Pensions in the IHT net…

…the final (ish) chapter.

This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

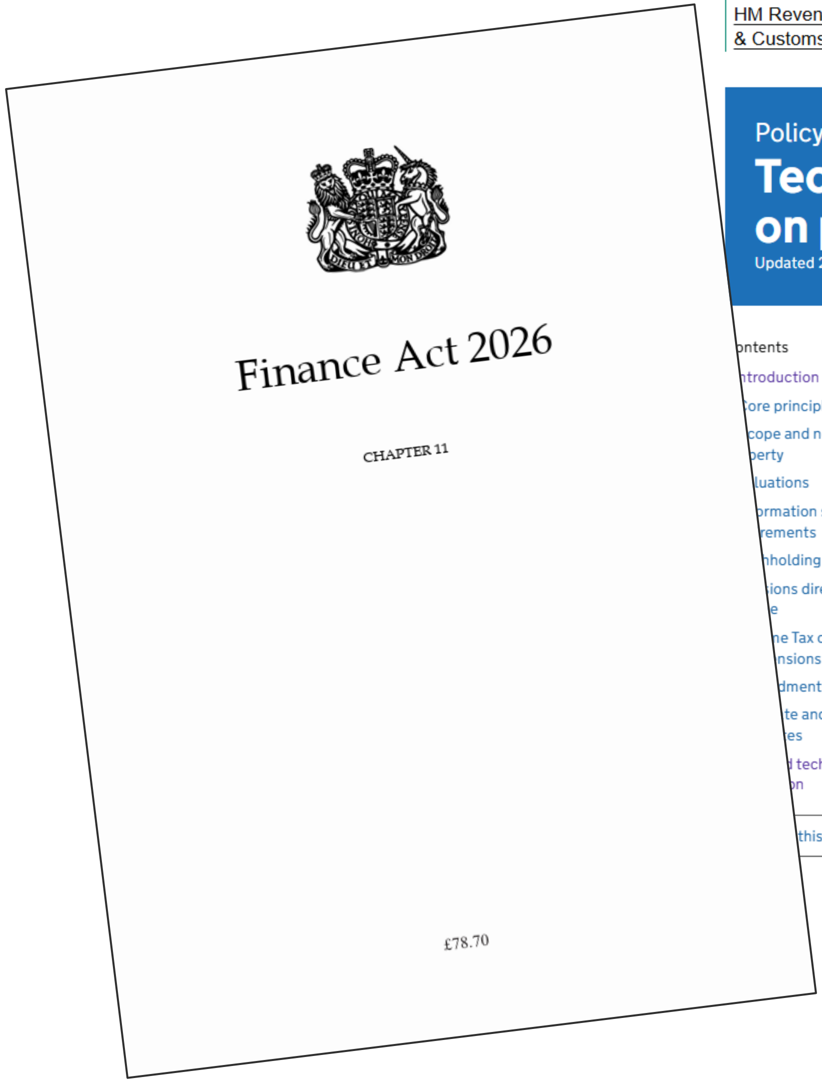
Learning objectives

By the end of this session, you will be able to:

- Identify who will be impacted by the inclusion of pensions in the IHT regime
- Calculate the tax liability of a pension scheme.
- Explain the process for pension schemes meeting IHT liabilities and when to use them
- Explain how discounted gift trusts and loan trusts can help meet retirement needs alongside intergenerational tax efficiency.

