



SQE1 · FLK2 & FLK1 · TAX · 2026 - 2027

Inheritance Tax

for the SQE

Gifts, exemptions, reliefs, the death estate and who pays, with worked examples.

The Ultimate SQE Success Guide.*

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Every IHT question asks the same thing: what came first?

What is This Guide?

A practical route through **Inheritance Tax for SQE1**: the three kinds of transfer and a **decision tree** to sort them, the exemptions and the order to use them, business and agricultural relief as changed on **6 April 2026**, a seven-step method for the **death estate**, the residence nil-rate band, lifetime gifts on death, and who pays and when. Three worked examples run every figure.

Who This Guide is For?

- SQE1 candidates sitting FLK2 (Wills) or FLK1 (Business Law) in 2027
- Anyone who knows the rules but loses marks in the calculation
- Candidates with no tax background
- Paralegals in private client teams who want the rules behind the forms

Why It Matters?

IHT questions reward method. Most wrong options come from a step done in the wrong order: the nil-rate band given to the estate before the gifts, taper applied to the gift instead of the tax, the annual exemption used before the marriage gift. Get the order right and the arithmetic is simple.

How Inheritance Tax Is Tested



There is no tax paper. The SRA examines taxation only inside three subjects, and Inheritance Tax (IHT) sits in two of them. A question gives you a family, some gifts and an estate, and asks who pays, how much, when, or which relief applies.

Where (2027 format)	What the specification lists, in short
Wills and the Administration of Estates FLK2, session 1	Lifetime transfers that are immediately chargeable or potentially exempt, and gifts with a reservation of benefit ; transfers on death; exemptions and reliefs; the scope of anti-avoidance rules. In probate: valuation, excepted estates, funding the first payment, and the burden, liability and incidence of the tax
Business Law and Practice FLK1, session 1	"Inheritance Tax: business property relief."

Figures: given or remembered?

The specification says that where you must apply the value of an exemption or relief, a rate or a threshold, "these will be provided". It also expects you to remember long-standing rates and thresholds. Our advice: learn the figures on page 04 anyway. You still need to know **when** each one applies.

Which law, which tax year

The law examined is the law in force four calendar months before the first day of the window: **11 September 2026** for January 2027 and **12 March 2027** for July 2027. Both fall in the tax year **2026 to 2027**, so this guide uses the 2026 to 2027 law, including the reliefs changed on 6 April 2026.

The question format

Single best answer: five options and "only one correct answer". The assessments are closed book. Expect calculations, and options that differ by one step: the wrong band, a missed exemption, taper applied to the gift instead of the tax.

New for 2026 to 2027

The 2026 annual review added gifts with a reservation of benefit to the lifetime transfer line, and liability beside burden and incidence. The law changed too: 100% business and agricultural relief is now capped at **£2.5 million** (page 09).

Important: this guide is about Inheritance Tax only

The same Wills block also tests the income tax and capital gains tax of personal representatives and beneficiaries during the administration. Those are outside this guide.

Sources: SRA SQE1 Assessment Specification, applicable from 1 September 2026 (updated April 2026), including the Wills and Business Law and Practice FLK lines; Finance Act 2026 Sch 12. Accessed 16 to 21 October 2026.



Inheritance Tax on One Page

TAX YEAR 2026 TO 2027 · TICK THE BOX WHEN YOU KNOW THE FIGURE AND WHEN IT APPLIES

RULE AND WHEN IT APPLIES	FIGURE	PAGE	DONE
Rates and bands			
Nil-rate band Fixed to 2030 to 2031; unused band passes to a spouse or civil partner	£325,000	11	☐
Residence nil-rate band Home closely inherited; tapers £1 for every £2 over £2 million	£175,000	12	☐
Death rate; lifetime chargeable rate Lifetime transfers: half the death rate	40%; 20%	11, 14	☐
Lower rate for charitable estates At least 10% of the baseline amount to charity	36%	11	☐
Time			
Potentially exempt transfer Exempt if the donor survives 7 years	7 years	05	☐
Taper relief Of the death tax, for gifts 3 to 7 years before death	80, 60, 40, 20%	14	☐
Cumulation Before each transfer, so a look-back of up to 14 years	7 years	14	☐
Quick succession relief 100% down to 20% of the earlier tax	5 years	17	☐
Variation or disclaimer From the death, in writing	2 years	17	☐
Exemptions			
Spouse or civil partner; charity Spouse capped at £325,000 if only the donor is a long-term UK resident	No limit	07	☐
Annual exemption Unused part carried forward one year only	£3,000	07, 08	☐
Small gifts Per person, per tax year; not with another allowance	£250	07	☐
Marriage or civil partnership Parent; grandparent or a party; anyone else	£5,000, £2,500, £1,000	07	☐
Normal expenditure out of income Regular, from income, standard of living kept	No limit	07	☐
Reliefs			
Business and agricultural relief at 100% Shared allowance; up to £5 million with a spouse's	£2.5 million	09	☐
Relief above the allowance; AIM shares Also controlling quoted holdings, assets used by the business	50%	09	☐
Minimum ownership Business property; farms: 2 years occupied or 7 owned	2 years	09	☐
Paying the tax			
Pay the tax on death After the end of the month of death	6 months	16	☐
Deliver the IHT account (IHT400) After the end of the month of death	12 months	16	☐
Instalments Land, businesses, some shares	10 years	16	☐

Summary only: each rule has conditions on the page shown. Inheritance Tax Act 1984 and Finance Acts 1986, 2021 and 2026 on legislation.gov.uk; GOV.UK; checked 21 October 2026.

