Worth Financial Planning Limited

Spring Newsletter 2026

The evolving landscape of inheritance tax

Why staying informed and planning ahead can be vital

Worth Financial Planning Limited
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Inside this issue

The evolving landscape of inheritance tax

Many young people are finding it increasingly difficult to buy their first home. Your pension could help your loved ones get on the housing ladder.

Will your state pension be enough?

Achieving a comfortable retirement requires thoughtful planning and foresight and your state pension and any shortfalls should be part of that planning.

Fixed Interest Savings

Fixed-rate savings bonds are interest-paying savings accounts offered by banks and building societies for a fixed amount of time. You may get a higher interest rate than from instant access savings accounts, but you will be tied in.

The hidden tax of fiscal drag

As frozen thresholds and rising rates squeeze earners, understanding 2026's evolving tax landscape is no longer optional—it's important for financial planning.

Lifetime ISA 2026

It is anticipated that the existing version, which can be used for both home purchases and retirement savings, will be replaced by a new product aimed specifically at first-time home-buyers after a consultation in early 2026.
It may be worth opening a LISA if you fit the criteria (and haven't already), whilst the product is still available.

Welcome to the spring edition of our quarterly client newsletter, which provides topical financial articles.

These newsletters are intended to bring a few key topical issues to your attention. If you would like to discuss any of them (or any other aspect of your financial planning) in more depth, please contact us.

Please note: We may not necessarily advise on all the topics in each newsletter, but thought they may be of interest to you.

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Any information in this newsletter does not constitute advice and should not be acted upon without taking professional guidance.

The value of pensions and investments and the income they produce can fall as well as rise and you may not get back the full amount that you originally invested.

The evolving landscape of inheritance tax

The landscape of inheritance tax (IHT) is certainly changing. A measure is being brought in, from 6 April 2027, which is to include most unused pension funds and death benefits within the value of a person's estate for inheritance tax purposes.

People have been leaving their pension untouched so they could be passed on in a tax efficient manner rather than being used to provide an income in retirement. The changing landscape of IHT will likely lead to people looking to gift more money to loved ones while they are still alive and look to spend their pensions as retirement income rather than leave them untouched.

The government also confirmed that the nil-rate band (£325,000) and residence nil-rate band (£175,000) will remain frozen until 5th April 2031. With inflation and rising property values, this freeze may mean more estates will fall into the IHT net over time.

Reviewing your estate planning strategy could well be an important step you need to make to help ensure assets remain as tax-efficient as possible.

How can I mitigate my IHT liability?

There are many ways to pass on your wealth tax efficiently. In this article we are just going to touch on life insurance in trust.

- Using life insurance
- Setting up trusts
- Gifts to charity
- Leaving your estate to a spouse or civil partner
- Lifetime gifts

Life Insurance in trust

When you purchase a life insurance policy, the insurer may offer you the option to write it in trust. This would mean the proceeds would go directly to the beneficiaries named in the trust, rather than being part of your estate.

When a life insurance policy is written in trust, the policy is transferred to the trust, and the trust then becomes the owner of the policy. This means that when the policyholder dies, the proceeds of the policy are paid out to the named beneficiaries within the trust, rather than being part of the deceased's estate.

Trusts of life policies are, subject to certain conditions and the policy must only pay out:

- on the death, terminal or critical illness or permanent or temporary disablement of the person assured, or
- to meet the cost of healthcare services provided to the person assured.

You will need to decide which type of trust is right for you.

With a trust you may be able to protect your beneficiaries from Inheritance tax. There still may be an Inheritance tax liability if someone has been named as a beneficiary within seven years of your death, other than a spouse or partner.

The Financial Conduct Authority does not regulate Estate Planning, Inheritance Tax Planning, Taxation Advice, Wills and Trusts.

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Will your state pension be enough?

Will your state pension keep up with what you need?

Knowing what to expect from your future State Pension, and when you can expect to get it, can be an important part of planning for your life after work. From April 2026 the state pension will have increased by 4.8%, in line with the triple lock guarantee.

Even with this rise in April, a full new State Pension will be just under £12,550 a year. Keep in mind that the Retirement Living Standards (from June 2025) suggested a single person would need £13,400 a year to cover just a 'minimum' retirement lifestyle.

