



Pensions and IHT

... guiding clients through the maze



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.

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Learning objectives

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

Describe the current
pensions and IHT
landscape

Identify clients
impacted by the
changes to pensions
and IHT.



HM Revenue
& Customs

Consultation outcome

Inheritance Tax on pensions: liability, reporting and payment — Summary of responses

Updated 21 July 2025

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Executive summary

At Autumn Budget 2024, the government announced that most unused pension funds and death benefits would be included in the value of a person's estate for Inheritance Tax from 6 April 2027. A technical consultation on the processes required to implement these changes ran from 30 October 2024 to 22 January 2025.

The technical consultation proposed that pension scheme administrators (PSAs), rather than personal representatives (PRs) would become liable for the reporting and payment of any Inheritance Tax on the pension component of an estate. This was to avoid a situation arising where PRs could not access sufficient funds within the estate to pay the Inheritance Tax attributable to the pension, and to prevent an additional Income Tax liability becoming due on the pension funds used to pay Inheritance Tax.



HM Revenue
& Customs

Policy paper

Inheritance Tax on unused pension funds and death benefits

Published 21 July 2025

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Who is likely to be affected

This measure will affect individuals inheriting pension funds, including beneficiaries of any unused pension funds. It will also impact personal representatives of those estates. It will also impact pension scheme administrators.

General description

This measure will bring most unused pension funds into a person's estate for Inheritance Tax.

Personal representatives will be liable for reporting and paying Inheritance Tax on unused pension funds and death benefits.

1 Certain pension property treated as part of estate

In IHTA 1984, before section 151 (but after the italic heading that precedes it) insert—

“150A Certain pension property treated as part of estate

- (1) For the purposes of this Act, a member of a registered pension scheme, a qualifying non-UK pension scheme or a section 615(3) scheme is treated as beneficially entitled immediately before their death to so much of the property held for the purposes of the scheme as (under the terms of the scheme as they stand at that time)—
 - (a) must be used to pay a relevant death benefit in the event of the person's death, or
 - (b) may, subject to anyone's discretion, be so used.
- (2) Except under subsection (1), no interest in or under a registered pension scheme, a qualifying non-UK pension scheme or a section 615(3) scheme is to be taken into account for the purposes of this Act in determining the value of the person's estate immediately before their death.
- (3) If after the person's death a relevant death benefit becomes (at any time) payable to the person's spouse or civil partner, or to a charity or registered club, section 18(3) or 23(2) (exemptions disapplying in cases of delay or conditional transfer) does not limit the application of section 18(1) or 23(1) solely on the grounds—
 - (a) that the relevant death benefit does not become so payable immediately on the person's death, or
 - (b) that its becoming so payable depends on any person's discretion.
- (4) Property to which a person is treated as beneficially entitled under subsection (1) is, irrespective of the assets comprised in it, not to be regarded as—
 - (a) relevant business property for the purposes of Chapter 1 of Part 5 (business property relief), or
 - (b) agricultural property for the purposes of Chapter 2 of Part 5 (agricultural property relief).

The background features a series of diagonal lines on the left side, transitioning into a series of overlapping triangles on the right. The triangles are colored yellow, olive green, teal, and coral, with a dark brown triangle at the bottom right corner.

Consultation matters

Timeline



Rules apply to deaths on or after 6 April 2027

Rumsfelding



SCOPE OF
CHARGE TO IHT

NO CONSULTATION



COLLECTION
OF IHT CHARGE

CONSULTATION

The change to IHT on pension schemes

Power of Disposal
(with some
exceptions)