Transfers and the Charge



IHT is charged on the value transferred by a **chargeable transfer** (s 1). A transfer of value is any disposition that makes your estate worth less: the value transferred is the **loss to the estate**, not the value of the gift in the hands of the person who gets it (s 3). There are three kinds of transfer to know.

Potentially exempt transfer

A lifetime gift to **another individual** (or into a disabled trust). It is treated as exempt in life. If the donor survives **7 years** it is exempt for good; if not, it becomes chargeable (s 3A).

Lifetime chargeable transfer

Any other lifetime gift that is not exempt, chiefly a gift into most **trusts**, such as a discretionary trust. Tax is charged now, at **half** the death rate: 20% (s 7(2)).

Transfer on death

On death the person is treated as giving away their whole **estate** immediately before death (s 4). The estate is everything they were beneficially entitled to, less liabilities (s 5).

Gifts with reservation of benefit

If you give something away but keep a benefit, the gift does not leave your estate. Where the donee does not take real possession, or the property is not enjoyed to “the entire exclusion, or virtually to the entire exclusion, of the donor”, the property is treated as still yours at death (Finance Act 1986 s 102). The seven-year rule does not help.

Typical examples

Giving your home to a child but living in it rent free; giving away a caravan and using it for free holidays; giving away a painting and keeping it on your wall (GOV.UK).

How to avoid it

Pay a full market rent and your share of the bills. If the reservation ends in your lifetime, you are treated as making a **PET** at that moment (s 102(4)). Gifts exempt as spouse, small, marriage, charity or political party gifts are outside the rule (s 102(5)); gifts covered only by the annual or normal expenditure exemption are not.