Achieving a comfortable retirement requires thoughtful planning and foresight and your state pension and any shortfalls should be part of that planning.

https://www.retirementlivingstandards.org.uk/library/2025-rls-update

Your State Pension

The State Pension is a four-weekly payment made by the government to people who have reached the qualifying age and have paid enough National Insurance contributions.

In November last year, the government confirmed that the State Pension would increase by 4.8% which delivered on their “triple lock” commitment to increase rates in line with the highest of growth in prices, growth in earnings or 2.5%. The amount you receive could be different depending on whether you contracted out before 2016, the number of national insurance qualifying years you have and if you paid into the Additional State Pension before 2016.

This means that the full annual rate of the basic state pension will be over £9,614.80 from next April and the full rate of the new state pension will rise to £12,547.60.

From April 2026, the full rate of new State Pension is £241.30 a week and £184.90 a week for the full, old basic state pension.

The State Pension Age may change

There has been no recent changes to the timetable for receiving a state pension. With men and women born between 6 October, 1954 and 5 April, 1960 receiving their pension at the age of 66. A gradual rise to 67 for those born on, or after, 5 April 1960 and a gradual rise to 68 between 2044 and 2046 for those born on, or after, 5 April 1977.

However, The International Longevity Centre, the UK's specialist think tank which tracks the impact of growing life expectancy and falling birth rates, argues that the UK will have to increase the state pension age to 71 by 2050, to keep the cost sustainable.

https://ilcuk.org.uk/ageing-populations-forced-to-increase-state-pension-age-to-71-by-2050-to-maintain-dependency-ratio/

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than originally invested.

Fixed Interest Saving

British Savings Bonds

With British Savings Bonds, you can set money aside securely for the longer term while benefiting from the certainty of a guaranteed interest rate. These are specifically designed as fixed-rate savings accounts that lock away your capital for a set period, offering a choice between receiving your returns as accumulated growth or as a regular monthly income. Because these bonds are provided by NS&I, your money remains 100% secure, as all deposits are fully backed by HM Treasury.

What is a British Savings Bond?

While the term "bond" is often used to describe tradable market securities, a British Savings Bond from NS&I is strictly a fixed-interest savings product. In the Spring Budget 2024, the Chancellor of the Exchequer introduced this as an "umbrella term" for Guaranteed Growth Bonds and Guaranteed Income Bonds to encourage more people to save for the longer term.

It is important to distinguish these from investment bonds (such as Gilts); while both involve lending to the government, British Savings Bonds are cash deposits with a fixed return rather than tradable assets that fluctuate in value.

https://www.nsandi.com/british-savings-bonds

Guaranteed Growth Bonds

With a growth bond, you earn a guaranteed return over a fixed term, with the interest added to your Bond rather than paid out. The total interest you earn will count toward your taxable income in the specific tax year your Bond matures.

This may be a good fit if: You are looking for a guaranteed interest rate for a fixed term, have an initial deposit of £500 or more, and are comfortable managing your account online without needing access to the interest until the term ends.

Guaranteed Income Bonds

These allow you to earn a guaranteed monthly income for a fixed term. Unlike the growth version, the interest you earn will count toward your taxable income in the tax year(s) it is received by you.

This may be a good fit if: You want your interest paid out every month to supplement your income, have £500 or more to invest, and prefer the security of a fixed-term rate that remains unaffected by base rate changes.

Distinguishing from Investment Portfolios

It is essential to distinguish these cash products from investment bonds (market-based debt) used in diversified portfolios. While investors use investment bonds or Gilts to provide predictable returns and reduce volatility, they carry different risks to cash. In contrast, British Savings Bonds offer a guaranteed return for those prioritising absolute capital security.

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The hidden tax of fiscal drag

As frozen thresholds and rising rates squeeze earners, understanding 2026's evolving tax landscape is no longer optional—it's becoming essential for informed financial planning.

Fiscal drag can occur when the government freezes tax thresholds while nominal wages rise with inflation. Current policies have frozen the Personal Allowance at £12,570 and the higher-rate threshold at £50,270 until April 2031. This "stealth tax" is projected to create both many more new taxpayers and new higher-rate taxpayers by the end of the decade.

For many, a simple inflationary pay rise now may trigger a 40% tax bracket, not because they are wealthier, but because the tax bands have remained static for many years.

Rising Rates on Assets and Savings

Beyond threshold freezes, 2026 brings explicit rate increases designed to align the taxation of investment income with earnings:

Dividend Tax: From 6 April 2026, the ordinary and upper rates are scheduled to increase by 2% to 10.75% and 35.75% respectively. The additional rate is expected to remain unchanged at 39.35%.