Where are we

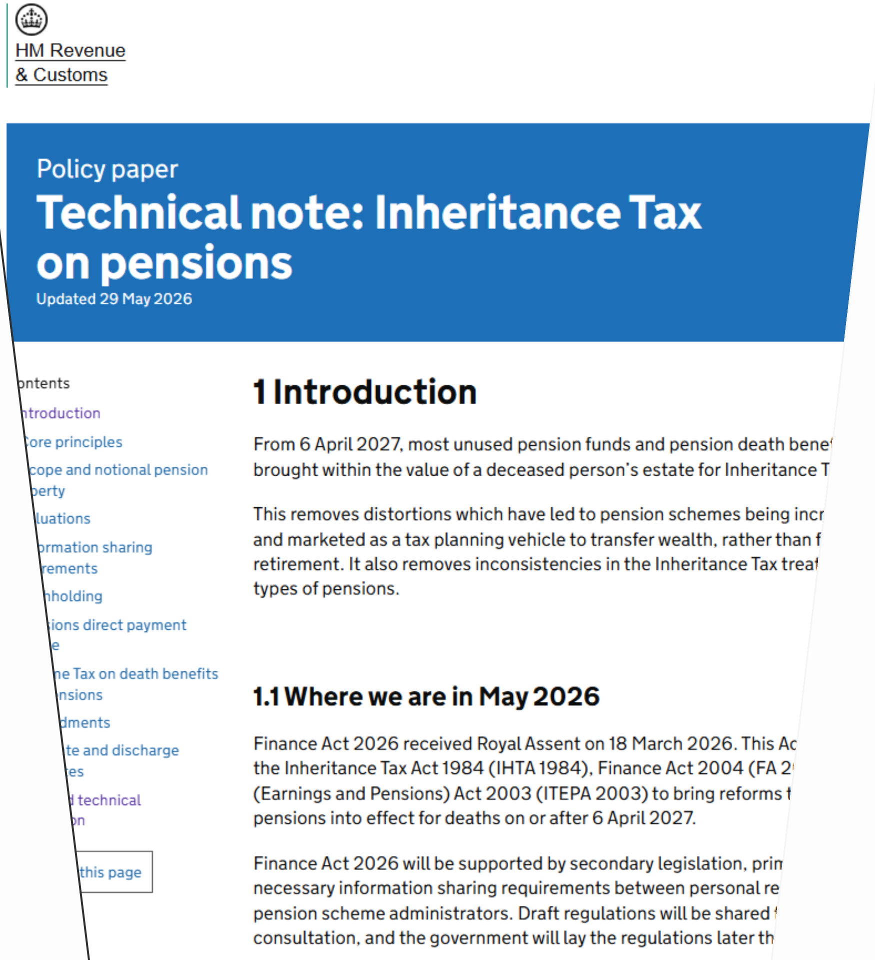
… mostly there?



Finance Act 2026

CHAPTER 11

£78.70



HM Revenue & Customs

Policy paper

Technical note: Inheritance Tax on pensions

Updated 29 May 2026

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ntroduction

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1 Introduction

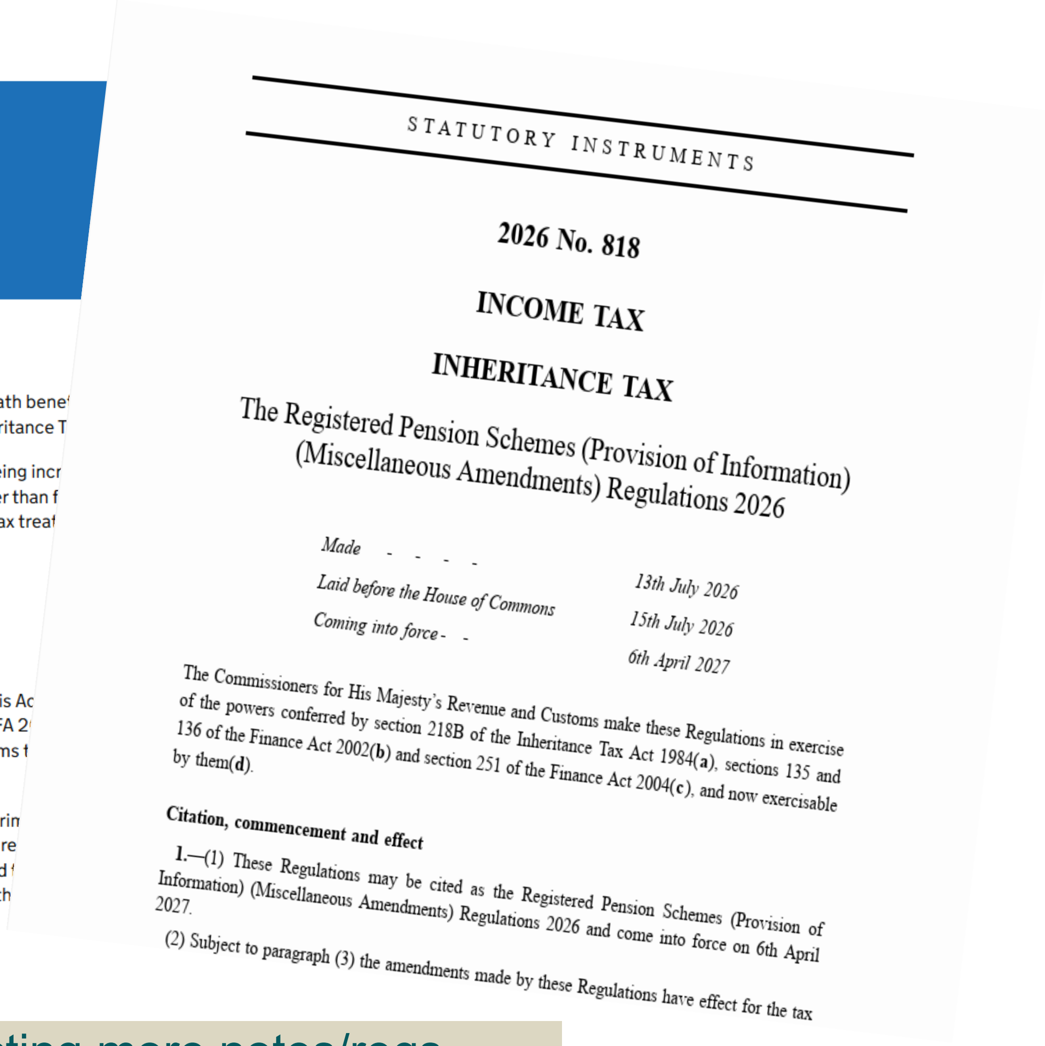
From 6 April 2027, most unused pension funds and pension death bene brought within the value of a deceased person's estate for Inheritance T

