between 3% and 6%. The Office for Budget Responsibility forecasts that it will rise to 6.3% by 2028–29, the highest level since the 1970s.

Revenue from inheritance tax and its predecessors has increased over time in real terms, from around £2 billion in 1980–81 to almost £9 billion by 2028–29 (in 2023–24 prices). The tax has fluctuated around 0.2% of GDP for the majority of the last four decades. It is forecast to rise to 0.3% of GDP by 2028–29.

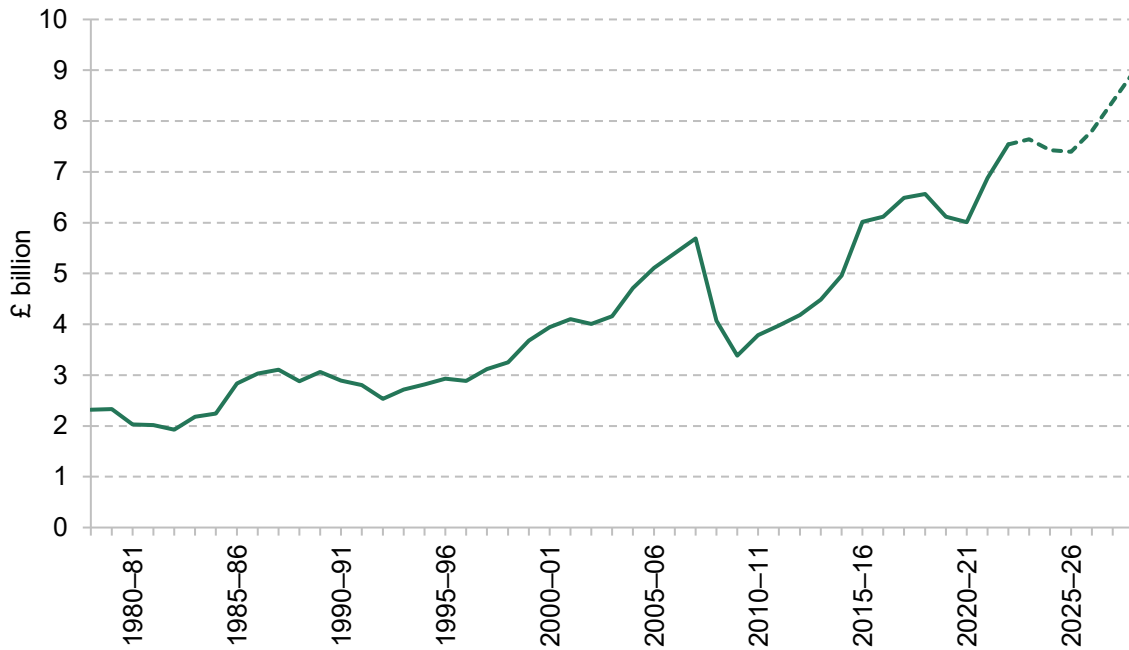
## Share paying inheritance tax and revenue generated