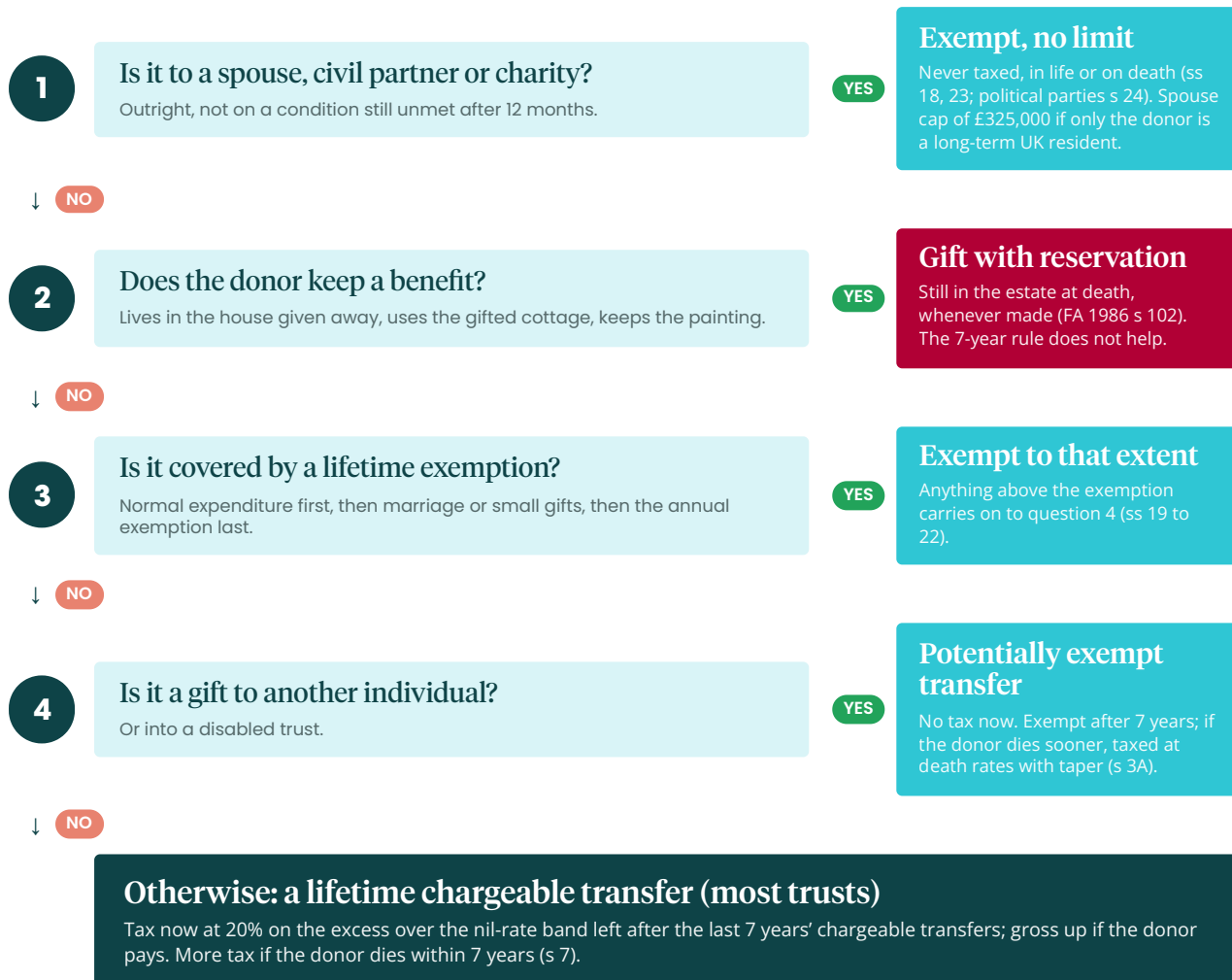
Anti-avoidance in one line

Beyond reservation of benefit, the scope of anti-avoidance includes **associated operations**: two or more linked steps, such as a sale and a later gift of the price, can be taxed as one transfer made at the time of the last step (s 268).

Sources: Inheritance Tax Act 1984 ss 1, 3, 3A, 4, 5, 7, 268; Finance Act 1986 s 102; GOV.UK, How Inheritance Tax works (gifts and passing on a home). Accessed 16 to 21 October 2026.

Which Kind of Transfer?

Our method. Run every lifetime gift through the questions in order. The first YES tells you how it is treated now and what happens if the donor dies within 7 years.



Run it: five gifts

Gift	Stops at	Treatment
Tom transfers £200,000 of shares to his wife; both are long-term UK residents	1	Exempt
Ann gives her house to her son and stays on, paying no rent	2	Gift with reservation
Bea sends her nephew a £200 birthday cheque	3	Exempt: small gift
Carl gives his daughter £50,000; he made no gifts last year	3, then 4	£6,000 exempt; PET of £44,000
Dee puts £400,000 into a discretionary trust	End	Lifetime chargeable transfer

Our examples, invented names. In Carl's case, this year's £3,000 and last year's unused £3,000 come off first.



Exemptions

Exempt transfers are never taxed. Two exemptions work in life **and** on death; the rest are for lifetime gifts only.

Exemption	Limit	Key condition
Spouse or civil partner (s 18) life and death	None	Property must pass to the spouse or civil partner. Capped at £325,000 if the donor is a long-term UK resident and the spouse is not. Not if the gift depends on a condition still unmet after 12 months
Charities and registered clubs (s 23) life and death	None	Property must become the charity's outright, not a limited or conditional interest. Gifts to qualifying political parties are also exempt (s 24)
Annual exemption (s 19)	£3,000 a year	Tax year to 5 April. Any unused part carries forward to the next year only
Small gifts (s 20)	£250	Outright gifts to any one person in a tax year, not over £250 in total; not with another allowance for the same person (GOV.UK)
Marriage or civil partnership (s 22)	£5,000 / £2,500 / £1,000	By a parent; by a grandparent or remoter ancestor, or by one party to the other; by anyone else
Normal expenditure out of income (s 21)	None	Part of the donor's normal spending, out of income (taking one year with another), leaving enough income for their usual standard of living

The annual exemption in detail

This year first

Use the current year's £3,000 first, then any unused part of last year's. Anything older is lost (IHTM14144).

Earlier gifts first

Within a year, the exemption covers earlier gifts first: any excess is attributed to later transfers (s 19(3)). A PET is left out at first and, if it fails, is treated as made after the year's other transfers (s 19(3A)).

Sources: Inheritance Tax Act 1984 ss 18 to 24; HMRC Inheritance Tax Manual IHTM14132, IHTM14144; GOV.UK, How Inheritance Tax works (rules on giving gifts). Accessed 16 to 21 October 2026.

Using the lifetime exemptions

Exam questions turn on the **order**. HMRC applies normal expenditure out of income first and the annual exemption **last**, after every other exemption (IHTM14132). Business or agricultural relief comes off before the annual exemption (IHTM14142).

Worked: one family, one tax year

Our example. In 2026 to 2027 **Joan** gives her son **£5,000** on his wedding day, and her granddaughter **£9,000** in March 2027. She gave nothing in 2025 to 2026. She also pays her grandson's rent of £400 a month from her pension, with plenty left to live on.

1

The rent: **exempt** as normal expenditure out of income (s 21). Applied first, no limit.

2

The wedding gift: £5,000 by a parent is **exempt** (s 22). The annual exemption is untouched.

3

The £9,000: less £3,000 for 2026 to 2027 and £3,000 brought forward = a **PET of £3,000**.

The small gifts trap: £250 is all or nothing. A £300 gift is not "£250 exempt plus £50": the small gifts exemption does not apply at all (s 20), though the annual exemption can cover it.