This removes distortions which have led to pension schemes being incr and marketed as a tax planning vehicle to transfer wealth, rather than f retirement. It also removes inconsistencies in the Inheritance Tax trea types of pensions.

1.1 Where we are in May 2026

Finance Act 2026 received Royal Assent on 18 March 2026. This Ac the Inheritance Tax Act 1984 (IHTA 1984), Finance Act 2004 (FA 2 (Earnings and Pensions) Act 2003 (ITEPA 2003) to bring reforms t pensions into effect for deaths on or after 6 April 2027.

Finance Act 2026 will be supported by secondary legislation, prin necessary information sharing requirements between personal re pension scheme administrators. Draft regulations will be shared consultation, and the government will lay the regulations later th



STATUTORY INSTRUMENTS

2026 No. 818

INCOME TAX

INHERITANCE TAX

The Registered Pension Schemes (Provision of Information) (Miscellaneous Amendments) Regulations 2026

Made - - - -	*13th July 2026*
Laid before the House of Commons	*15th July 2026*
Coming into force - -	*6th April 2027*

The Commissioners for His Majesty's Revenue and Customs make these Regulations in exercise of the powers conferred by section 218B of the Inheritance Tax Act 1984(**a**), sections 135 and 136 of the Finance Act 2002(**b**) and section 251 of the Finance Act 2004(**c**), and now exercisable by them(**d**).

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Registered Pension Schemes (Provision of Information) (Miscellaneous Amendments) Regulations 2026 and come into force on 6th April 2027.

(2) Subject to paragraph (3) the amendments made by these Regulations have effect for the tax

Expecting more notes/regs

It's the law...

… but more to come

Scope

Tax Treatment

Information regs

Guidance

Support tools

Notices

Communications

Spring 2027

Rules apply to transfers of value on or after 6 April 2027

Fundamentally...

This is what's happening …

s5 IHTA 1984

Estate dictated by death benefit **distribution arrangements**

APRIL 2027

s150A IHTA 1984

Estate dictated by the **death benefit type**

"Notional Pension Property"

… Definition

…the member's notional pension property is the value held under all arrangements within the scheme, **reduced by any excluded benefits**…

…held in a pension pot means **available for the purpose of providing benefits** to or in respect of one specific member of the scheme…

…notional pension property is treated as being vested in a beneficiary when the beneficiary has **become entitled … (discretionary) or … identified (non discretionary)**