### (a) Share of estates at death liable

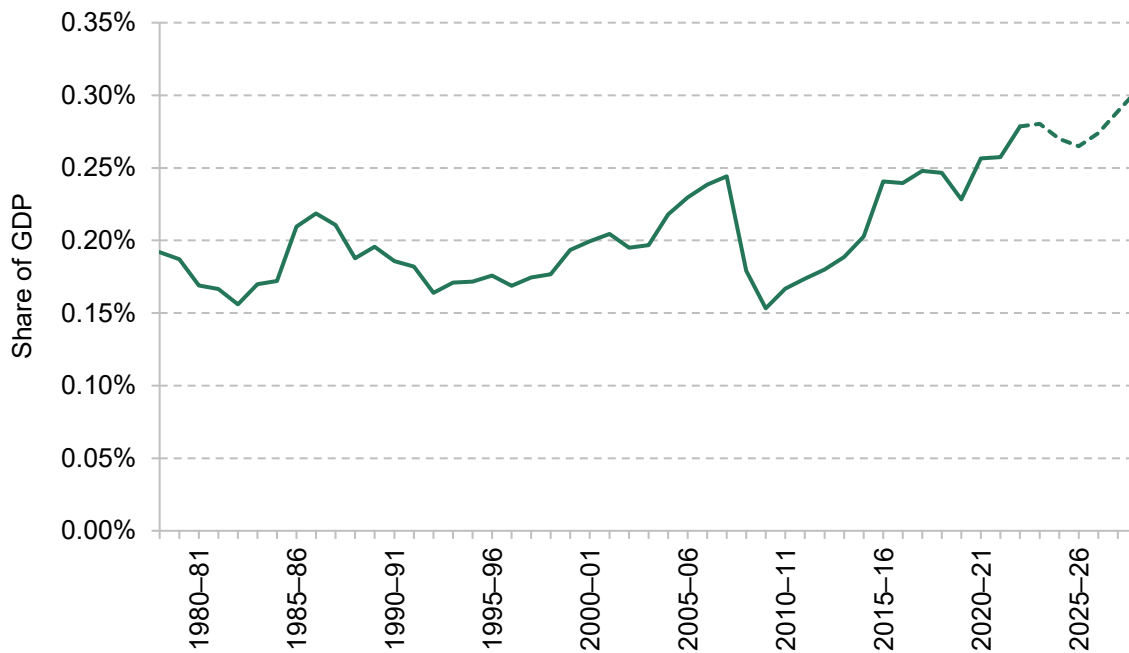


## 2 Inheritance tax explained

### (b) Revenue, 2023–24 prices



### (c) Revenue, % of GDP



Note: Includes estate duty and capital transfer tax, the predecessors of inheritance tax. Revenue is converted to 2023–24 prices using [GDP deflators from November 2023](#).

Source: Estimates/forecasts for the share paying inheritance tax 2020–21 from OBR, [Economic and fiscal outlook – March 2023](#), supplementary fiscal table (receipts and other) 2.13, and for 2021–22 onwards from OBR, [Economic and fiscal outlook – November 2023](#), supplementary fiscal table (receipts and other) 2.13. Figures for 2012–13 to 2020–21 from [HMRC Statistics table 12.1b](#). Figures for earlier years from Adam et al., [Death and taxes and pensions](#), IFS Report R235, 2022. Figures for revenue generated from [IFS revenue composition spreadsheet](#).

## What is taxed?

The value of an estate at death, as well as gifts made in the seven years prior to death, is potentially subject to inheritance tax. Gifts made before death may be subject to lower rates of tax, as explained in the 'Rates and thresholds' section.

There are various exceptions to this. Transfers to a spouse or civil partner on or before death are never taxable. The same is true of transfers made to charities, political parties and registered community amateur sports clubs.

Certain types of assets are also exempt, or partially exempt, from inheritance tax. In particular, pension pots are not treated as part of an individual's estate, and agricultural and business property can attract either 50% or 100% relief.

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### More about business property relief and agricultural property relief

Business property relief reduces the value of a business for inheritance tax purposes by either 50% or 100%, depending on the type of property involved. The property must have been held for a minimum of two years up to the date of death (or the date at which it was gifted) in order to be eligible for relief. The business in question must not consist mainly of holding investments, and must not be in the process of being sold or wound up at the point of death.

100% relief is applicable to:

- the whole or part of an unincorporated business;
- shares in a company not listed on a recognised stock exchange. Note that shares listed on the Alternative Investment Market attract 100% relief.

50% relief is applicable to:

- shares in a company listed on a stock exchange, in which the deceased controlled more than 50% of the voting rights;
- land or machinery used in the trade of the deceased's business, or of a partnership of which the deceased was a member.

Shares in a listed company where the deceased controlled less than 50% of the voting rights are not eligible for relief.

Agricultural property relief applies to agricultural land, farmhouses and woodland.

