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Guide to

Trust & Estate Planning

Securing your legacy, a comprehensive guide for the 2026/27 tax year

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Trusts & Estate Planning

Securing your legacy, a comprehensive guide for the 2026/27 tax year

Planning for what happens after you are gone is rarely a comfortable topic, yet it is one of the most important financial exercises you will ever undertake. This guide is designed to demystify the complex world of UK estate planning for the 2026/27 tax year.

We aim to provide you with clarity on how to protect your assets, ensure your loved ones are provided for and minimise the potential tax burden on your estate.

In the following pages, you will learn about the critical importance of having a valid Will, the mechanics of Inheritance Tax (IHT) and how tools such as trusts can offer control and protection.

We will also explore Lasting Powers of Attorney, digital assets, family business succession and matters affecting those with UK and international interests, ensuring you are covered during your lifetime and after it. Whether you are just starting to build your wealth or looking to preserve a substantial family legacy, this guide provides the foundational knowledge you need to make informed decisions.

Please note that tax rules and legislation are subject to change. Although this guide provides a robust overview, it cannot replace bespoke advice tailored to your circumstances. It is essential to seek professional financial advice to navigate this topic effectively.

The foundation of your plan

The cornerstone of any effective estate plan is a valid Will. Without one, you die 'intestate', meaning the state decides how your assets are distributed under rigid rules that may not reflect your wishes. This can result in unmarried partners receiving nothing or estranged relatives inheriting significant sums.

A Will does more than just distribute money; it allows you to appoint guardians for minor children and executors to manage your affairs. It provides a clear instruction manual for your loved ones during a difficult time, reducing the likelihood of family disputes.

Wills, guardianship and review

For parents, choosing guardianship arrangements is one of the most important elements of a Will.

> Estate planning is not just about tax mitigation; it is about ensuring the right assets reach the right people at the right time with minimal stress.

> A Will is the foundation, not the finish line, of a sound estate plan

Naming a guardian ensures your children are cared for according to your wishes if the worst happens. You should review your Will regularly, especially after major life events such as marriage, divorce or the birth of a child. Executing a new Will after major life events can protect your intentions and secure your family's future.

It is also possible, and sometimes wise, to include letters of wishes alongside your Will. While not legally binding, these documents can guide executors and trustees on issues not strictly covered by your Will, such as your preferences for personal effects or funeral arrangements.

Calculating the potential liability

Inheritance Tax (IHT) is often described as a 'voluntary tax' because proper planning can significantly reduce or eliminate it. For the 2026/27 tax year, the standard nil rate band remains at £325,000 (frozen until April 2031). Any value in your estate above this threshold is generally taxed at 40%.

There is also the residence nil rate band (RNRB). The RNRB is an additional UK IHT allowance, currently £175,000 and also frozen until April 2031. It applies when a main residence is passed to direct descendants. It applies to deaths on or after 6 April 2017, potentially allowing couples to pass on up to £1 million tax-free (in addition to the standard £325,000 nil rate band). Understanding how these allowances interact is crucial for accurate planning.

How assets are valued

Assets considered for IHT purposes include property, savings, investments, non-cash personal belongings (such as jewellery and artwork) and certain gifts made within seven years of your death. Even overseas assets are included if you are a long-term UK-resident. Business assets, agricultural property and charitable gifts may be eligible for reliefs, making professional valuation and advice essential.

Your estate pays tax before any distribution to heirs. It is important to know which assets form part of your taxable estate, as jointly owned property (such as the family home) may be partly or wholly liable, depending on its structure.

Maximising your allowances

Married couples and registered civil partners have a significant advantage in estate planning. They can transfer assets to each other tax-free on death. Furthermore, any unused portion of their nil rate band can be transferred to the surviving spouse, potentially doubling the tax-free allowance for the second death.

This transferability effectively means a couple could pass on up to £1 million tax-free (including the RNRB) to their children. It highlights why it is vital to review your planning as a couple rather than as individuals.

The importance of residence status and reliefs

The importance of residence status and reliefs

UK residents and long-term UK residents are subject to tax on worldwide assets. However, 'deemed domicile' rules can bring non-UK assets into account after long residence. Agricultural and business reliefs can reduce IHT liability by up to 100% for qualifying assets; these reliefs are subject to HMRC assessment, and the rules can change frequently.

Rules have changed from 6 April 2026, meaning there is now a £2.5m cap on combined business and agricultural assets that can qualify for 100% business relief, with only 50% relief thereafter

For those with complex arrangements, including non-UK assets or international beneficiaries, early, specific advice is vital to avoid costly mistakes.

Utilising lifetime gifting rules

One of the simplest ways to reduce your estate's value is to make gifts. You can give away £3,000 per year, essentially tax-free, using

> Trusts act as a safety deposit box for your family's future, allowing you to retain an element of control from beyond the grave.

your annual exemption. You can also make small gifts of up to £250 to as many people as you like, provided you haven't made a larger gift to the same person.