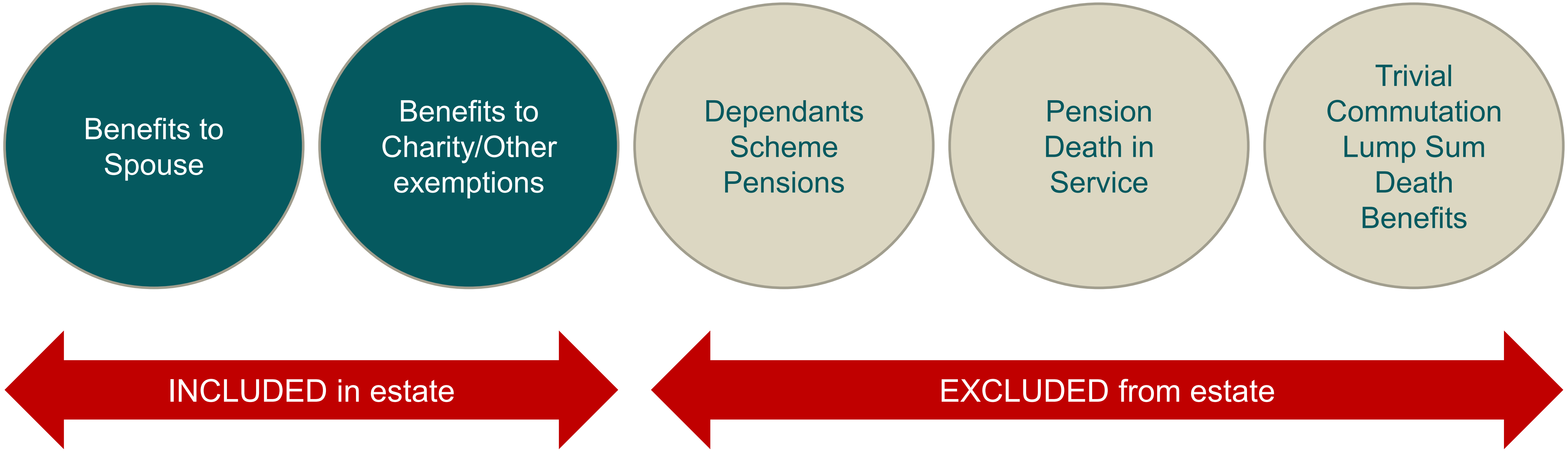
requirements

6 Withholding

retirement. It also removes inconsistencies in the Inheritance Tax treatment of different types of pensions.

"Notional Pension Property"

… IHT free doesn't mean IHT free



Annuity Death Benefits

… one of the answers to the pensions and IHT issue?

Joint Life
Spouse /
Civil Partner

Joint Life
NOT Spouse
/ Civil
Partner

Value
Protection
Lump Sums

Guarantee
Periods

Excluded benefits on death
BUT Transfer of Value on purchase

Notional Pension Property
Exemptions available

There's no duck in a Bombay Duck

… Fixed Term Annuities

Standalone	TIP
Drawdown Contract Decumulation only Full transfer - crystallised funds Partial transfer – uncrystallized funds	Scheme investment Accumulation or Decumulation No transfer = no partial issues

Pension Death Benefits

Notional Pension Property

IHT

Establishing the tax bill

General component (after liabilities)*

+

settled property*

+

jointly held property

+

GWR property*

-

Exemptions

-

Reliefs

-

Available NRB/RNRB(s)

=

Taxable estate

Notional Pension Property

RNRB Taper

* where there is more than one component and tax due the bill is proportioned between the components based on their chargeable value

Bits and bobs

… about IHT?

Charity 10%	Quick Succession Relief	Double Charge Relief	Agricultural/ Business Relief	Loss Relief
✓	✓	<?	✗	✗

Transfers of value

Almost gone?

Change in benefits

Pension changes

(incl death benefit changes)

Contributions in Ill-health

Transfers

a transfer of value is a disposition made by a person (the transferor) as a result of which the value of his estate immediately after the disposition is less than it would be but for the disposition; and the amount by which it is less is the value transferred by the transfer.

S3(1) IHTA1984

What about pre April 2027 events with post April 27 deaths?

And

… some outstanding matters

Annuity valuations

Estate led distributions

Non-resident factors

45% tax charge

Interaction with trusts

Excepted Estates?

Double taxation

… it isn't… eventually

"If Inheritance Tax is paid in relation to death benefits, the portion of the benefits corresponding to the Inheritance Tax (and interest) paid does not count towards the beneficiary's taxable income"

HMRC technical note 11 May 2026

Double taxation

… it isn't… eventually

	Scheme Pays	Beneficiary Pays
Death Benefit Value	£100,000	£100,000
IHT paid by scheme	£40,000	£0
Taxable Pension Income	£60,000	£100,000
IHT / Income Tax offset*	£0	£40,000*
Beneficiary Tax Bill	£60,000 x 40% **£24,000**	£60,000 x 40% **£24,000**

*may need spread over multiple tax years

Tax Liability

Splitting the bill

ESTATE DETAILS

- £1,550,000 of **non pensions assets** including £300,000 of 100% business relief qualifying assets and £400,000 family home.
- £850,000 of notional pension property
- Widower with fully transferred NRB and RNRB
- Estate and pension split equally between 2 children

IHT liability – April 2027

ESTATE DETAILS

- £1,600,000 of **non pensions assets** including £300,000 100% business relief qualifying assets and £450,000 family home
- £800,000 of notional pension property

Net Estate	Home	£450,000	£2,400,000
	100% BR Scheme	£300,000	
	Other non pension assets	£800,000	
	Notional Pension Property	£850,000	
Add settled property			£0
Less exemptions			£0
Less reliefs	Business relief	£300,000	£300,000
Less Nil Rate Bands	Main NRB	£650,000	£800,000
	RNRB	£150,000	
Chargeable			£1,300,000
IHT due @ 40%			£520,000

IHT liability – April 2027

ESTATE DETAILS

- £1,600,000 of **non pensions assets** including £300,000 100% business relief qualifying assets and £450,000 family home
- £800,000 of notional pension property

Net Estate £2,400,000

Notional Pension Property £850,000

Less reliefs

Business relief £300,000

Less Nil Rate Bands

RNRB £150,000

RNRB is **after** liabilities **includes** notional pension property and **before** reliefs and exemptions

The IHT bill

Who pays what?