Lifetime only

The annual, small gifts, marriage and normal expenditure exemptions are for lifetime gifts. On death, only exemptions such as spouse and charity reduce the estate (IHTM14132 calls the first group the exemptions that apply solely to lifetime transfers).

Exemptions on death

Spouse: a survival clause is fine

A gift that takes effect only after another interest ends, or on a condition unmet 12 months after the death, is not exempt. But a gift to a spouse "if they survive me by 28 days" still qualifies (s 18(3)).

Charity: the 36% rate

The charity gift is exempt, and if it is at least **10% of the baseline amount** (broadly the estate after the nil-rate band, with the charity gift added back), the rest is taxed at **36%** (Sch 1A).

A partly exempt estate

Only the non-exempt part is charged. Leaving the residue to a spouse and a legacy to a child: the legacy uses the nil-rate band and any unused band can pass to the spouse (s 8A).

Our example, invented names. Rules: IHTA 1984 ss 8A, 18 to 23, Sch 1A; HMRC Inheritance Tax Manual IHTM14132, IHTM14142, IHTM14144. Accessed 16 to 21 October 2026.

4 Business and Agricultural Relief



Business property relief (BPR) and agricultural property relief (APR) reduce the **value transferred**, before exemptions and the nil-rate band. For transfers on or after **6 April 2026**, Finance Act 2026 changed both.

Relevant business property (s 105)	Relief	Note
A business or an interest in one; unquoted shares; unquoted securities giving control	100%, then 50%	100% up to the allowance, 50% above it (s 104(1), (1A))
Unquoted shares traded on a recognised exchange, such as AIM	50%	Outside the 100% categories since 6 April 2026 (s 105(1)(aa); GOV.UK)
Quoted shares or securities giving control	50%	s 105(1)(cc)
Land, buildings, machinery used by a company you control or a partnership you are in	50%	s 105(1)(d)

The £2.5 million allowance

The 100% rate applies only up to **£2.5 million**, shared by BPR and APR and reduced by 100% relief used on transfers in the previous 7 years (s 124D). Unused allowance passes to a surviving spouse or civil partner: up to £5 million (s 124E; GOV.UK).

The conditions

Owned for **2 years** before the transfer (s 106). No relief for a business mainly **dealing in shares or land or holding investments** (s 105(3)). A company in liquidation is excluded (s 105(5)).

Agricultural relief

On the **agricultural value** only, not any extra development value (s 115). The farm must have been occupied by the transferor for agriculture for 2 years, or owned for 7 and farmed (s 117). 100% needs vacant possession (or the right to it within 12 months) or a letting on a tenancy beginning on or after 1 September 1995 (s 116).

Gifts in life

If the donor dies within 7 years, the relief survives only if the donee still owns the property at the death and it still qualifies (s 113A).

Sources: Inheritance Tax Act 1984 ss 104 to 106, 113A, 115 to 117, 124D, 124E as amended by Finance Act 2026 Sch 12 (in force for transfers from 6 April 2026); GOV.UK, Business Relief for Inheritance Tax. Accessed 16 to 21 October 2026.

The 2026 Reliefs, Worked

Our example, invented figures, the law for deaths on or after 6 April 2026.

Ella dies on **1 December 2026**, single, leaving everything to her nephew. She owned all the shares in **Ella Tools Ltd**, an unquoted trading company, for 10 years: worth **£3,100,000**. She also had **AIM shares** worth £200,000 (held 5 years), a **let flat** worth £400,000 and **cash** of £300,000. No debts, no lifetime gifts.

Asset	Value	Relief	Taxable
Ella Tools Ltd shares, first £2.5m	£2,500,000	100%: the allowance	nil
Ella Tools Ltd shares, the rest	£600,000	50%	£300,000
AIM shares	£200,000	50% only	£100,000
Let flat	£400,000	None: an investment	£400,000
Cash	£300,000	None	£300,000
Chargeable estate			£1,100,000
Less nil-rate band		No residence band: no home to descendants	(£325,000)
Taxed at 40%		£775,000 × 40%	£310,000

If Ella had been a widow

Had her husband died before 6 April 2026, his full £2.5 million allowance could be added: £5 million in all. Then all £3.1 million of company shares would get 100%. The AIM shares would still get only 50%.

If she had given the shares away

A gift to her nephew in 2025 would be a PET. On her death within 7 years, relief needs him still to own qualifying shares (s 113A), and as the gift was after 29 October 2024 the new £2.5 million cap applies (FA 2026 Sch 12 para 17).

The two-year test

Had Ella bought the company 18 months before she died, there would be **no relief** at all on it (s 106).

Paying it

Tax on the company shares can be paid in 10 annual instalments, interest-free because they qualify for BPR (ss 227, 234; GOV.UK).

Our example, worked from IHTA 1984 ss 104 to 106, 113A, 124D, 124E, 227 and 234 as amended by Finance Act 2026, and GOV.UK Business Relief guidance.