Larger gifts fall under the 'seven-year rule'. These are known as Potentially Exempt Transfers (PETs) or Chargeable Lifetime Transfers (CLTs), depending on whether they are made to individuals or trusts. If you survive for seven years after making the gift, the gift typically falls outside your estate for IHT purposes. If you pass away within those seven years, the tax due may be reduced on a sliding scale known as 'taper relief' if the gift, alone or cumulatively, exceeds the nil rate band.

Gifts for special occasions and IHT

Certain gifts are exempt from IHT altogether. These include gifts on marriage or a registered civil partnership (ranging from £1,000 to £5,000, depending on your relationship to the recipient) and gifts to charities or political parties. Regular gifts from regular income, provided they do not affect your standard of living, are also free from IHT and can be a highly effective way to pass on wealth during your lifetime.

Documenting all gifts is prudent, ensuring executors can easily calculate IHT liabilities if required.

The mechanics of trusts

Trusts are legal arrangements in which you transfer cash, property or investments to someone else to manage them for the benefit of a third person. They are powerful tools for controlling how and when your assets are passed on.

For example, you might want to leave money to a grandchild but not allow them to access it until they reach 25. A trust can hold those assets safely, managed by trustees you appoint, until that condition is met.

Choosing trustees and trust taxation

Selecting trustees is a key decision; they should be people (or companies) you trust implicitly to act in the best interests of your beneficiaries. Trustees have legal responsibilities, including record-keeping, tax reporting and asset management. Trusts may be subject to their own Income Tax and Capital Gains Tax rules, which depend on the trust type and the amounts involved.

New rules introduced in recent years require many trusts to be registered with HMRC's Trust Registration Service (TRS). Failure to comply can result in fines, and the rules can be complex, so specialist advice is essential.

Different types of trust

There are various types of trusts available under UK law, each with distinct features, uses and tax implications. Choosing the right trust depends on your family circumstances, the assets involved and your long-term objectives.

Discretionary Trusts

A Discretionary Trust grants wide powers to your appointed trustees, enabling them to decide which beneficiaries (from a named class) receive income or capital, and when. No individual has an absolute entitlement, which can be invaluable if beneficiaries' needs are likely to change or if you wish to protect assets from divorce or creditors. Discretionary Trusts are frequently used where flexibility is key, such as for future grandchildren or for beneficiaries with uncertain life circumstances.

> Strategic gifting enables you to see your loved ones enjoy their inheritance during your lifetime while reducing your future tax liability.

> The choice of trust will determine not only how your wealth is distributed but also how well it is protected and what your beneficiaries will ultimately receive. Guidance from an experienced adviser is essential.

From a tax perspective, Discretionary Trusts are subject to the 'relevant property' regime. This means they may incur an entry charge of up to 20% when assets are put in (if above the nil rate band); periodic charges of up to 6% on each ten-year anniversary; and exit charges when funds are transferred out. Income generated within a Discretionary Trust is typically taxed at the trust rate, which is higher than most individual Income Tax rates, though beneficiaries may be able to reclaim part of this.

Taxation differs for Interest in Possession Trusts (IIP): where the trust is a qualifying interest in possession trust, such as an Immediate Post-Death Interest trust taking effect on death (IIP trusts set up during lifetime since 22 March 2006 are classed as relevant property trusts with the same inheritance tax treatment as a discretionary trust, see above), the underlying assets are treated as belonging to the income beneficiary for IHT purposes. Trust income is usually taxed at the basic rate, and the tax liability often falls on the beneficiary who receives it.

Bare Trusts

Bare Trusts (or Simple Trusts) are the most straightforward – assets are held by a trustee for a named beneficiary, who has an absolute right to both income and capital. Once the beneficiary reaches 18 (or 16 in Scotland), they can demand the assets outright.

Bare Trusts are commonly used for gifts to children and for simple arrangements. The assets are treated as the beneficiary's for IHT, Capital Gains Tax (CGT) and Income Tax purposes from the outset, which can make them very tax-efficient, particularly where beneficiaries have their own unused allowances.

Anti-avoidance provisions apply to income tax, such that income tax is applied to the parent when funds are gifted by them to a trust for the benefit of their minor, unmarried child (if income exceeds £100pa, all trust income is taxed on the parental donor).

Accumulation and Maintenance (A&M) Trusts

Although no longer available for new trusts created after 2006, A&M Trusts were previously used to set aside assets for young beneficiaries, with trustees accumulating income until the beneficiaries reached a specified age. Many pre-existing A&M Trusts have since become Discretionary Trusts as a result of legal reforms.

Trusts for Vulnerable Beneficiaries

UK law provides special trust arrangements for disabled or otherwise vulnerable persons. 'Vulnerable Beneficiary Trusts', also known as 'Disabled Persons Trusts', can offer favourable tax treatment: income and capital gains arising within the trust may be taxed at beneficiary rates rather than penal trust rates, and IHT may be mitigated, provided the trust meets HMRC's qualifying criteria.