Non Pension Estate	
Net estate	£1,550,000
less Exemptions	£0
less Reliefs	£300,000
Chargeable	**£1,250,000**

Pension scheme	
Death benefit value	£850,000
less Exemptions	£0
less Reliefs	£0
Chargeable	**£850,000**

Chargeable estate £2,100,000

Available NRB + RNRB (£1,000,000 - £200,000) = £800,000

(£1,250,000 / £2,100,000) x £800,000
= **£476,190.50**

(£ 850,000 / £2,100,000) x £800,000
= **£323,809.5**

£1,250,000 - £476,190.50 x 40%
IHT £309,532.80

£850,000 - £323,809.5 x 40%
IHT £210,476.20

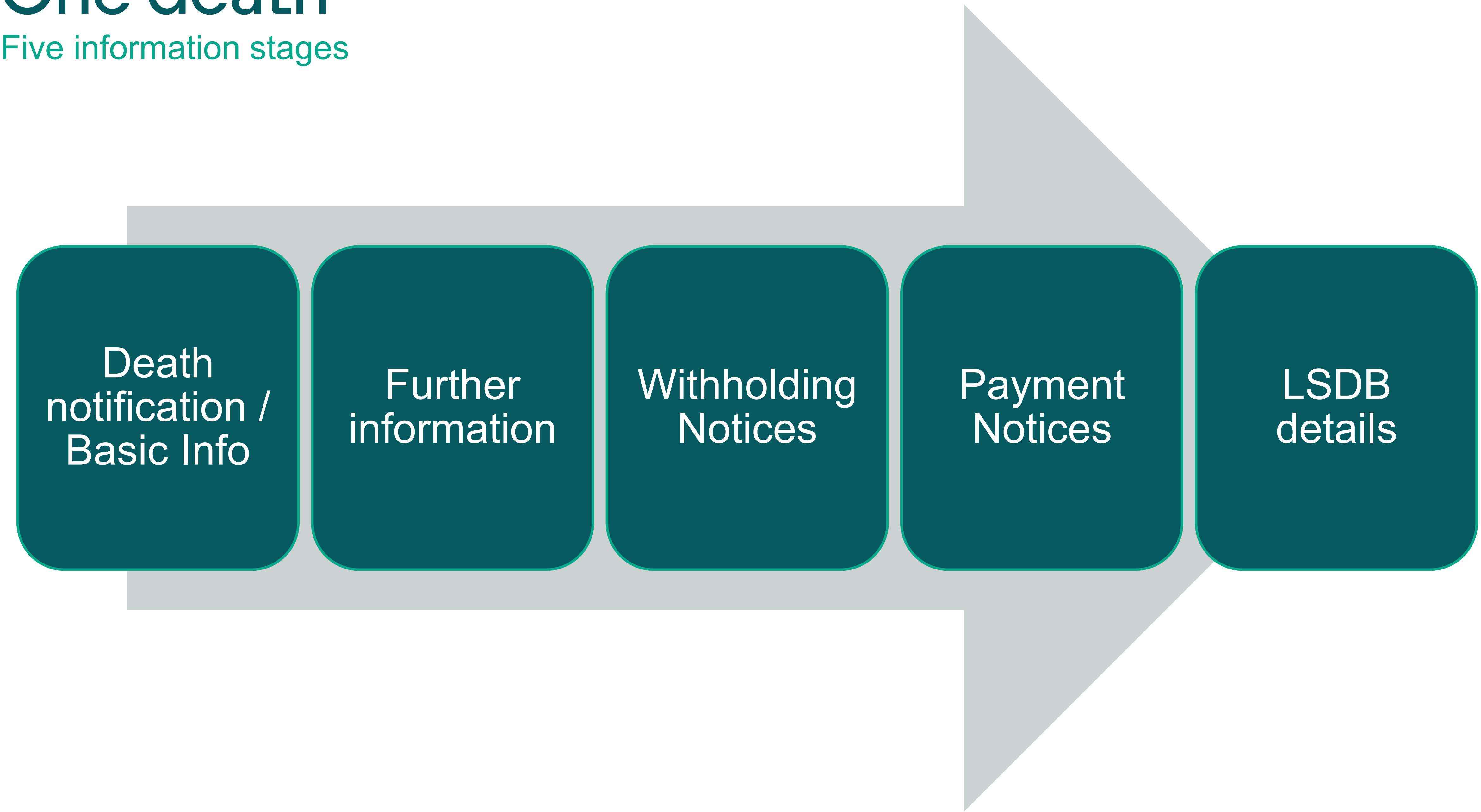
The IHT liability

Paying the bill

Personal Reps	Pension Scheme	Beneficiary
Recovery from beneficiaries	“Scheme Pays” PRs & Bens	Requests benefits / own resources