Within estate

Estate entitled

Within estate

Discretionary
Disposal

~~Outside estate~~

Within estate

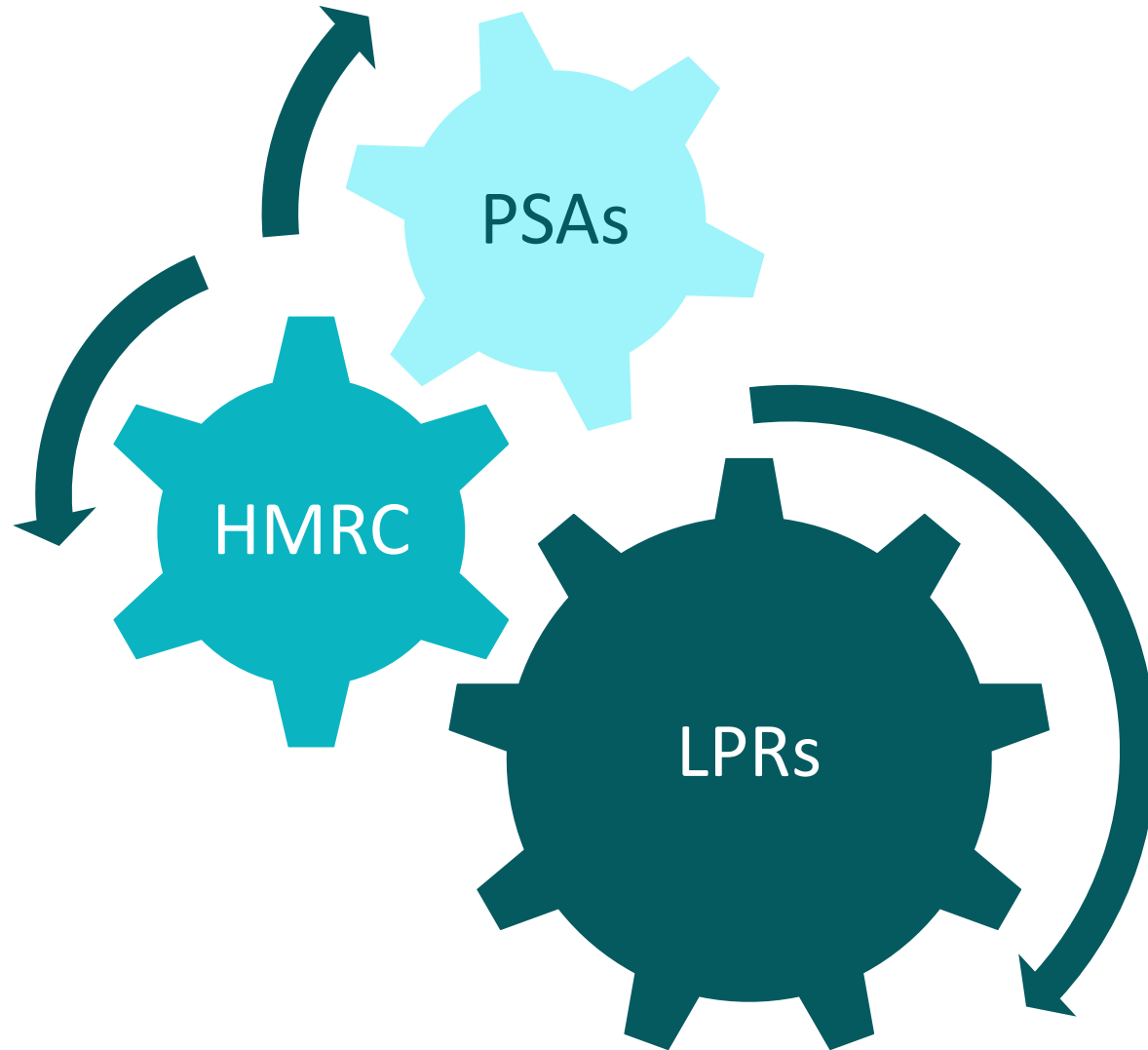
Schemes impacted

UK Registered
Pension
Schemes

Qualifying
Non-UK Pension