The Death Estate



Every death question follows the same steps. Learn them in this order and write each figure down.

Step	Do this	The rule
1	Value the estate	Everything the deceased was beneficially entitled to, at market value, plus gifts with reservation (s 5; FA 1986 s 102)
2	Deduct liabilities	Debts and funeral expenses. A debt counts only if incurred for money or money's worth, unless imposed by law (s 5(5))
3	Deduct reliefs	BPR and APR (page 09)
4	Deduct exemptions	Gifts to the spouse or civil partner and to charity (ss 18, 23)
5	Take off the residence nil-rate band	If the home goes to direct descendants: up to £175,000, plus any transferred (page 12)
6	Take off what is left of the nil-rate band	£325,000, plus any transferred from a spouse, less chargeable transfers in the 7 years before death (s 7(1), s 8A)
7	Charge the rest at 40%	Or 36% if at least 10% of the baseline amount goes to charity (Sch 1A)

The transferable nil-rate band

If a spouse or civil partner died first without using all of their nil-rate band, the unused **percentage** is added to the survivor's band at the survivor's death. The extra is capped at 100%: so at most £650,000 (s 8A).

Who dies first?

If it cannot be known who died first, IHT treats them as dying at the **same instant** (s 4(2)). The elder's estate can still pass to the younger, and be spouse exempt, but is not taxed again in the younger's estate (IHTM12197).

Lifetime gifts come first

The nil-rate band is used by chargeable lifetime transfers in the 7 years before death before it reaches the estate. The residence nil-rate band does not apply to gifts, so it is still there for the estate (GOV.UK).

Sources: Inheritance Tax Act 1984 ss 4, 5, 7, 8A, 8D, 18, 23, Schs 1 and 1A; HMRC Inheritance Tax Manual IHTM12197; Finance Act 1986 s 102; Finance Act 2021 s 86 as amended by Finance Act 2026 s 72; GOV.UK, How Inheritance Tax works and the residence nil rate band guidance. Accessed 16 to 21 October 2026.

The residence nil-rate band

An extra nil-rate band of up to **£175,000** (fixed until 2030 to 2031) where a home is **closely inherited** (ss 8D, 8E). With £325,000, that gives up to £500,000 for one person and up to £1 million for a couple.

1. A home

An interest in a dwelling-house that was the deceased's residence at some time while they owned it. With two or more, the personal representatives nominate one (s 8H).

2. Closely inherited

Passing on death to **direct descendants**: children (including step, adopted and foster children), grandchildren and their spouses or civil partners. Not nephews, nieces or siblings (GOV.UK).

3. On death, outright

By will, intestacy or otherwise, including in residue. A home held on trust until the grandchildren reach 25 does **not** qualify: they do not inherit at the death (GOV.UK).

4. Capped by the home

The band is the lower of the allowance and the value of the home that is closely inherited. A cheaper home cannot use the rest against other assets; the unused part can pass to a spouse (GOV.UK).

The taper above £2 million

The band reduces by **£1 for every £2** that the estate exceeds £2 million. Measure the estate **before** exemptions and reliefs, after debts (GOV.UK). So a single person's band disappears at £2,350,000.

Net estate (before exemptions and reliefs)	Excess over £2m	Band left (allowance £175,000)
£2,100,000	£100,000	£175,000 less £50,000 = £125,000
£2,400,000	£400,000	Nil: £200,000 taper exceeds the allowance

Transferred band: the unused percentage of a spouse's residence nil-rate band can be brought forward on the second death (s 8G), but the survivor's estate still needs a home closely inherited, and taper applies to the combined amount.

Run it: three estates

Death in 2026 to 2027, no lifetime gifts	Residence band	Nil-rate band	Tax
Single; estate £600,000; home £250,000 to her son	£175,000	£325,000	£100,000 × 40% = £40,000
Single; estate £600,000; flat £120,000 to his daughter	£120,000	£325,000	£155,000 × 40% = £62,000
Widow, all of her husband's bands unused; estate £900,000; home £400,000 to her children	£350,000	£650,000	nil

Sources: Inheritance Tax Act 1984 ss 8D, 8E, 8G, 8H; Finance Act 2021 s 86 as amended; GOV.UK, Work out and apply the residence nil rate band for Inheritance Tax. Taper rows and the three estates are our examples. Accessed 16 to 21 October 2026.

Worked Example: an Estate

The seven steps from page 11. Invented client and figures.

Margaret dies on **10 November 2026**. Her husband **Tom** died in 2020 and left everything to her, so he used **none** of his nil-rate band or residence nil-rate band. Margaret owns her home, worth **£450,000**, and savings and investments of **£720,000**. Her debts and funeral cost **£10,000**. Her will leaves £20,000 to a charity and the rest, including the home, to her two children. She made no lifetime gifts beyond her annual exemptions.