100% relief is applicable to:

## 4 Inheritance tax explained

- agricultural property held and farmed directly for a minimum of two years up to the date of death (or the date at which it is gifted);
- agricultural property held and let out on a tenancy beginning in or after September 1995 for a minimum of seven years up to the date of death (or the date at which it is gifted).

50% relief is applicable to:

- agricultural property held and let out on a tenancy beginning before September 1995 for a minimum of seven years up to the date of death (or the date at which it is gifted).

Property that has not been held for these minimum periods does not qualify for relief; nor do derelict buildings, farm equipment and machinery, harvested crops or livestock.

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Some types of gift are never taxed, even if made in the seven years before death. In addition to those transfers that would be exempt at death, such as transfers to a spouse, or transfers of certain assets, there is a range of specific gift reliefs.

In order for a transfer to be treated as a gift for the purpose of inheritance tax, the giver must not continue to benefit from it. This prevents assets from being nominally given away at earlier points in life to avoid inheritance tax. For example, if giving away a house, the giver cannot continue to live there, unless they pay rent at market rates.

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### More about gift exemptions

As well as transfers that would be exempt at death, there is a range of specific reliefs that apply to gifts made in the seven years before death.

## 5 Inheritance tax explained

### Specific gift exemptions in inheritance tax

Gift exemption	Description
Annual gift exemption	£3,000 per year can be given away without being included in the taxable estate. This can be rolled forward one tax year.
Small gifts exemption	£250 to each recipient per year can be given away without being included in the taxable estate. This exemption cannot be combined with other gift reliefs.
Gifts on consideration of marriage or civil partnership	£5,000 can be given to a child getting married, £2,500 to a grandchild or great-grandchild getting married, and £1,000 to anyone else getting married or starting a civil partnership, without being included in the taxable estate.
Gifts that are normal expenditure out of income	Gifts out of the giver's usual monthly income can be made without limit, provided that the giver can maintain their standard of living and that gifts are made on a regular basis.
Family maintenance	<p>Gifts to the giver's (or their spouse's or civil partner's) children, if under 18 or in full-time education, made for the purposes of their maintenance, education or training, can be made without limit.</p> <p>Gifts to the giver's (or their spouse's or civil partner's) parent, or to any relative financially dependent on the giver for care, made for the purposes of their care, can be made without limit.</p>

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## Rates and thresholds

Various thresholds apply to the value of an estate on death (and gifts in the seven years beforehand) before inheritance tax begins to be charged.

The nil-rate band (NRB) is a threshold for each person below which inheritance tax does not apply. It was set at £325,000 in 2023–24. It has been at this level since 2009–10, and the government [has announced](#) that it will be frozen up to and including 2027–28.

## 6 Inheritance tax explained

Any unused percentage of the NRB is transferable to spouses or civil partners on the death of the first partner. In the simplest case, if the first person to die did not use any of their NRB (for example, because they had bequeathed their whole estate to their spouse or civil partner), the 2023–24 NRB to which their spouse or civil partner would be entitled would be £650,000.

There is also a residence nil-rate band (RNRB), introduced in 2017–18, which applies when people leave their main residence (or the value of a previously sold main residence, if higher) to their direct descendants (children and grandchildren). This was £175,000 in 2023–24, and the government has said it will be frozen up to and including 2027–28. As with the NRB, any unused percentage of the RNRB is transferable to spouses or civil partners. Someone who inherits their spouse's NRB and RNRB can therefore bequeath a total of £1 million free of inheritance tax, if at least £350,000 of that is in the form of a main residence bequeathed to their children or grandchildren.

The RNRB begins to be withdrawn when an estate's value exceeds £2 million: for every £2 that an estate's value exceeds £2 million, the value of the RNRB is reduced by £1.

The rate of inheritance tax on the part of an estate above the nil-rate bands is generally 40%. There are exceptions to this headline rate. A reduced rate of 36% applies where at least 10% of an individual's net estate is left to charity. The 'net estate' here refers to the value of the estate above the NRB and transferable NRB, after subtracting exemptions and reliefs (but ignoring the RNRB).