Schemes

s615
schemes

Issues, in a nutshell



No pension / non pension estate interaction

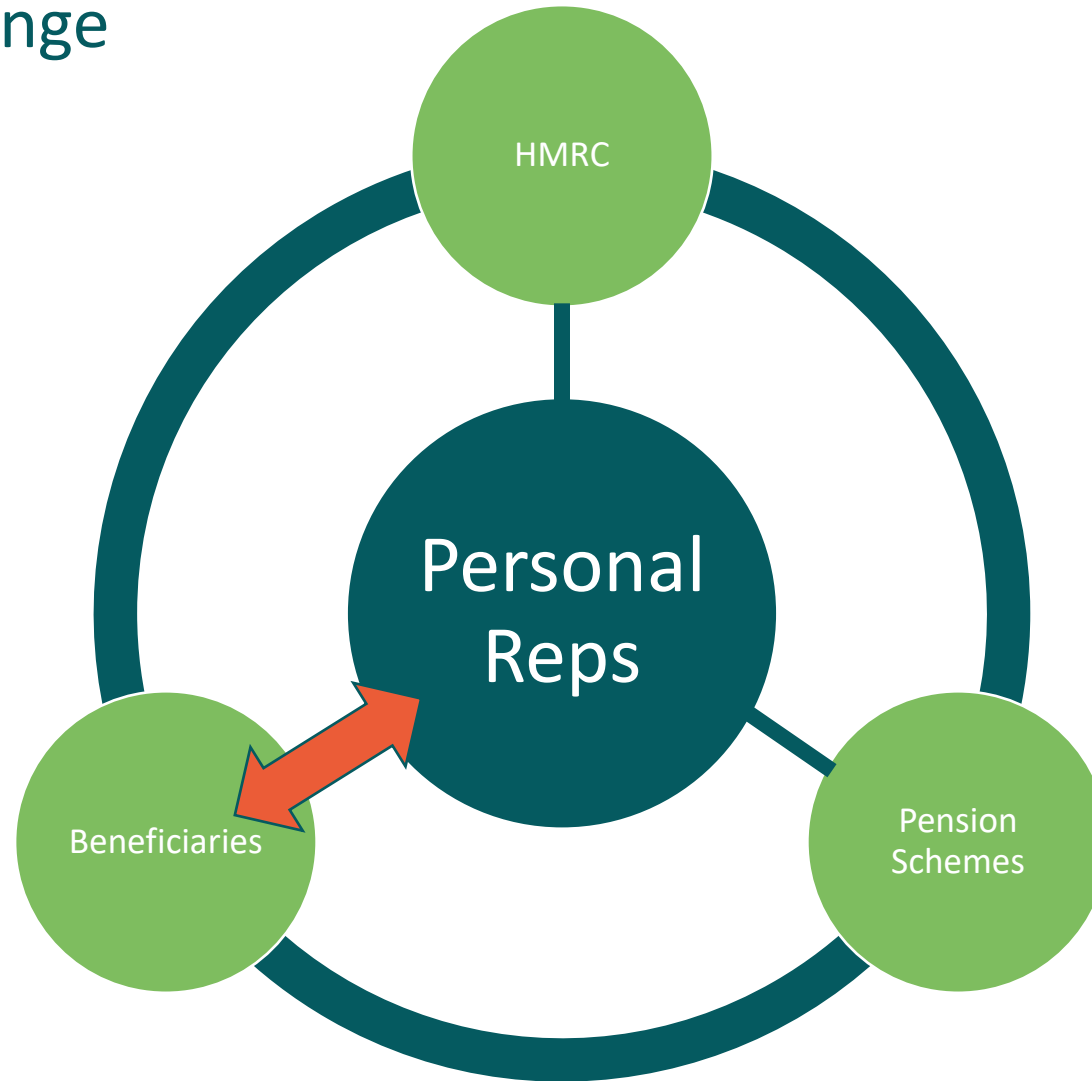


"You must pay Inheritance Tax by the end of the sixth month after the person died."