Step	Working	Figure	Why
1	Home + savings and investments	£1,170,000	Market value at death
2	Less debts and funeral	£1,160,000	This is also the figure for the taper test: under £2m
3	Reliefs	none	No business or farm
4	Less the charity legacy	£1,140,000	Exempt (s 23)
5	Less residence nil-rate band: £175,000 + Tom's £175,000	£790,000	Home £450,000 to children covers the full £350,000
6	Less nil-rate band: £325,000 + Tom's £325,000	£140,000	No chargeable gifts in 7 years
7	£140,000 × 40%	£56,000	The charity gift is far short of 10% of the baseline amount, so not 36%

Who pays, and from what

The personal representatives pay. The tax is a testamentary expense borne by **residue** (s 211), which goes to the children; the charity's £20,000 is untouched.

When

Tax: by **31 May 2027**, the end of the sixth month after November. The IHT400: by **30 November 2027**. The PRs must pay before they can get the grant.

If the home had gone to her nephew

No residence nil-rate band: a nephew is not a direct descendant. Tax would be £490,000 × 40% = **£196,000**.

If Tom had left £325,000 to the children

He would have used all of his nil-rate band, so none could pass to Margaret. Her band would be £325,000, not £650,000.

Our example. Rules: IHTA 1984 ss 5, 7, 8A, 8D to 8G, 23, 211, 216, 226, Sch 1A; GOV.UK.

Lifetime Gifts on Death



When someone dies, look back **7 years** from the death. Deal with the lifetime gifts first, oldest first, then the estate.

In life: a chargeable transfer

Tax at **20%** on the excess over the nil-rate band left after chargeable transfers in the previous 7 years (s 7). If the **donor pays**, the tax is part of the loss to the estate (s 5(4)), so **gross up**: excess ÷ 0.8 (IHTM14541, IHTM14544).

On death: failed PETs and chargeable transfers

Recalculate at the **full death rate** (40%) using the nil-rate band at death (IHTM14574). Apply taper relief, then deduct any lifetime tax paid. Lifetime tax is **never repaid** (s 7(5); IHTM14571).

Taper relief

Years between gift and death	Tax charged (% of full)	Effective rate
0 to 3	100%	40%
More than 3, up to 4	80%	32%
More than 4, up to 5	60%	24%
More than 5, up to 6	40%	16%
More than 6, up to 7	20%	8%

s 7(4); GOV.UK. Calendar years, not tax years; a death on an anniversary falls in the next band (IHTM14612, IHTM14613).

Taper cuts tax, not value

It reduces the tax on the gift. A gift within the nil-rate band has no tax to reduce, so taper gives nothing (GOV.UK).

The 14-year look-back

Each gift is taxed after the chargeable transfers in the 7 years **before it**. A PET made 6 years 11 months before death can pull in a trust gift made up to 13 years 11 months before death (IHTM14514).

Who pays

Tax on a failed PET is primarily the **donee's**; the personal representatives are liable only if it is unpaid 12 months after the end of the month of death (ss 199, 204(8)).

Sources: Inheritance Tax Act 1984 ss 3A, 5(4), 7, 199, 204; HMRC Inheritance Tax Manual IHTM14513, IHTM14514, IHTM14541, IHTM14544, IHTM14571, IHTM14574, IHTM14612, IHTM14613; GOV.UK, How Inheritance Tax works. Accessed 16 to 21 October 2026.

Worked Example: Gifts, then Death

Invented client and figures. The nil-rate band was £325,000 throughout.

Raj, divorced, made two gifts and no others: **£340,000** into a discretionary trust on **15 March 2021**, paying the tax himself, and **£100,000** to his daughter on **10 May 2023**. He dies on **20 September 2026**, leaving his home (£300,000) and other assets (£300,000), net of debts, to his son.

In life: the trust gift, March 2021

£340,000 less two annual exemptions (2020 to 2021 and 2019 to 2020)	£334,000	Earlier chargeable transfers: none
Excess over £325,000, grossed up: £9,000 ÷ 0.8	£11,250	Raj pays, so gross up
Lifetime tax at 20%; gross transfer £334,000 + £2,250	£2,250	Gross chargeable transfer £336,250

On death: oldest first

Working	Figure	Why
Trust gift: (£336,250 – £325,000) × 40% = £4,500; 5 to 6 years, so 40% of that	£1,800	Less £2,250 paid: nothing more , and no refund
Gift to daughter: £100,000 less two annual exemptions	£94,000	The PET has failed: death within 7 years
Nil-rate band left for it: the trust gift is within 7 years before it and uses all £325,000	nil	Cumulation (IHTM14513)
£94,000 × 40% = £37,600; 3 to 4 years, so 80%	£30,080	Daughter pays, by 31 March 2027
Estate £600,000 less residence band £175,000 (home to son)	£425,000	Gifts in 7 years used the whole nil-rate band
£425,000 × 40%	£170,000	PRs pay, by 31 March 2027

The lesson

The trust gift cost little in life but swallowed the whole nil-rate band, so the daughter's gift and the estate paid full rates. The residence band survived because it never applies to gifts.

If Raj had lived past 15 March 2028

The trust gift would drop out of the estate's 7 years, but not out of the PET's: it was made within 7 years before the PET.