One death

Five information stages



A new PPR

…but nothing to do with selling property

Personal Representative	Prospective Personal Representative
Person dealing with estate	Person who reasonably believes they will be dealing with the estate

Two types of information

…but not really

Basic	Further
Scheme name and address Reference numbers Investment regulated scheme? Value of notional pension property Value – estimate/final % exemption	Beneficiary details % and amount of Notional Pension Property for each person and values Excluded Benefits Details
Establishing if an IHT account is required	Enabling an IHT account to be returned

Could be applied for at the same time

Information requests

Timescales

28 days

Information requests

14 days

Outstanding information
final values, beneficiary details etc

Notices
Acknowledgments and implementing

35 days

Payment of IHT to HMRC

The end of the line

...but not really

PR Discharge

Tax = Beneficiary

Reporting = PR

IHT overpayments

HMRC > PR > Beneficiary

Tax “sorted”

Hold on and can you pay it

The new notices

	WITHOLDING	PAYMENT
Purpose	To **retain funds** within the scheme to cover a potential IHT liability	To **settle IHT directly with HMRC** from pension funds
Who issues it	Prospective Personal and Personal representatives	Personal Representatives or Beneficiary
Effect on benefits	**Delays** part of the death benefit	**Reduces** benefits by paying IHT before payment
Amount involved	**Up to 50% of taxable death benefits** withheld	**IHT due** on pension only (plus interest)
Timing	Can apply for **up to 15 months after death** while IHT is finalised	Triggered once the **IHT liability is known or crystallised**
Function in process	A **protective / holding mechanism**	A **tax settlement mechanism**
Scheme administrator role	Must **retain funds and not pay out** that portion	Must **pay HMRC** from scheme funds
Failure to comply	Scheme administrator **jointly and severally liable** for IHT	Scheme administrator **jointly and severally liable** for IHT
When used	**Early**-stage uncertainty (before IHT is calculated)	**Later**-stage (once IHT due is established)

Planning matters

Pension Consolidation

"Make it easy…"

PLANS

PAPERWORK

Pay from pension pot?

Probably …

A “super ISA”?

Are there other assets **less tax efficient** you could use instead?

Pay from estate/own resources

A
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Not a “super ISA”!

Are there other assets **more tax inefficient** you could use instead?

Pay from pension

Beneficiary’s IHT position and likely age at death

Bypass trusts

“They are not sexy any more are they?”

Spousal Exemption

What to do...

… when you’re above the bands?

Spend

Protect

Relief

Gift

3 Key Pillars

IHT planning hasn't changed

Access

Control

Tax

(Re) Introducing

Penny

- 74-year-old widow
- Estate largely illiquid with the family home and a holiday property and some cash in her ISA
- In good health with no known health issues.
- No IHT liability at present.
- She relies on the £600,000 tax exempt beneficiary drawdown pot she inherited when her husband Leonard died.
- She draws £18,000 a year to supplement her state pension.
- Properties earmarked for care if required
- Income tax for beneficiaries 20%

Penny

August 2026

£800,000

Properties

3% growth

£8,000

Cash in Bank

2% interest

£600,000

Beneficiary Drawdown

6% growth

Income £18,000 p.a.