Savings & Property: Starting April 2027, the government has proposed a 2% rise across all bands, reaching 22% (basic), 42% (higher), and 47% (additional).

Capital Gains: Following the October 2024 Budget, rates on most assets now sit at 18% for basic-rate and 24% for higher-rate taxpayers.

Strategic Responses

To navigate this tightening environment, financial advisors are emphasizing three core strategies:

Pension Contributions: This could be an effective tool to lower taxable income, helping individuals avoid the 60% "tax trap" who earn between £100,000 and £125,140 or retain eligibility for Child Benefit.

ISA Maximisation: Sheltering assets within the £20,000 annual ISA allowance can be important as taxes on interest and dividends rise. Notably, from April 2027, the amount under-65s can save specifically into Cash ISAs will be capped at £12,000 annually within that overall limit.

Salary Sacrifice: Exchanging salary for pension contributions remains effective, though from April 2029, the National Insurance exemption on these contributions will be capped at £2,000 per year.

The 2026 fiscal landscape appears to be evolving from indirect threshold freezes toward more direct rate adjustments.

To keep your financial plan efficient, it may be worth considering moving from simple saving to proactive planning—using any available allowances before the window narrows.

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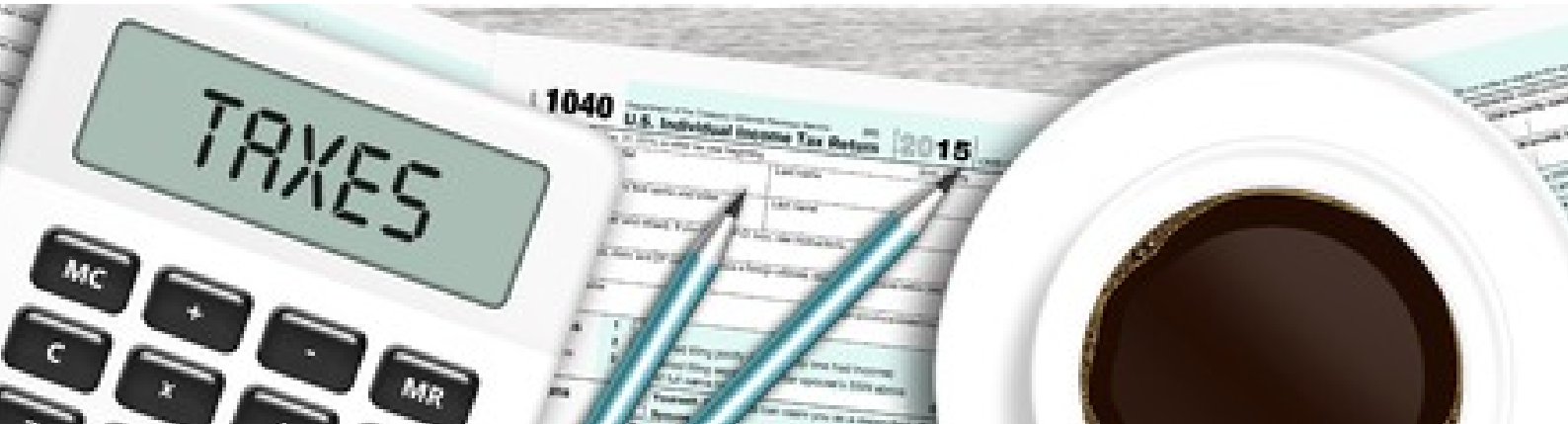
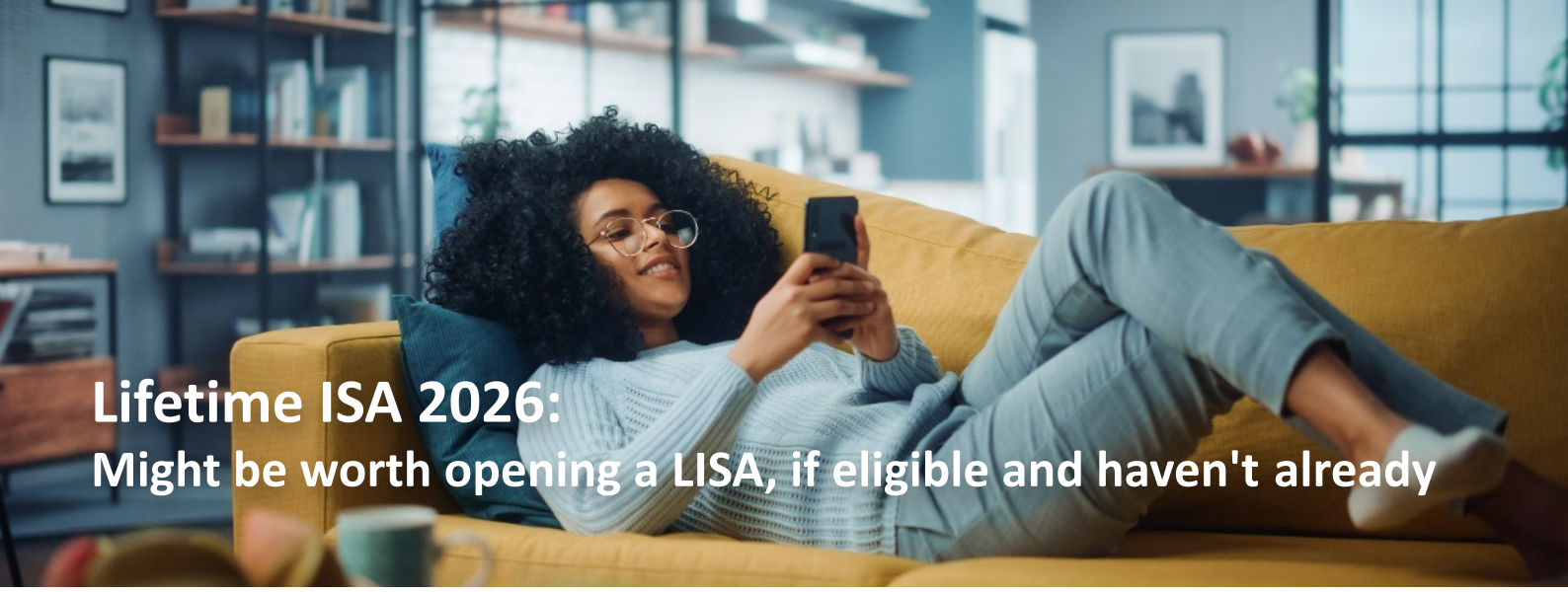
Levels and bases of, and reliefs from, taxation are subject to change and their value will depend upon personal circumstances. Taxation and pension legislation may change in the future.