### Inheritance tax reductions for gifts before death, 2023–24

Years between gift and death	Reduction in tax rate (%)	Actual tax rate (%)
0–3	0	40
3–4	20	32
4–5	40	24
5–6	60	16
6–7	80	8
7+	100	0

## 7 Inheritance tax explained

A reduced rate of inheritance tax applies to gifts made between three and seven years before death, as shown in the table above. Gifts count towards the NRB in the order they were made. This means, for example, that the 24% rate on gifts made between four and five years before death would apply only if at least £325,000 in gifts were made between four and seven years before death.

The tax rules and rates applying to trusts are different (and complicated) and depend on the type of trust involved.

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### More about inheritance tax and trusts

A trust is a legal vehicle into which someone (the 'settlor') transfers assets to be looked after by someone else (the 'trustee') for the benefit of a third person (the 'beneficiary'). When the settlor transfers assets into a trust, the assets generally no longer count as part of their estate, and so are not included when calculating inheritance tax liabilities on death (as long as the assets are placed into trust seven years or more before death).

There are different rules regarding inheritance tax treatment for different types of trust. In general, there are three occasions on which inheritance tax may be charged: when the trust is set up, on each 10-year anniversary of the trust and when assets are withdrawn from a trust.

A transfer into most types of trust which (along with the value of any other transfers into such trusts made in the preceding seven years) exceeds the NRB is subject to 20% inheritance tax immediately on the amount above the NRB. If the settlor dies within seven years of making the transfer then the transfer is subject to inheritance tax as usual for gifts, but any inheritance tax already paid is deducted.

On every 10-year anniversary of most types of trust, assets in the trust must be revalued, and a 6% charge on their value above the NRB is applied.

Inheritance tax may also be charged on transfers out of a trust, up to a maximum of 6%. This is calculated on a pro-rata basis since the last 10-year anniversary of the trust: 0.6% is charged on the value of assets (calculated at the last anniversary) removed above the NRB for each year since the last anniversary. The applicability of this charge depends on the [exact situation](#) in which a transfer out of a trust is made.

Different types of trusts attract different inheritance tax treatment: assets placed in a 'bare' trust, for example, are treated like gifts, and so are not subject to inheritance tax as long as the settlor does not die within seven years of transferring the assets. Trusts set up for dependent children with a parent who has died or for disabled people are also exempt from inheritance tax in most cases.

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## Who pays inheritance tax?

After death, the person responsible for administering the deceased's estate must identify and value the assets and debts held by the deceased, and gifts made in the seven years before death, in order to know whether paying inheritance tax is necessary. There is a [range of rules](#) governing when an estate's value must be reported to HMRC, which may be necessary even if no inheritance tax is due: far more estates are reported to HMRC than are actually taxed.

If due, inheritance tax must in general be paid by the end of the sixth month after death. For assets that are potentially difficult to sell, such as houses or certain shares and securities, it can be split into equal instalments over a period of 10 years.