Our example. Rules: IHTA 1984 ss 3A, 5(4), 7, 19, 199, 204, 226; IHTM14513, IHTM14541, IHTM14571; GOV.UK.

Paying the Tax



The specification separates three questions: who is **liable** to HMRC, who **bears** the tax in the end, and what **incidence** it has on each gift.

Tax on	Liable to HMRC	Burden in the end
The free estate (UK, not settled)	The personal representatives, up to the assets they receive (ss 200, 204)	A testamentary expense, paid from residue , unless the will says otherwise (s 211)
Settled property	The trustees (s 200(1)(b))	The trust fund
A failed PET; gift with reservation	The donee; the PRs only if unpaid 12 months after the end of the month of death (s 204(8), (9))	The donee
A chargeable lifetime transfer	The transferor or the trustees (s 199)	Whoever pays, as agreed (grossing up if the donor)

Co-owners: a joint tenant's share passes by survivorship and never vests in the PRs, so the tax on it is not a testamentary expense. The surviving co-owner, in whom it vests, is liable and bears it; PRs who pay it can recover it (ss 200(1)(c), 211).

Deadlines and the account

Pay

By the end of the **sixth month** after the month of death: died in January, pay by 31 July. Interest runs after that (s 226; GOV.UK).

Account

IHT400 within **12 months** of the end of the month of death (or 3 months from first acting, if later), and before applying for probate (s 216; GOV.UK).

Excepted estates

Most estates need no IHT400: for example, worth under the threshold, or under £3 million and all to a UK spouse or charity (GOV.UK).

Funding the first payment

Tax on the estate is usually paid **before** the grant, when PRs cannot yet sell assets. GOV.UK lists the ways: the deceased's bank, savings or investment accounts through the **Direct Payment Scheme** (form IHT423); British government stock; or a PR's own or joint account, claimed back from the estate later. PRs can also make **payments on account** before the final figure is known. Tax on land, businesses and some shares can be paid in **10 annual instalments** (s 227); interest-free (s 234) for assets qualifying for BPR or APR inherited from 6 April 2026.

Sources: Inheritance Tax Act 1984 ss 199, 200, 204, 211, 216, 226, 227, 234; GOV.UK, Pay your Inheritance Tax bill and Valuing the estate of someone who's died. Accessed 16 to 21 October 2026.

Changing the will after death

Beneficiaries can redirect what they inherit by a **variation**, or refuse it by a **disclaimer**. For IHT it is read back into the will, as if the deceased had made the change (s 142), if:

Within 2 years

Of the death, in writing, by the person giving up the benefit.

A statement

A variation must say that s 142(1) is to apply. The PRs must join in if more tax becomes payable.

No payment

Not made for money or money's worth, other than another variation or disclaimer.

Why it matters: a child who varies a gift to their own children makes no PET of their own; and a variation that leaves the home to direct descendants can bring in the residence nil-rate band (GOV.UK).

Quick succession relief

If the deceased's estate was increased by a chargeable transfer, such as an inheritance on which tax was paid, within **5 years** before the death, the tax on the death is reduced by a percentage of the tax paid on that earlier transfer, so far as it relates to the increase (s 141).

Earlier transfer before death	1 year or less	1 to 2	2 to 3	3 to 4	Over 4, up to 5
Relief	100%	80%	60%	40%	20%

Valuation after death

Market value at death

Value assets at what they would fetch on sale; for cars, jewellery and paintings, look at what similar items sell for (GOV.UK).

Loss on sale relief

Land sold at a loss within **4 years** (form IHT38) or shares within **12 months** (IHT35) can reduce the value for tax (GOV.UK).

Not in your 2027 exam: pensions

Unused pension funds come into the estate for deaths on or after **6 April 2027** (Finance Act 2026 s 71). That is after the cut-off for both 2027 SQE1 sittings, so it is not examinable law for 2027.

Sources: Inheritance Tax Act 1984 ss 141, 142; Finance Act 2026 s 71; GOV.UK, Valuing the estate of someone who's died and the residence nil rate band guidance. Accessed 16 to 21 October 2026.

Exam Traps

Ten ways a plausible option can be wrong. Check every answer against them.

1. Taper cuts the tax

Taper relief reduces the tax on a gift, not its value, and does nothing for a gift inside the nil-rate band.

3. The residence band skips gifts

It applies only to the death estate, and only to a home passing to direct descendants. Nephews and nieces do not count.

5. Who pays changes the figure

If the donor pays the lifetime tax, gross up. If the trustees pay, do not.

7. Look back 14 years

A failed PET is cumulated with chargeable transfers in the 7 years before the PET, not before the death.

9. Living in the gifted house

A gift with reservation stays in the estate whenever it was made. Seven years do not save it.

2. Gifts take the band first

Chargeable transfers in the 7 years before death use the nil-rate band before the estate does.

4. A trust gift is not a PET

A gift into a discretionary trust is taxed now at 20%. Only gifts to individuals (or disabled trusts) are PETs.