Lifetime ISA 2026:
Might be worth opening a LISA, if eligible and haven't already

The Lifetime ISA (LISA) is under review and the government plans to consult on a new first-time buyer ISA that is intended to replace it, though details and transition rules are not yet confirmed.

It is expected that the current LISA, which can be used for both home purchases and retirement savings, will be replaced by a product aimed specifically at first-time buyers after the early-2026 consultation.

Opening a LISA may still be beneficial for eligible savers because of the government bonus, but you should consider your own financial circumstances to decide if it is the right option for you.

Why LISAs are under review:

Property Price Cap: The £450,000 cap hasn't changed since 2017 and is now too low for many property markets.

Withdrawal Penalties: The 25% penalty for non-qualifying withdrawals can mean savers lose some of their own contributions, which has drawn criticism.

Complexity: Some view the dual purpose (home purchase or retirement) as overly complex.

How to set up a LISA

You can still open and contribute to a LISA under current rules:

Age: Must be aged 18-39 and a UK resident.

Contributions: You can save up to £4,000 annually and get a 25% government bonus (up to £1,000 per year) until age 50.

How advantageous is it to set up a LISA?

Bonus: The LISA can be advantageous for eligible savers due to the guaranteed 25% government bonus.

Tax Benefits: Savings grow tax-free.

Dual Purpose: It can be used for a first home or retirement after 60, with all withdrawals for these purposes being tax-free. After using a LISA for a house deposit, you can still keep the account open to use for your retirement.

Using a LISA alongside a workplace pension: If your employer offers a workplace pension, that is often a better first choice because of employer contributions. You can have both by using your workplace pension to get the maximum employer match and then using your LISA for the next £4,000 of saving to get the £1,000 bonus.

Transferring to a better product

Existing LISA holders are expected to have the choice of maintaining their accounts under current rules indefinitely or transitioning to any new product without penalty. In the meantime, you can still perform a formal transfer between providers to seek more competitive interest rates or investment performance without losing your tax-free status or government bonus.

The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

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