



THE £800,000 INHERITANCE TRAP

Five UK succession routes — and the case for joined-up advice before any irreversible step

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THE FIRST DECISION: IS ANY ACTION NECESSARY NOW?

If both spouses are alive, keeping a suitable and affordable home may be better than gifting it, moving or creating a trust solely to chase a tax saving. Assess security, independence, control, emotional attachment, running costs, suitability for ageing and care, and the consequences of the first death. Deferring action is an active decision: review it annually, alongside wills, ownership and powers of attorney.

Ask: Do both spouses still want to live there? Is the property affordable and manageable? Would a transfer reduce security or quality of life? What happens on the first death? Is there a non-tax reason to act now?

Executive conclusion

A £800,000 property purchased for £80,000 carries a £720,000 latent gain. Yet the best succession route cannot be determined from that gain alone. A lifetime transfer may crystallise CGT; retaining property until death can reset the CGT base cost but expose the full value to IHT; a trust can defer gains while adding entry and ongoing IHT charges. The correct measure is net family wealth after all relevant taxes, costs and restrictions—not the saving on one tax.

Five routes are compared below. They are not mutually exclusive across a couple's estate: a spouse exemption on first death, transferability of unused nil-rate bands, property ownership and the eventual second death can substantially change the answer.

The five UK variants

- 1 | Gift the family home outright. Private Residence Relief (PRR) may eliminate CGT if occupation conditions are satisfied. For IHT the gift must be genuine: continuing to live rent-free commonly triggers gift-with-reservation rules. Giving away the home may also sacrifice control and expose the asset to the recipient's circumstances.
- 2 | Gift a buy-to-let or other investment property outright. A gift is normally a market-value CGT disposal even without payment. On the £720,000 gain, 24% gives £172,800 before annual exemptions, losses and adjustments. The outright gift is generally a potentially exempt transfer for IHT; survival for seven years normally removes it from the estate, provided there is no retained benefit.
- 3 | Settle the property into a lifetime discretionary trust. A market-value CGT disposal arises, but section 260 hold-over relief may be claimable for an eligible chargeable IHT transfer, subject to exclusions and conditions. The deferred gain is generally embedded in the trustees' base cost. An IHT entry charge may arise above available nil-rate band, followed by possible ten-year and exit charges. A trust is primarily a control and protection choice, not a free tax shelter.
- 4 | Retain the property and leave it outright on death. Death normally causes no CGT charge and beneficiaries generally take market value as their CGT base cost. IHT, however, is assessed on the death estate subject to exemptions and allowances. If the home passes to direct descendants, the residence nil-rate band may apply, subject to conditions, taper and the overall estate.
- 5 | Retain the property and leave it through a will trust. The CGT uplift on death generally still applies, but IHT arises on the estate and the will trust may incur ongoing relevant-property charges. A discretionary will trust does not automatically qualify for the residence nil-rate band merely because children are potential beneficiaries; its terms and any post-death appointments require specialist review.

A numerical illustration — not a tax quotation

Assume a UK-resident individual owns an investment property bought for £80,000 and now worth £800,000; there is no PRR, no spouse exemption, no residence nil-rate band, no previous chargeable transfers, and an available £325,000 nil-rate band. Ignore transaction costs, annual CGT exemption and changes in value.

An outright gift creates a £720,000 gain: at an illustrative 24% residential-property CGT rate, £172,800. After seven years, with no reservation of benefit, that gift would generally be outside the donor's estate for IHT.

Retaining until death gives a market-value CGT uplift, but if the £800,000 property is the only chargeable estate asset, illustrative IHT is $(£800,000 - £325,000) \times 40\% = £190,000$.

A lifetime discretionary trust is not directly comparable without specifying who pays entry IHT, trust history, available bands and hold-over claims. On a simple £800,000 chargeable transfer with £325,000 available band, a 20% lifetime IHT charge would be £95,000 if paid by trustees from the transferred value; the calculation is higher if the settlor bears the tax because grossing-up may apply. Subsequent trustee CGT and periodic charges must also be modelled.

For a qualifying main home left to direct descendants, a residence nil-rate band of up to £175,000 could change the illustrative death IHT materially, subject to the full conditions. A spouse's transferable bands can change it again. These examples deliberately do not nominate a universal winner.

A joined-up review: what professionals must reconcile

The accountant should quantify CGT, income tax and IHT together; the private-client solicitor should test wills, trust rights, occupation, title and protection objectives; and retirement/care advisers should test affordability, housing needs and liquidity. A coordinator should present the family with a common assumptions sheet, timing of tax payments, who bears each charge, post-transfer control and the net benefit to intended heirs.

Income tax matters after the transfer: rents, trust distributions and retained income can be taxed differently from personally held property. The 40% and 45% figures sometimes quoted are not universal rates; bands and circumstances matter. Likewise, residential-property CGT at 24% is the higher rate, not a flat UK rate for every

taxpayer.

What the decision tree should ask

The correct first question is not “gift or trust?” but “what is the property and what does the family need?” Determine main residence versus investment property; whether PRR is available; whether the donor will retain occupation or income; whether the recipient should own outright or trustees should control; the total estate, marriage/civil partnership status and available nil-rate bands; anticipated disposal; and the willingness to accept immediate CGT versus future IHT. Model the combined outcome, then consider legal control, care needs, creditor exposure, SDLT on debt transfers and administration.