6. Lifetime tax is never refunded

On death, deduct it from the new figure. If the result is negative, the answer is nil, not a repayment.

8. The annual exemption runs last

Marriage gifts and normal expenditure come off first. This year's £3,000 before last year's, and only one year back.

10. Older materials

Since 6 April 2026: 100% relief capped at £2.5 million, AIM shares at 50%. Bands fixed to 2030 to 2031.

Before you choose, ask three questions

1

What kind of transfer is it: exempt, PET, chargeable, or on death?

2

What came before it in the 7 years, and how much band is left?

3

Who pays, and does anything reduce the tax: taper, a relief, a credit?

Test yourself

Cover the answers and give yourself a minute for each. All names and figures are invented; ignore annual exemptions unless the question mentions them.

1 Una gives her son £400,000 and dies 4 years and 6 months later, with no other gifts. What tax is due on the gift, and who pays?

Answer. $£75,000 \times 40\% = £30,000$, at 60% for 4 to 5 years: **£18,000**, payable by the son.

2 Same facts, but the gift was £300,000. Does taper relief help?

Answer. No tax on the gift, so taper gives nothing. But it uses £300,000 of the nil-rate band, leaving £25,000 for the estate.

3 In 2026 to 2027 Nina gives a friend £5,000. She made no gifts in 2025 to 2026. Is any of it a PET?

Answer. No. £3,000 for this year plus £3,000 brought forward covers it all.

4 A grandmother gives her grandson £6,000 on his wedding. She has used last year's annual exemption but not this year's.

Answer. £2,500 marriage exemption, then £3,000 annual: a **PET of £500**.

5 Leo puts £335,000 into a discretionary trust; the trustees pay the tax. No earlier gifts; exemptions used elsewhere.

Answer. £10,000 over the band at 20% = **£2,000**. No grossing up.

6 Same, but Leo pays the tax himself.

Answer. $£10,000 \div 0.8 = £12,500$; tax **£2,500**. Gross transfer £337,500.

7 A widower's estate is £2,200,000, including a £600,000 home left to his daughter. No transferred bands. Residence nil-rate band?

Answer. £175,000 less half of £200,000 = **£75,000**.

8 Same facts, but the home is left to his niece.

Answer. None. A niece is not a direct descendant.

9 Death on 14 January 2027. When must the IHT be paid, and the IHT400 delivered?

Answer. Tax by **31 July 2027**; the account by **31 January 2028**.

10 In 2019 a father gave his son a holiday cottage, and kept using it free every summer until he died in 2026.

Answer. A gift with reservation: the cottage is taxed as part of his estate at its value at death.

11 Mia inherited from her brother, whose estate paid IHT, 18 months before her own death. Any relief?

Answer. Quick succession relief: **80%** of the tax paid on what she inherited (s 141).

12 Sam bought shares in an unquoted trading company 18 months before he died. Business property relief?

Answer. None. He did not own them for 2 years (s 106).

Your Inheritance Tax Checklist

Tick a line only when you can do it from blank paper, with the figures, in under two minutes.

Transfers

- ☐ I can sort any gift into exempt, PET, chargeable or reservation of benefit (pages 05 and 06)
- ☐ I know what associated operations and gifts with reservation catch (page 05)

Exemptions and reliefs

- ☐ I know every exemption, its limit and the order to apply them (pages 07 and 08)
- ☐ I can apply business and agricultural relief, the £2.5 million allowance and the 2-year test (pages 09 and 10)

The death estate

- ☐ I can run the seven steps from blank paper (page 11)
- ☐ I can work out the residence nil-rate band, with taper and a transferred band (page 12)
- ☐ I can transfer an unused nil-rate band from a spouse (pages 11 and 13)

Lifetime gifts

- ☐ I can tax a trust gift in life, with and without grossing up (page 14)
- ☐ I can recalculate gifts on death: cumulation, taper and credit (pages 14 and 15)

Paying and after death

- ☐ I know who is liable, who bears the tax and the deadlines (page 16)
- ☐ I know variations, quick succession relief and loss on sale relief (page 17)

On the day

- ☐ I ask the three questions before choosing an answer (page 18)
- ☐ I have scored twelve out of twelve on the self-test, under time (page 19)

Make the method automatic

STEP 1

Learn the map

The one-page table on page 04: cover the figure column and test yourself.

STEP 3

Work on paper

Rework the examples on pages 10, 13 and 15 from blank paper, step by step.

STEP 5

Build exam pace

Full-length SQE1 mocks in the 2027 format (2 x 85 questions).

STEP 2

Sort the transfer

Run the decision tree on page 06 for every gift in a question, before any arithmetic.

STEP 4

Test yourself

The twelve questions on page 19, then the traps on page 18.

STEP 6

Questions?

Email support@fqps.co.uk and a person will answer.

FQPS Academy. Full-length SQE1 mocks in the 2027 format (2 x 85 questions).

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Tax rewards little and often. Cover the figure column on page 04 each morning, and rework one example from blank paper each day: sort the transfers, use the bands in date order, then the estate.



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