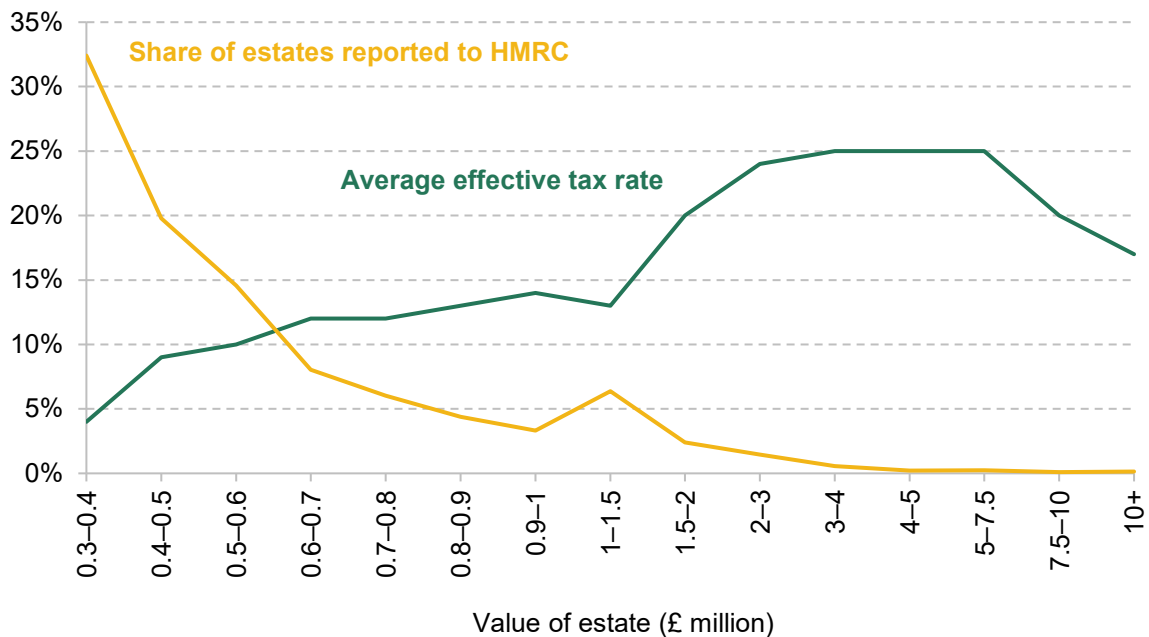
Inheritance tax is generally paid from the estate. In some cases, those who received gifts from the deceased in the seven-year window before death may have to pay inheritance tax. This only applies if the deceased has given away more than the nil-rate band in lifetime gifts, since the value of gifts is set against the nil-rate band first.

As described in the introduction, the vast majority of estates do not attract inheritance tax. In 2023–24, around 5% of deaths are forecast to attract inheritance tax. There has been no long-run trend in the change in this proportion, despite the fact that the amount of wealth passed on at death has been increasing over time. This is a result of various policies – such as the introduction of the transferable nil-rate band in 2007 and the introduction of the residence nil-rate band in 2017 – which decrease the proportion of estates subject to inheritance tax.

The nil-rate bands and reliefs described above mean that the average rate of inheritance tax actually paid is much lower than 40%. The average effective tax rate varies by the size of the net estate. It mostly rises with estate value, as the nil-rate bands cover an ever-smaller proportion of the total estate; but it then falls for the most valuable estates, which are more likely to attract other reliefs. As can be seen from the chart below, this fall applies to very few estates. Even among those estates worth more than £300,000 and reported to HMRC, fewer than 1% were worth more than £5 million, the point at which the average effective tax rate begins to fall.



### Distribution of estate values and average effective inheritance tax rate among taxpaying estates worth more than £300,000 and reported to HMRC, 2020–21