SIDEBAR | The seven-year rule and IHT taper relief

The main analysis assumes survival beyond seven years and no retained benefit. An outright gift to an individual is normally a potentially exempt transfer (PET). If the donor dies within seven years, the gift may become chargeable to IHT; taper relief reduces tax on the gift, not the gift's value. It generally matters only when cumulative chargeable gifts exceed the available nil-rate band.

Business Property Relief: a different asset class

From 6 April 2026, the 100% Agricultural/Business Relief allowance for qualifying assets is generally £2.5 million per individual, with 50% relief above the allowance; unused qualifying allowance may transfer between spouses or civil partners, and trust-specific rules apply. Ordinary residential lettings and passive investment property generally do not qualify. Trading-business assets must be analysed separately; the property's use, ownership and relief eligibility matter.

The professional-advice gap

A CGT-only answer favours retaining assets until death. An IHT-only answer may favour early gifting. A trust-only answer can overlook tax leakage and administration. Joined-up advice combines property tax, estate planning, trust law, family governance and cash-flow modelling. The deliverable should be one comparison showing the family's net position under realistic assumptions—not five disconnected opinions.

A practical review checklist

Request original acquisition cost and enhancement expenditure; current valuation; occupation and letting history; mortgages and other liabilities; existing wills and trusts; details of gifts in the past seven years; spouse/civil partner and descendant status; estimated total estate; plans for occupation, rental income and sale; and any genuinely qualifying business interests. Have a solicitor and tax adviser validate the chosen structure before executing transfers.

References and important qualification

HMRC: Private Residence Relief (HS283); Gift Hold-over Relief (HS295); Inheritance Tax on gifts; passing on a home; trusts and IHT; Business Relief eligibility and April 2026 changes. This is general UK educational material, based on rules as at 24 October 2026, not personalised tax or legal advice. Scottish property law, domicile/long-term residence, non-UK assets, special trusts and other circumstances may alter the analysis.

Official guidance

<https://www.gov.uk/government/publications/private-residence-relief-hs283-self-assessment-helpsheet/hs283-private-residence-relief-2026>

<https://www.gov.uk/government/publications/relief-for-gifts-and-similar-transactions-hs295-self-assessment-helpsheet/hs295-relief-for-gifts-and-similar-transactions-2026>

<https://www.gov.uk/inheritance-tax/gifts>

<https://www.gov.uk/inheritance-tax/passing-on-home>

<https://www.gov.uk/guidance/trusts-and-inheritance-tax>

<https://www.gov.uk/business-relief-inheritance-tax/what-qualifies-for-business-relief>

For a joined-up commercial review, visit kluk.co. Obtain regulated tax and legal advice before implementing any transaction.

Special case | Spouses and the first death

Transfers between UK-domiciled spouses or civil partners are often IHT-exempt, subject to conditions, and unused nil-rate band and residence nil-rate band percentages may be transferable. The residence nil-rate band normally requires a qualifying home to be closely inherited by direct descendants and may taper for estates above £2 million. A discretionary trust for children does not automatically qualify. Do not assume a transfer should wait until the second death without checking first-death wills and survivor protection.

Special case | The family home versus an investment property

For a family home, test Private Residence Relief by occupation history and gift-with-reservation exposure if the donor stays. Paying full market rent may address a reservation of benefit but can create taxable rental income for the recipient, and other anti-avoidance rules may apply. For a buy-to-let, a gift usually crystallises a market-value CGT gain even with no cash proceeds. Mortgage transfers can also raise SDLT questions.

SIDEBAR | Business Property Relief — not a buy-to-let shortcut

From 6 April 2026, the 100% agricultural/business property relief allowance is £2.5 million for qualifying property, with 50% relief generally applying above that allowance; spouse/civil-partner transfer and trust rules require separate review. Ordinary property investment and letting businesses generally do not qualify for BPR. BPR is an IHT relief, not a CGT exemption.

A practical family decision checklist

Record current value, base cost, title and ownership shares, residence/letting history, outstanding mortgages, ages, health, future accommodation and care needs, running costs, wills, powers of attorney, intended beneficiaries, prior gifts, estate size and liquidity. Then model the five routes on consistent assumptions, showing immediate tax, tax on death, future CGT/income tax, trust costs and who pays.

A coordinated conclusion

The best solution is not the one with the lowest isolated tax figure. It is the one that preserves the family's security and flexibility while optimising net wealth transferred after all taxes and costs. Where a couple is happy and secure in an affordable home, retaining it and reviewing the decision annually can be the right starting point. Before you give away the house, give the whole problem some thought.

Contact and important disclaimer

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Educational UK commentary only, not personal tax, legal or financial advice. Figures are simplified illustrations, not tax quotations. The seven-year period, taper relief, gifts with reservation, hold-over relief, residence nil-rate band, spouse exemptions and trusts have detailed conditions. Seek advice from appropriately qualified UK tax and legal professionals before acting.

