A CLEAR, NO-JARGON GUIDE

Equity Release and Inheritance Tax:

What Derbyshire Homeowners Need to Know

Including the 2027 pension change, and what it could mean for your estate

Produced by Mortgage & Finance Arena, Derby

Mortgage & Finance Arena Ltd | FCA Ref: 706676 | Equity Release Council Member
12 Melbourne Business Court, Pride Park, Derby DE24 8LZ
01332 300 300 | info@mortgageandfinancearena.co.uk

Before we start

Inheritance Tax isn't the cheeriest topic, and it's not one most people think about until something prompts them to, often a change in the news, a conversation with a solicitor, or simply getting older and starting to plan ahead. This guide looks at how Inheritance Tax works, an important change coming in April 2027, and how equity release fits into the picture for some homeowners.

This is general information, not personal tax advice. Everyone's situation is different, and we'd always recommend speaking to a qualified tax adviser or solicitor alongside an FCA-regulated equity release adviser before making any decisions.

A quick recap: how Inheritance Tax works

In simple terms, Inheritance Tax (IHT) is a tax on the value of everything you own when you die, above a certain threshold. Currently, most people have a tax-free allowance of £325,000, known as the nil-rate band. If you own a home and are leaving it to children or grandchildren, there's usually an additional £175,000 allowance on top of that, called the residence nil-rate band. Together, that can mean up to £500,000 per person, or up to £1 million for a married couple or civil partners, before Inheritance Tax applies. Anything above the relevant threshold is generally taxed at 40%.

These thresholds have been frozen for a number of years, and are expected to stay frozen for some time yet. As property and pension values rise while the threshold stays still, more estates end up being pulled into paying Inheritance Tax than in the past, even without a change in the rules.

The 2027 pension change, and why it matters now

From 6 April 2027, most unused pension funds and pension death benefits will be brought into the value of a person's estate for Inheritance Tax purposes. This was first announced at the Autumn Budget in 2024, and follows a lengthy technical consultation with the pensions industry.

Until now, unused pension pots have often sat outside a person's estate entirely, making them a popular way to pass on wealth tax-efficiently. From April 2027, that generally changes. Most unused pension funds will be added to the value of everything else you own when working out whether Inheritance Tax is due. Some exemptions remain, including for pensions passing to a surviving spouse or civil partner, and for registered charities.

Why this matters for more

families

Because pension wealth will now count towards the Inheritance Tax threshold alongside property and savings, some estates that would never previously have been liable for Inheritance Tax may find themselves closer to, or over, the threshold from April 2027 onwards. This is worth factoring into any estate planning conversation now, even if the changes feel some way off.

How equity release can reduce your taxable estate

One of the reasons equity release comes up in Inheritance Tax conversations is straightforward: your home is usually one of the biggest assets counted in your estate. When you release equity from it, you're converting some of that property wealth into cash, which reduces the net value tied up in the property itself.

This only reduces your taxable estate if the money is actually spent, given away, or otherwise leaves your estate. If you release cash and simply keep it sitting in a savings account, it's still part of your estate for Inheritance Tax purposes, just in a different form.

The reduction happens through what you do with the money afterwards, not from releasing it alone.

A simple example

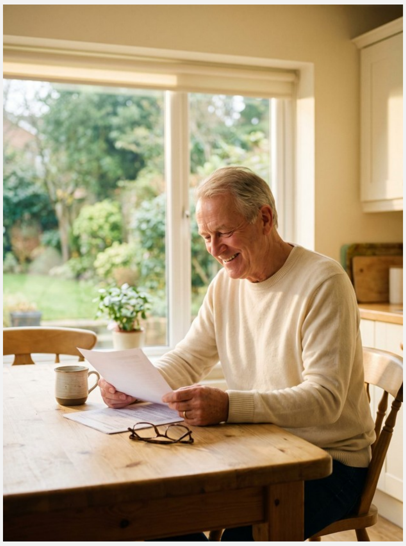
Say a property is worth £400,000 with no outstanding mortgage. If £100,000 of equity is released and gifted to children, the property's contribution to the estate effectively drops to around £300,000, plus the accumulating loan and interest that will be owed against it when the estate is eventually settled. The gifted £100,000 is treated as a "potentially exempt transfer", meaning it only falls fully outside the estate for Inheritance Tax if the person lives for seven years after making the gift.

Things to be careful of

- The seven-year rule: gifts are only fully outside your estate for Inheritance Tax if you survive seven years after making them. Gifts made within seven years of death may still be partly counted, on a sliding scale known as taper relief.
- Deprivation of assets: if you might need council-funded care in the future, deliberately reducing your assets to avoid care fees can be viewed differently to reducing them for family or lifestyle reasons, and could affect your entitlement to support.
- Means-tested benefits: releasing equity can affect entitlement to benefits such as Pension Credit if the released money is held as savings above certain limits.
- This isn't a quick fix: using equity release purely as an Inheritance Tax planning tool, without considering your own needs first, can leave you short of money later in life. Your own financial security should always come first.

Worth asking your adviser

Inheritance Tax planning and equity release both benefit from specialist advice, and the two often need to be looked at together rather than separately. A good equity release adviser will be comfortable working alongside your solicitor or tax adviser, not instead of them.



What happens next?

If Inheritance Tax planning is part of why you're considering equity release, a sensible next step is:

- Speak to a qualified tax adviser or solicitor about your specific estate and any gifting plans
- Speak separately to a whole-of-market, FCA-regulated equity release adviser about your options and the numbers involved
- Make sure your will reflects any gifts or plans you put in place, and keep it updated as circumstances change

At Mortgage & Finance Arena, we're based in Derby and work with homeowners across Derbyshire and the wider East Midlands. We're proud members of the Equity Release Council, and while we're not tax advisers ourselves, we're always happy to work alongside your solicitor or accountant as part of the wider picture.

If you'd like to talk it through with no pressure and no obligation, we're happy to help.

Important information

This guide is for general information only and does not constitute financial advice. Equity release will reduce the value of your estate and may affect your entitlement to means-tested benefits. Think carefully before securing debts against your home. Your home may be repossessed if you do not keep up repayments on a mortgage secured against it. Mortgage & Finance Arena Ltd is authorised and regulated by the Financial Conduct Authority (FCA Ref: 706676) and is a member of the Equity Release Council. Tax treatment depends on individual circumstances and may change in the future. This guide does not constitute tax advice, and we'd always recommend speaking to a qualified tax adviser or solicitor alongside an FCA-regulated equity release adviser.