

# Equity Release in Inheritance Tax Planning - How can a Lifetime Mortgage reduce the tax burden?

The October 2024 Budget from the new Labour government confirmed the Inheritance Tax Nil Rate bands are frozen until April 2030. We can all pass on assets up to the Nil Rate Band (NRB) which is currently £325,000, without our beneficiaries having to pay any Inheritance Tax (IHT). Property owners can also make use of the Residence Nil rate Band (RNRB) which is currently £175,000, although this gradually disappears if an estate is worth more than £2million. This means we can all, potentially, leave up to £500,000 to our beneficiaries completely tax free. For a couple (married or civil partnership) this can be transferred to the surviving partner on death, meaning as much as £1million can be passed on tax free.

The Budget also confirmed that unused Pension assets will become subject to IHT from April 2027. In addition, Agricultural and Business Property, currently exempt from IHT, will become subject to IHT from April 2026, albeit at a reduced level on values over £1million.

All of the above mean an increasing amount of wealth will become subject to IHT, especially for wealthier home owners, land owners and business property owners.

## HOW CAN EQUITY RELEASE HELP?

There are few ways that a Lifetime Mortgage, also known as an Equity Release Mortgage, can help:

- If the value of your estate exceeds £2million, your RNRB will reduce. Raising a debt against your property and moving the money raised out of your taxable estate could bring it back below the £2million level, thereby maximising your RNRB. Meaning you leave more to your beneficiaries.
- A Lifetime Mortgage can provide a drawdown facility, often called a 'cash reserve'. This can allow a homeowner to draw small amounts that are then gifted away under the IHT gift allowances.

*A quick explanation of the gift allowances: We are all allowed to make small gifts without them being added to the value of our estate. The 'Small gift allowance' is £250, and you can give this away as many times as you want, providing you don't give it to the same person you gave one of the other allowed gifts to. The 'annual exemption' is £3,000, which you can give to one person, or split it between several. There are also*

*allowances for wedding and civil partnership gifts of £5,000 for children, £2,500 for grandchildren, and £1,000 for anyone else.*

This means a couple could gift away £6,000 per year under the annual exemption, and make as many £250 gifts as they want.

- Finally, a Lifetime Mortgage can also turn an illiquid asset, your home, into liquid funds for use in other IHT planning tools. For example, most of us expect to wait until death before passing on wealth to our beneficiaries through our wills. However, your estate could be worth more to your beneficiaries if you gift some of it to them while you are still alive. Equity release can allow you to make such gifts, as long as it is done with careful consideration.