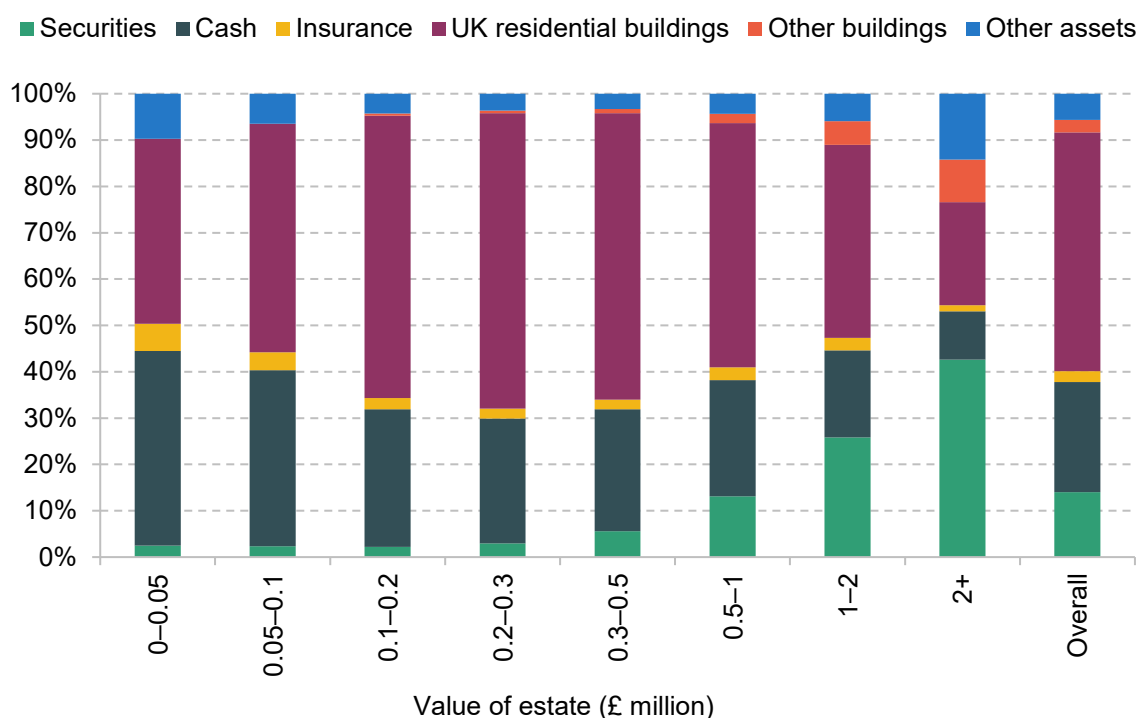
Note: The share of estates reported to HMRC over £300,000 excludes estates that did not have to be reported to HMRC on death in 2020–21, which will include some estates worth more than £300,000 that have, for example, been passed entirely to the deceased's spouse. All estates worth more than £1,000,000 had to be reported to HMRC on death in 2020–21, even if no tax was due, although these rules changed in December 2021. This threshold causes the tick up in the distribution at £1,000,000.

Source: [HMRC Statistics, table 12.1a](#).

This chart only shows the value of net estates at death and gifts in the seven years beforehand. It will not include wealth given away before the beginning of the seven-year period. These gifts are not measured in official data sources because they are untaxed, but [evidence from survey data](#) finds that the annual flow of gifts is around one-fifth of the value of the annual flow of inheritances. In addition, pension wealth that is bequeathed is not included as part of estates. To the extent that people pass on pension wealth at death or give away wealth more than seven years before death, therefore, the overall effective tax rate on gifts and bequests will be overstated. And to the extent that, on average, the wealthiest people give away a bigger proportion of their wealth more than seven years before death (perhaps because their wealth is less likely to be tied up in their house), the decline in the effective tax rate for the highest-value estates will be understated.

The fall in the effective tax rate for the highest-value estates can be explained by the asset composition of taxpaying estates, as shown in the chart below.

### Composition of estates by value, among those reported to HMRC, 2020–21



Note: Estates are all those reported to HMRC as requiring a grant of representation or confirmation on death in 2020–21. Not all estates worth less than £1 million had to be reported to HMRC on death, meaning that these figures may be unrepresentative of the asset composition of those worth less than £1 million.

Source: [HMRC statistics, table 12.3a](#).

Overall, residential property represented more than half of the value of estates notified to HMRC in 2020–21. Cash was another quarter of the value, and shares and other securities represented 14%. ‘Other’ buildings, insurance and other assets each represented less than 10% of total value.

Cash, which is unlikely to attract inheritance tax reliefs, is a much higher proportion of lower-value estates, and only represents 10% of the value of estates worth more than £2 million. More of the assets held in these highest-value estates are in the form of securities and ‘other’ buildings and assets. These assets are more likely to attract business property relief and agricultural property relief, leading to a lower average effective tax rate overall.