HMRC

Amend deadlines / payment on account

The fundamental change

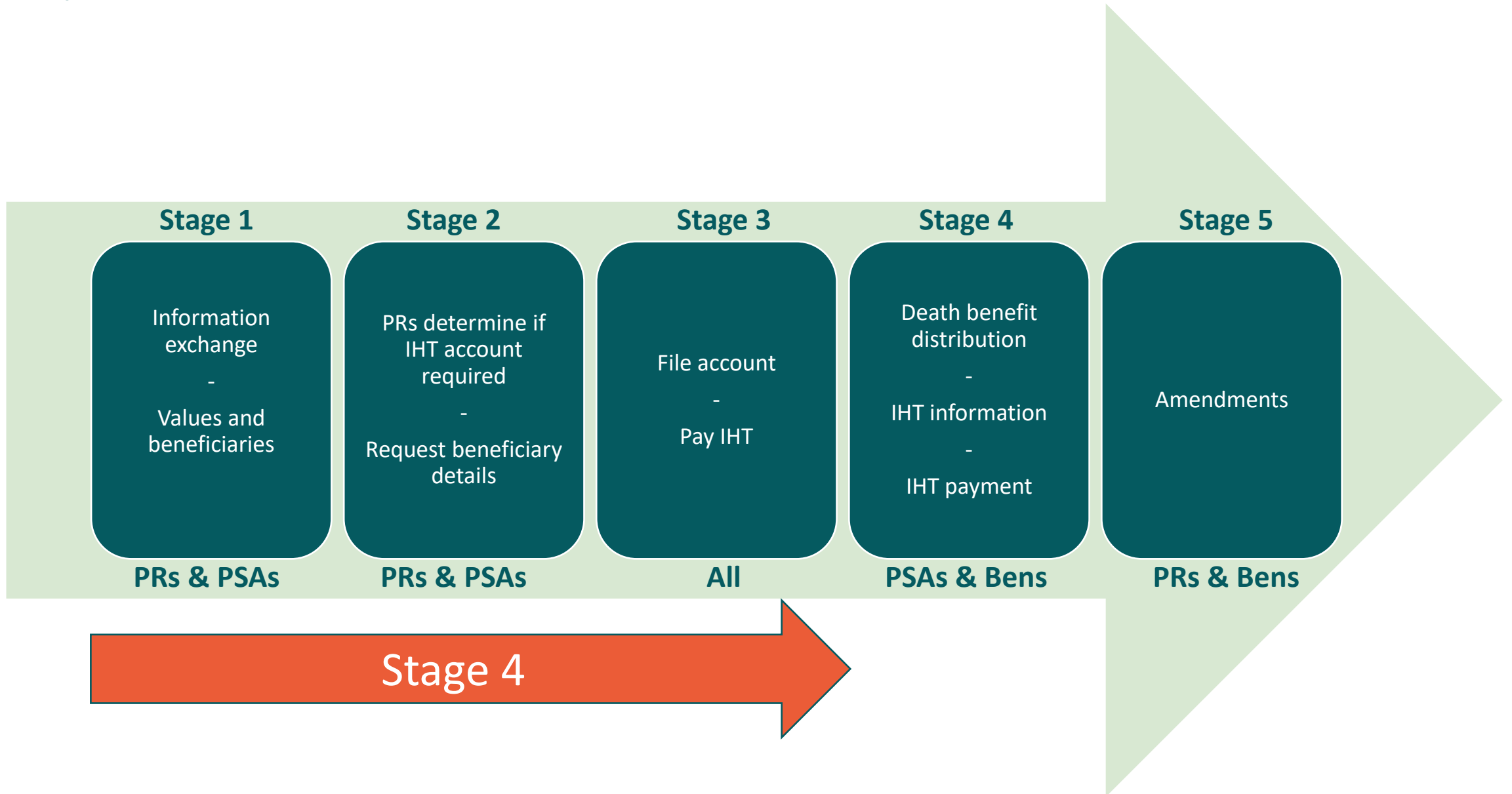


HMRC will continue to work with industry experts to develop and refine the PR-led process, and will publish further guidance tools and process maps to support PRs, PSAs and beneficiaries ahead of implementation in April 2027.

All for one and one for all...

...HMRC will work with the pension industry to provide clear guidance and support for pension beneficiaries in respect of their Inheritance Tax liability, options for paying, and their responsibility to the wider estate...

