What to Review in Your Inheritance Tax Plan

Start With a Clear Picture of Your Estate

Understanding what your estate looks like today is the first step in any estate liability review. Many people assume their assets are straightforward, but inheritance tax can apply to far more than just the family home. Getting a clear picture means listing everything you own, from property and savings to investments, vehicles, and personal possessions of significant value. It also means understanding what you owe, because debts reduce the estate's value for tax purposes. A thorough review here helps you see where you stand before making any decisions about passing on wealth.

Once you have that list, you can start thinking about how the tax rules apply. The key figures to know are the nil rate band and the residence nil rate band. The nil rate band is the amount you can pass on without inheritance tax, currently set at a fixed level per person. The residence nil rate band adds extra allowance when you leave your main home to direct descendants. These allowances interact with each other and with any gifts you have made, so an estate liability review that checks them carefully can reveal whether your estate is likely to be taxed and by how much.



Check Your Use of the Nil Rate Band and Residence Nil Rate Band

The nil rate band is straightforward in theory: it shelters the first portion of your estate from tax. But it is easy to overlook that unused allowance can transfer to a surviving spouse or civil partner. If you are widowed or divorced, your own allowance might be larger than you think. The residence nil rate band adds another layer, but only applies if you leave your home to children or grandchildren. If your estate is large, or if you plan to downsize or move into care, the rules around this allowance become more complex. Checking how these bands apply to your situation is one of the practical ways to assess estate tax exposure without guessing.

For couples, combining allowances can significantly reduce the taxable estate. A married couple or civil partners can effectively pass on up to double the individual thresholds, provided the right planning is in place. But if you are not married, or if you have made previous gifts that eat into your allowances, the picture changes. An estate liability review should always check whether you are using both allowances fully and whether any previous claims or transfers have reduced what is available.

Look at Lifetime Gifts and the Seven Year Rule

Gifts you make during your lifetime can reduce the value of your estate, but they are not always tax-free straight away. The seven year rule means that gifts made within seven years of death are still counted for inheritance tax purposes, with the tax rate reducing on a sliding scale from year three onwards. This rule applies to outright gifts, transfers into trusts, and some other arrangements. If you have given away significant sums, those gifts could still be part of your taxable estate. An estate liability review that ignores past gifts could give a misleading impression of your actual tax exposure.

It is worth checking which gifts qualify for exemption. Regular gifts from surplus income, small gifts up to a certain amount per person per year, and gifts between spouses are all exempt transfers. These do not count toward your estate for tax purposes and do not trigger the seven year rule. But once you go beyond those exemptions, the clock starts ticking. Reviewing your history of gifts helps you understand whether any of them are still within the seven year window and what that means for your overall estate liability.

Value Your Estate Accurately

Estate valuation is not just about getting a market price for your house. It includes the current value of investments, pension funds that pay out a lump sum on death, life insurance policies held in trust, and even digital assets like cryptocurrency or online businesses. Property valuations can change quickly, and shares or funds may have grown significantly since you last checked. An inaccurate valuation can lead to either paying too much tax or facing a surprise bill later. An estate liability review that updates these figures regularly helps you plan with realistic numbers.

Pensions are a common blind spot. Many people assume their pension is exempt from inheritance tax, but that depends on how it is structured. Defined contribution pensions can often pass tax-free to nominated beneficiaries if you die before age 75, but after that they may be taxed. If you have a pension that pays a lump sum on death, it could form part of your estate unless it is written into an appropriate trust. Checking your pension arrangements is a specific area where the general rules about estates do not always apply, so it deserves separate attention during your review.

Review Trusts and Business Property Relief

If you have set up trusts, either during your lifetime or through your will, they can affect your inheritance tax position. Trusts have their own tax rules and allowances, and the way they interact with your personal estate can be complicated. Some trusts are designed to remove assets from your estate entirely, while others still count for tax purposes. Reviewing the terms of any trust you have created, or that you benefit from, is an important part of understanding your total estate liability. It is also worth checking whether any business assets you own qualify

for business property relief, which can reduce or eliminate inheritance tax on those assets. This relief applies to certain types of business interests and shares, but the rules are strict and the relief can be lost if the business changes or if you sell the assets.

For those who own a family business or have significant shareholdings, business property relief can be a valuable tool. But it is not automatic. The business must be trading, not just holding investments, and certain conditions must be met. The relief also reduces the value of the asset for tax purposes, which can affect how the rest of your estate interacts with the nil rate band. An estate liability review that considers reliefs like this can identify opportunities to reduce tax that you might not have spotted otherwise.

Plan for the Inheritance Tax Return

When someone dies, the executor or administrator must submit an inheritance tax return to HMRC. This return requires a detailed breakdown of the estate, including assets, debts, gifts made in the last seven years, and any reliefs or exemptions claimed. The process can be time-consuming and errors can lead to penalties or delays. Preparing for this return as part of your estate planning can make things much easier for your family later. Knowing what information HMRC will ask for and having it organised in advance is one of the most practical ways to assess estate tax readiness. It also gives you a chance to correct any mistakes or gaps in your records while you are still able to do so.

If your estate is straightforward, the return may be simple. But even modest estates can become complex if there are multiple properties, overseas assets, or gifts that need to be traced. The residence nil rate band, in particular, requires careful reporting because it only applies if the home is left to direct descendants and certain conditions are met. An estate liability review that anticipates the return can help you understand what your executors will need and reduce the burden on them during a difficult time.

Keep Your Plan Up to Date

Inheritance tax rules change, and your personal circumstances change too. A review that you do today might be outdated in a year if you buy a new property, sell a business, get married or divorced, or have children or grandchildren. The same applies if the government adjusts the nil rate band or residence nil rate band, as has happened several times in recent years. An estate liability review is not a one-off task. It works best when it becomes a regular check, perhaps every two or three years, or whenever a major life event occurs. This keeps your plan aligned with your actual situation and the current tax environment.

Ultimately, the goal is to pass on wealth clearly and efficiently. A thorough review of your estate, looking at allowances, gifts, valuations, trusts, reliefs, and the practical steps your

family will need to take, gives you confidence that your wishes will be carried out without unnecessary tax. It also helps you spot areas where small changes now could make a big difference later. Whether you are just starting to think about inheritance tax or you already have a plan in place, taking the time to review everything systematically is a sensible step for anyone who wants to protect what they have built.