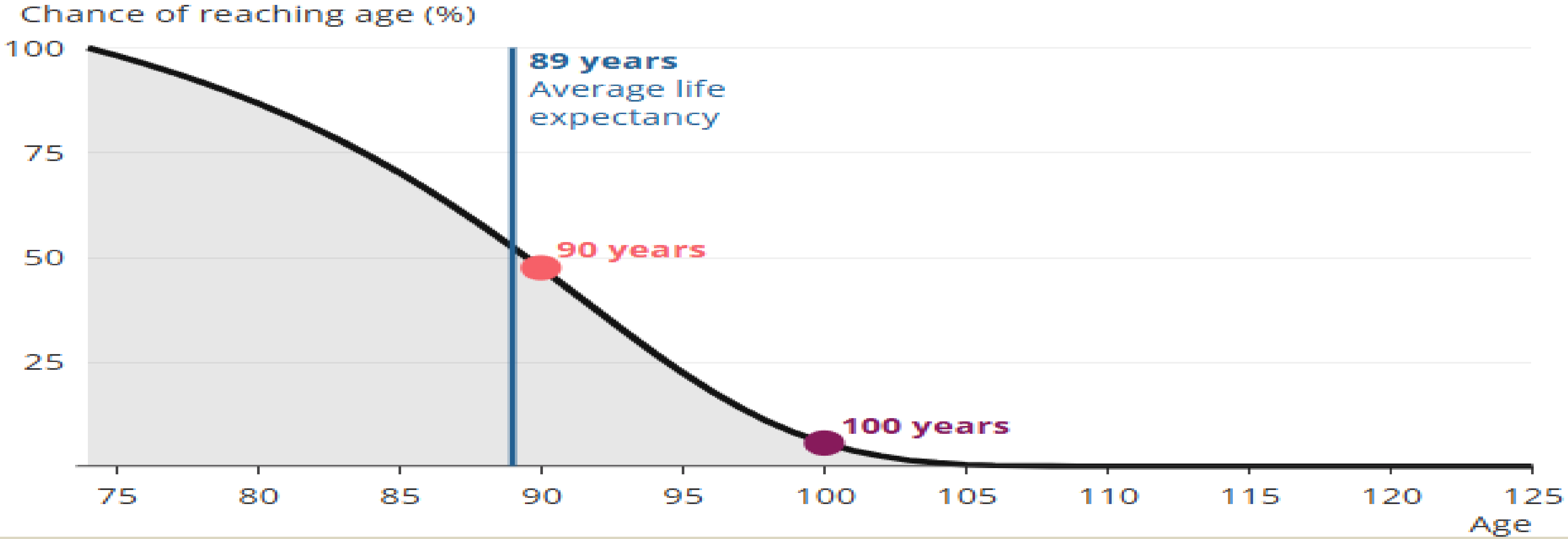
Average life expectancy

89 years

Chance of female aged 74 years living to...

90 years — 47.4% chance

100 years — 5.5% chance



Penny

August 2041 – no plan

	£1,246,374 **Properties**	£10,767 **Cash in Bank**	£1,018,967 **Beneficiary Drawdown**
IHT	£312,428		£253,237
Income Tax	£0		£153,146
Net Value	£944,713		£612,585

The family get £1,557,297

Penny

August 2026 – plan

£800,000
Properties
3% growth

£8,000
Cash in Bank
2% interest

~~£600,000~~
~~**Beneficiary Drawdown**~~
~~6% growth~~
~~Income £18,000 p.a.~~

DISCOUNTED GIFT TRUST

Value of £18,000 p.a - standard terms	£158,500
Investment amount	£484,000
Estimated gift value	£325,500

Withdrawal 3.7%
Tax Deferred Allowance - 27 yrs, 24yrs with 0.5% OAC

Loan Trust

Investment amount	£116,000
Estimated gift value	£0

Execute first

OFFSHORE
Investment horizon 10 yrs+
Basic rate income tax liability expected
Same growth potential as pension

Penny

August 2041 – plan

	Properties / Cash in Bank	Trusts / Outstanding Loan
	£1,246,374 **Properties**; £10,767 **Cash in Bank**	£1,018,967 **Trusts**; £116,000 **Outstanding Loan**
IHT	£149,256	£0 (TYA = £0)
Income Tax	£0	£83,793 (bond gain 20%)
Net Value	£1,223,885	£819,173

The family get £2,043,058

Penny

The power of a plan

Status quo
£1,557,297

The plan
£2,043,058

Primary needs maintained
Loan available if income needs to increase
Legacy greater

Giving up access to growth she does not need
Swapping flexible tax-exempt payments for relatively inflexible tax deferred payments

Introducing

Howard

- Age 70
- Lifelong bachelor, “married to his career”, no children
- Lives off state pension and very good DB income
- Stopped withdrawing pension when DB income and state pension kicked in
- £600,000 of **non pensions assets**
- £800,000 of notional pension property
    - Uncrystallised
    - £200,000 LSA remaining
    - Doubts he will touch it but would like to keep some access
- Not concerned about care, excellent health
- Everything split equally between his 3 adult nieces and nephews all 40% taxpayers likely for life