New process



Exempt

5 things **fully** out of scope

Benefits to
Spouse

Benefits to
Charity

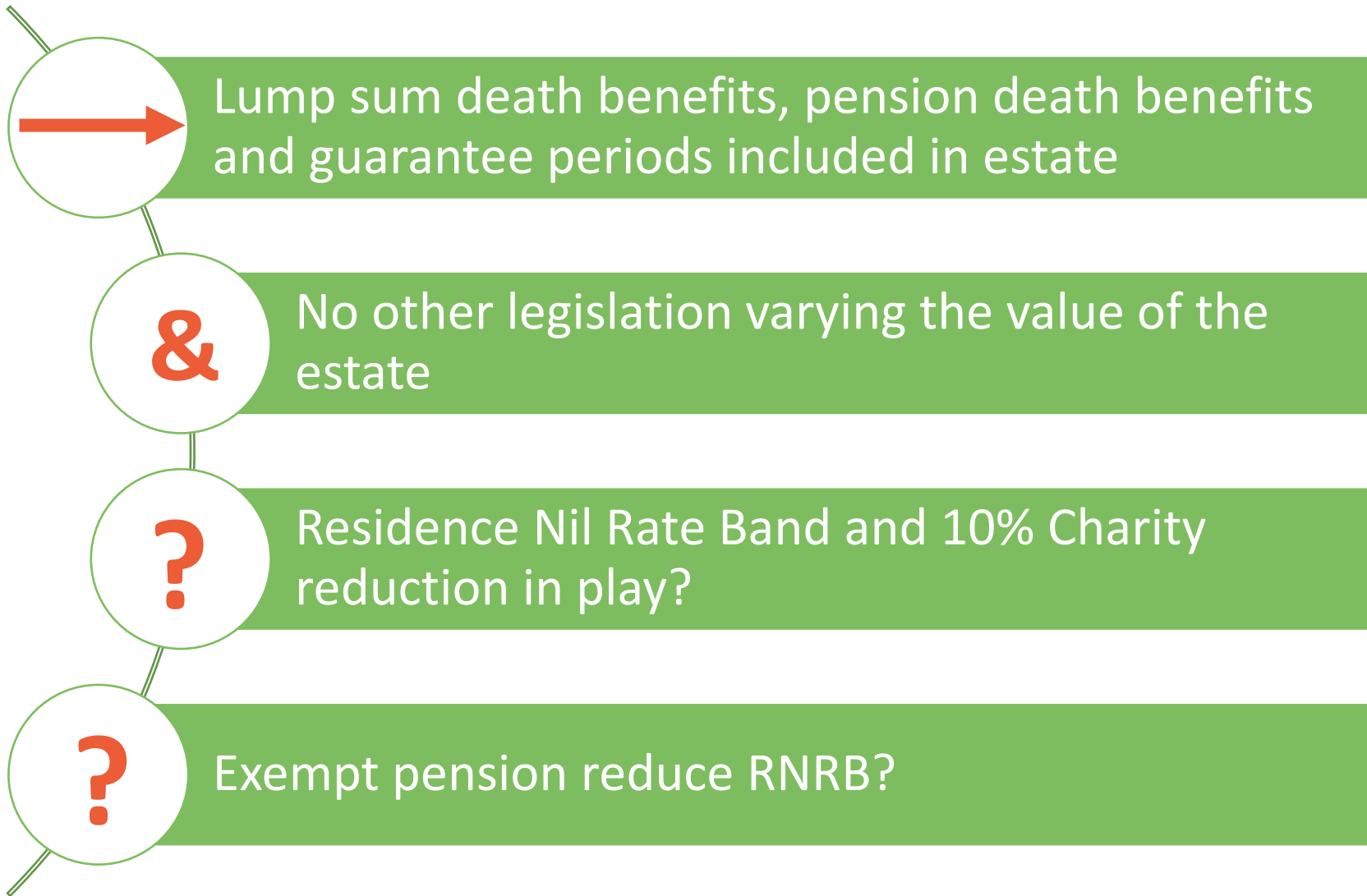
Dependants
Scheme
Pensions

Death in
Service

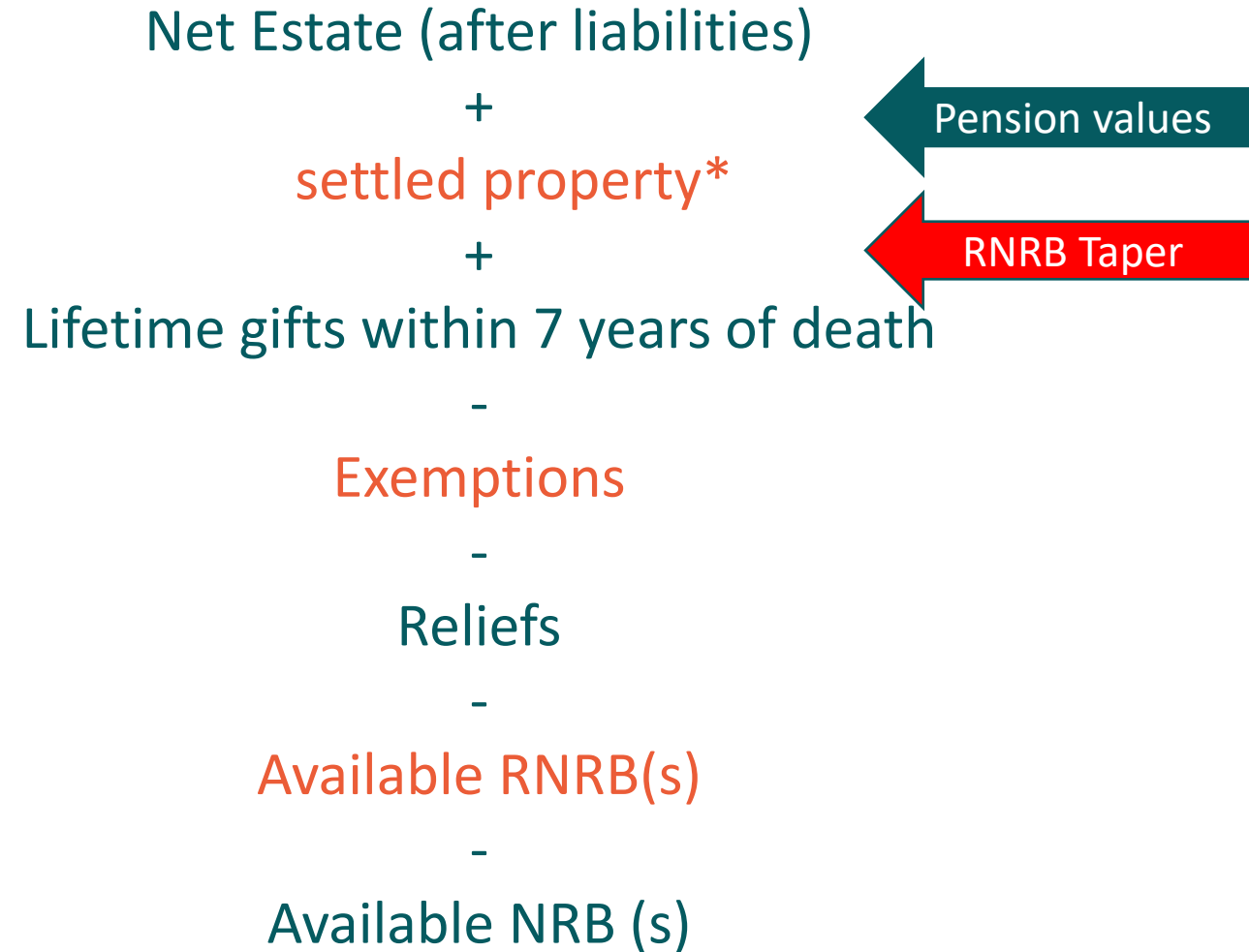
Trivial
Commutation
Lump Sum
Death
Benefits

Everything else is in scope (incl Unauthorised Payments)

The legislation



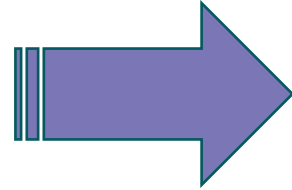
IHT calculation



* where there is settled property and tax due the bill is proportioned between the estate and the settlement

Tax due

Nil Rate Band
apportioned across
each component



Inheritance Tax
attributed to each
component

Paying IHT

Personal Reps

Recovery
from
beneficiaries

Same
beneficiaries?

Pension Scheme

Pension
Inheritance
Tax Payment
Scheme

Prior to
setting up
benefits?

Beneficiary

Requests
benefits /
own
resources

Income tax
refund on IHT
amount

Annuities – initial consultation thoughts

Single life

Joint Life
non spouse/civil partner

Guarantee period
Estate “disposal”

Joint Life
spouse/civil partner

Guarantee period
Discretionary “disposal”

Value Protection Lump Sums
Estate “disposal”

Value Protection Lump Sums
Discretionary “disposal”

Annuities – going forward

Single life

Guarantee period
Estate “disposal”

Joint Life
spouse/civil partner

Value Protection Lump Sums
Estate “disposal”

Joint Life
non spouse/civil partner

Guarantee period
Discretionary “disposal”

Value Protection Lump Sums
Discretionary “disposal”

Remember there's no annuity in a Fixed Term Annuity

“Risk Benefits”

All life policy products purchased with pension funds or alongside them as part of a pension package offered by an employer are not in scope of the changes in this consultation document.