This makes them invaluable for safeguarding the financial security of those unable to manage their own assets, in some cases without affecting entitlement to means-tested benefits.

Settlor-Interested Trusts

Where the settlor (the person who creates the trust) or their spouse or civil partner can benefit from the trust, different tax rules apply. These trusts are often created for vulnerable or disabled beneficiaries but require careful management because of their unique treatment for Income Tax and CGT.

> Putting LPAs in place gives peace of mind, ensuring your wishes are followed if you are unable to speak for yourself.

Trusts for Joint Ownership and Property Planning

Trusts are commonly used in property planning, such as Declarations of Trust for unmarried couples who co-own property, or to ring-fence the family home from care fees or the risk of remarriage. Understanding the potential interaction with deprivation of assets rules and local authority means-testing is essential, so professional advice should always be obtained in these cases.

Each trust type has specific paperwork, regulatory and tax-reporting obligations. As HMRC's Trust Registration Service (TRS) now applies to nearly all new and existing UK trusts, trustees must maintain accurate records and ensure compliance. Non-compliance can result in financial penalties and unnecessary complications for your estate.

Special-purpose trusts and family businesses

Bare Trusts are used to hold assets for minors until they reach 18. Protective Trusts can safeguard beneficiaries who may be vulnerable or at risk. If you own a family business, special Business Property Relief trusts may be used to reduce IHT, but professional structuring is vital to ensure the conditions for relief are met.

Trusts are also increasingly important for digital and cryptocurrency assets. Specialist advice should be sought if these assets are part of your estate.

Planning for incapacity

Estate planning isn't just about death; it is also about incapacity. A Lasting Power of Attorney (LPA) is a legal document that allows you to appoint one or more people to help you make decisions or to make decisions on your behalf.

There are two types of LPA: one for Health and Welfare and another for Property and Financial Affairs. Without these in place, your family may have to go through a lengthy and expensive court process to obtain the authority to manage your finances or care if you lose mental capacity.

Making and registering LPAs

LPAs must be registered with the Office of the Public Guardian before use, a process that can take several weeks. The person granting an LPA should consider appointing more than one attorney and clarify how they

> "Many families are surprised to discover that their estate faces a tax bill because they underestimate the value of their property and investments over time."

> A financial plan is a living document. It must evolve as your life evolves to remain effective.

should act (jointly or separately). An LPA is void on the donor's death and can also be revoked by the donor at any time, provided mental capacity remains.

Keeping plans under review

Life changes, and so does tax legislation. A marriage, divorce, birth of a child or a significant change in wealth should prompt a review of your estate plan. What worked for you five years ago may now be inefficient or invalid.

The 2026/27 tax landscape requires careful navigation. In particular, rules around pensions and IHT have come under scrutiny in recent years and are expected to change from April 2027. Keeping your plan current ensures that legislative shifts do not catch you off guard.

Protecting digital assets and passwords

Modern estate plans should address access to and the transfer of digital property, accounts, online investments, cloud storage, loyalty points and cryptocurrency holdings. Create a secure, up-to-date record and ensure trustees or executors know how and where to find passwords and security keys. The law on digital assets is evolving and specialist input is increasingly important.

Cross-border considerations and family businesses

Globalisation means many families now hold assets in more than one country. UK rules on long-term UK residence and double taxation can be complex, and different countries have their own succession, tax and reporting regimes. If you own or stand to inherit overseas property, expert cross-border estate planning is essential.

Family businesses require tailored succession plans that balance IHT efficiency with commercial continuity. This may involve business relief trusts, share buy-back provisions and family charters.

Seeking professional guidance

The complexities of trusts, tax tapering, digital assets and legal allowances mean that DIY estate planning carries significant risk. A mistake in a Will or a misunderstanding of a trust rule can cost your estate thousands of pounds and cause significant stress for your heirs.

Professional financial advice ensures your strategy is robust, legally sound and tax-efficient. We can model different scenarios to help you visualise how your decisions affect your family's future wealth. Remember, advice is not static; our ongoing relationship will keep your plan up to date with changes in the law, your family and your aspirations. ■

Is Your Legacy Protected?

Don't leave your family's future to chance. The rules governing Inheritance Tax and trusts are complex, but with the right professional guidance, you will have a better chance of preserving your wealth for the next generation.

Take the next step today.

Don't leave your legacy to chance. Contact us to discuss your circumstances and develop a plan for the future.

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Ready to begin

safeguarding your legacy today for the future of your loved ones?

For many families, this reform must be considered within the wider context of inheritance and succession planning, as it presents new challenges in optimising what can be passed on to loved ones.

Start planning your future today. To find out how we can help safeguard your legacy, please contact us.

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