Howard

August 2026

£600,000

Non pension assets

3%

£800,000

Unvested Pension

6%

Average life expectancy

86 years

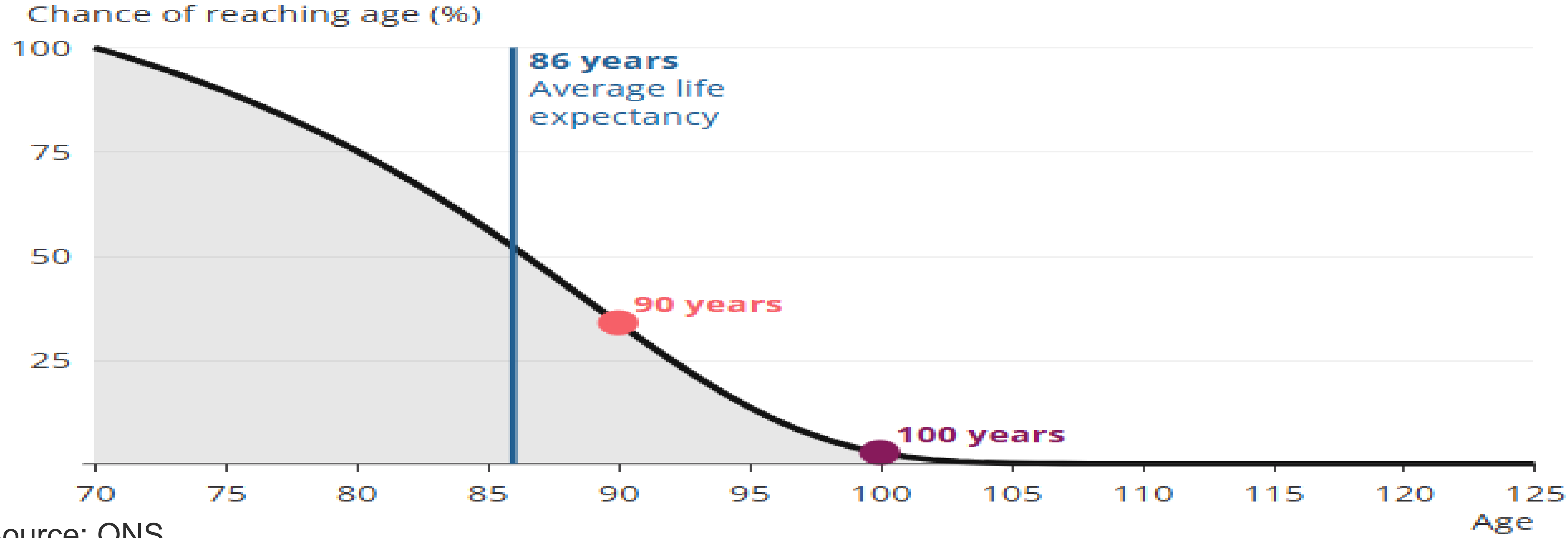
Chance of male aged 70 years living to...

90 years

33.9% chance

100 years

2.7% chance



Source: ONS

Howard

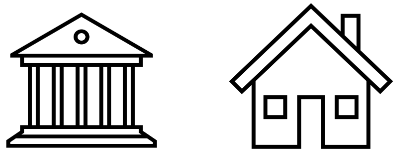
August 2042 – no plan

	Non pension assets	Unvested Pension
	£962,824	£2,032,281
IHT	£343,339	£724,704
Income Tax	£0	£523,031
Net Value	£619,485	£784,547

The family get £1,404,031

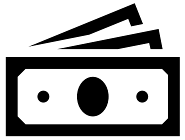
Plan

August 2026 – plan



£600,000

Non pension assets



~~£800,000~~

~~**Unvested Pension**~~

Loan Trust

Investment amount from PCLS	£200,000
Estimated gift value	£0

Box ticked to waive loan on death

OFFSHORE

Investment horizon 16 yrs+

Higher rate taxpayers currently but potential for mixed beneficiary tax positions

Same growth potential as pension

“Fixed Term Annuity”

Investment amount	£600,000
Term	16 years
Gross income	£54,659 (9%)
Net income (45% tax)	£30,062 (5%)

Using NEOOI to top up loan trust

Source: M&G

Howard

August 2042 – plan

£962,824

Non pension assets

£1,284,161

Trusts

£200,000

Outstanding Loan

	Non pension assets	Trusts
IHT	£335,129	£60,000 (overestimate at TYA)
Income Tax	£0	£634,812 (drawdown and bond gain)
Net Value	£827,694	£1,042,893

The family get £1,870,587

Howard

The power of a plan

Status quo
£1,404,031

The plan
£1,870,587

Primary needs already met
"Want" to keep some access met
Guaranteed income stream can be converted back to drawdown if required
Avoids post 75 income tax on available tax-free money
No more tax-free growth in pension so investment more tax efficient
Legacy greater

Giving up access to growth on PCLS and income payments gifted
Record keeping for NEOOI
Death pre 75 means unnecessary income tax suffered
Unknown surrender value on FTA

Any questions?

Thank you

www.mandg.com/wealth/adviser-services/tech-matters