Initial HMRC consultation

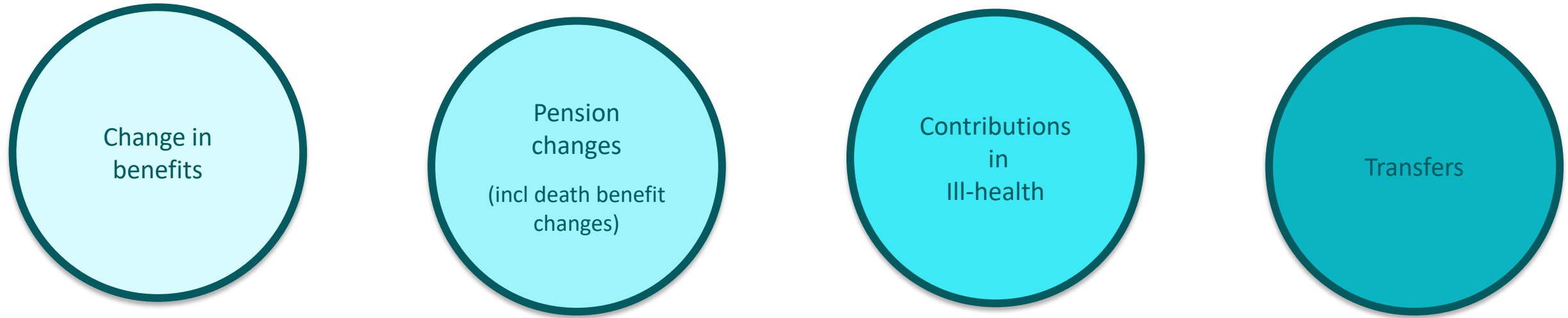
Death In Service Payments

payable in respect of a member of the scheme in the event of the member's death



is not payable unless the member is an **active member** of the scheme, and **in employment** of a description specified in the terms of the scheme, immediately before their death.

Pensions – IHT events – Transfer of Value



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

Will the only one left be buying an annuity? What about pre April 2027 events?

Reliefs

(4)

Property to which a person is treated as beneficially entitled under subsection (1) is, irrespective of the assets comprised in it, **not to be regarded as—**

(a) **relevant business property** for the purposes of Chapter 1 of Part 5 (business property relief), or

(b) **agricultural property** for the purposes of Chapter 2 of Part 5 (agricultural property relief).

draft s150A IHTA1984

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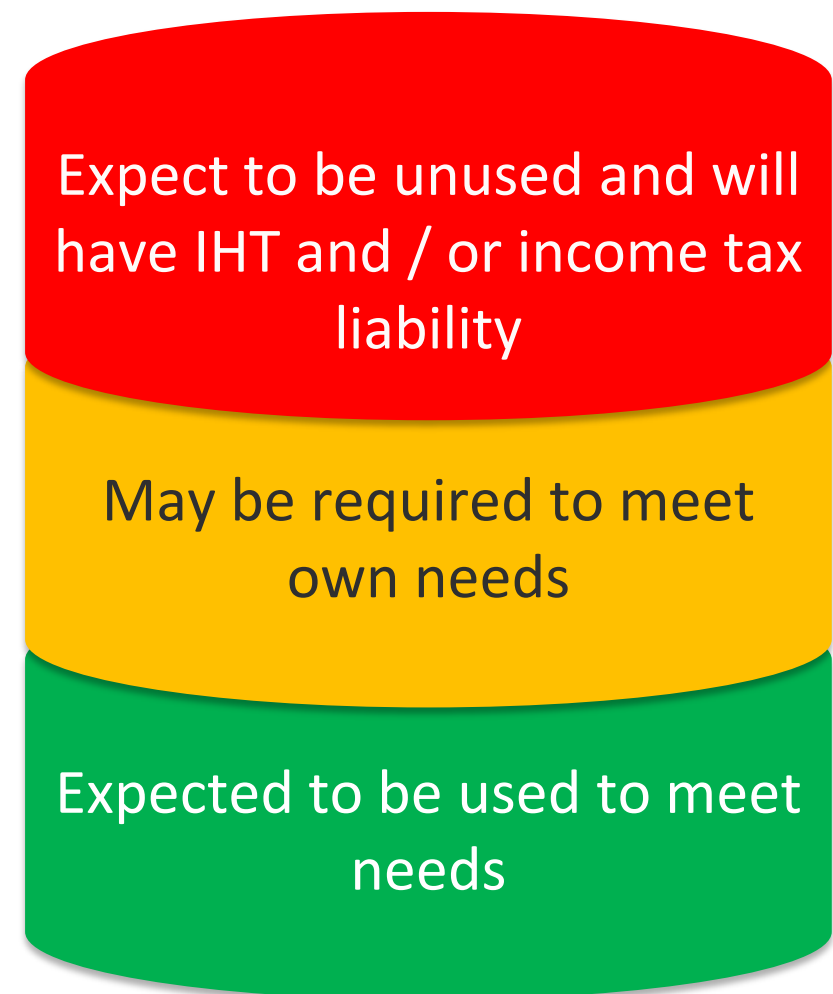
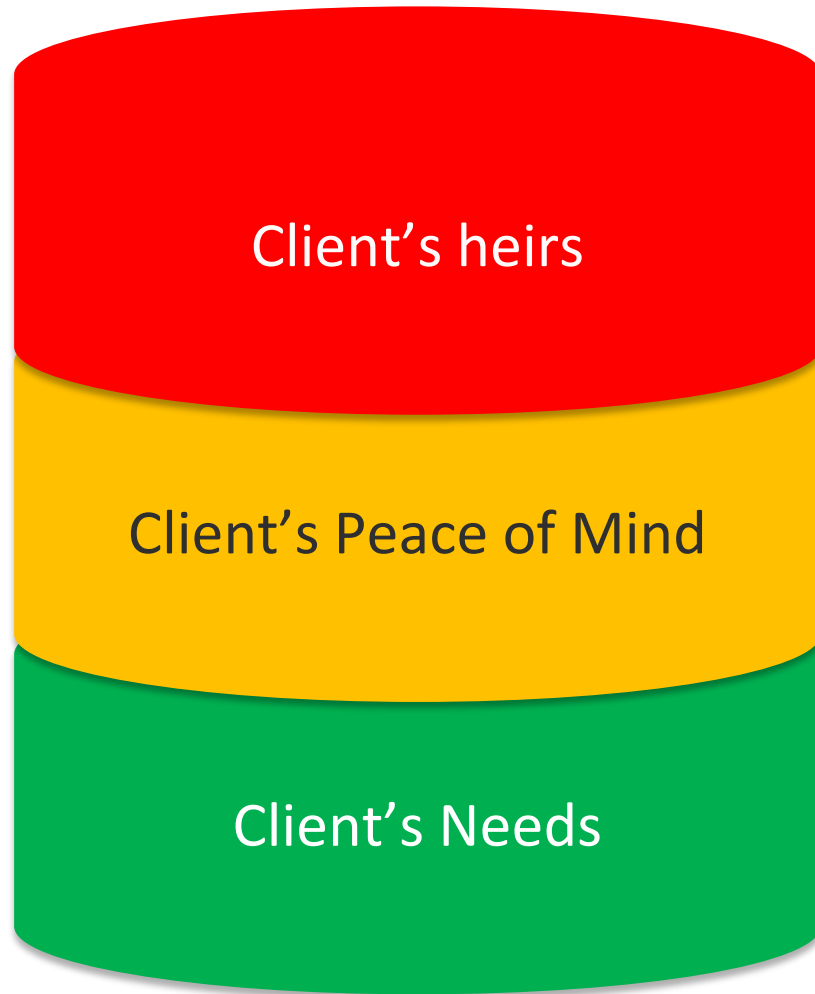
Planning matters

£100 of pension beyond April 2027



40% for pre 75 deaths and non pension assets

Segmenting your clients assets



IHT planning



RELIEVE

INSURE

GIFT

SPEND

NIL RATE BANDS

To act or not to act – Initial consultation

Avoiding post 75 income tax disadvantage

Gifting taxed money

Consolidation

Expression of Wish
(pre April 27 deaths)

Divert funding

Annuity Purchase

Segment clients

Business Relief

To act or not to act - now

Avoiding post 75 income tax disadvantage

Gifting taxed money

Consolidation

Expression of Wish
(pre April 27 deaths)

Divert funding

Annuity Purchase

Segment clients

Business Relief



Thank you for your time

Get in touch with your usual M&G contact if you need further help

