



Bypass Trusts

Reassessing their role in a changing legislative landscape

October 2025



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

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Learning objectives

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

Describe what a bypass trust is and how it interacts with the pension regime

Explain the income tax and IHT implications of using a bypass trust

Identify clients who could benefit from using a bypass trust to receive their pension death benefits (pre and post April 2027)

What is a
“spousal bypass trust”?

What's in the name?

Spousal Bypass

Trust



Often used pre pension freedoms for pension death benefits to bypass someone's estate

The "someone" was in most cases the pension member's spouse

What is a bypass trust?

1

It is a trust nominated by the member to receive a lump sum pension death benefit

2

They provide control over how the death benefit is distributed beyond member's death

3

Bypass trusts will almost always be a discretionary trust

4

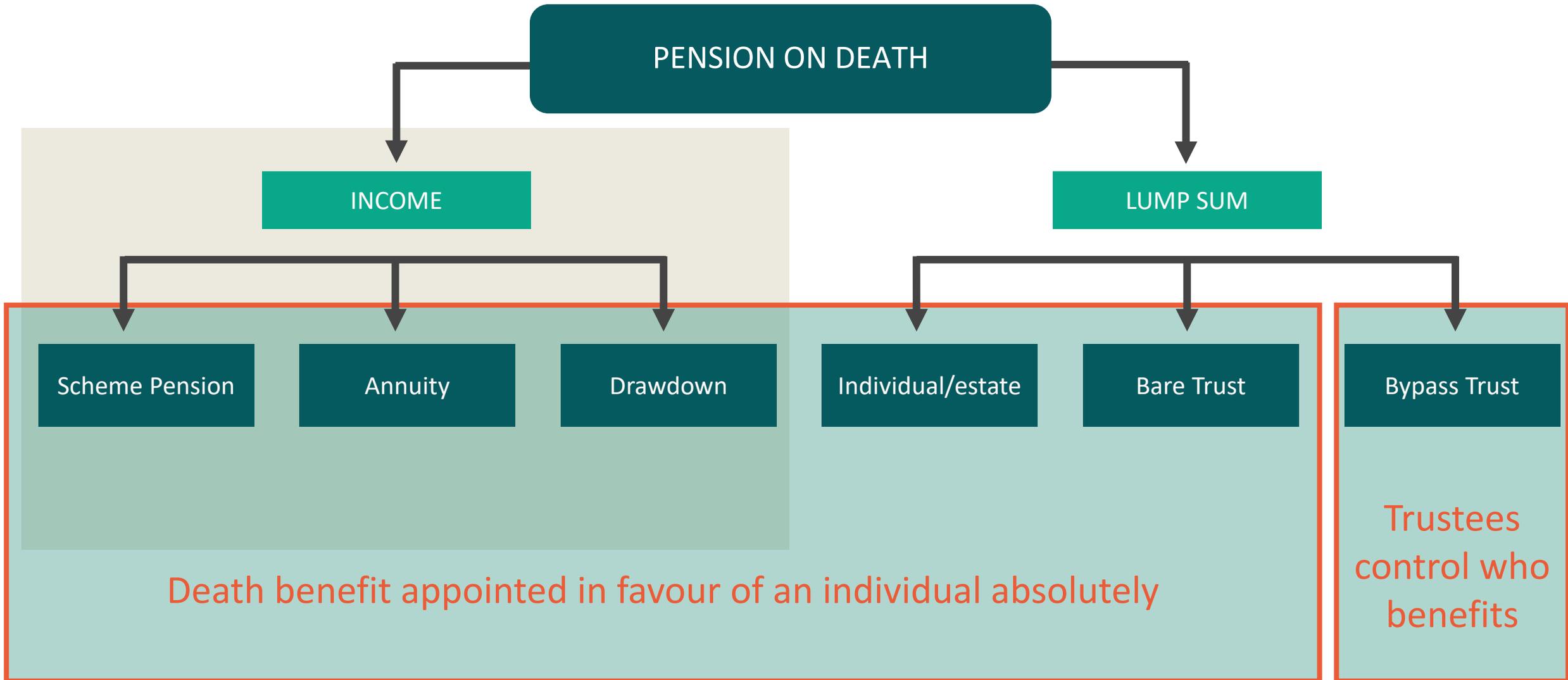
The trust is set up during the settlor's (pension member's) lifetime

5

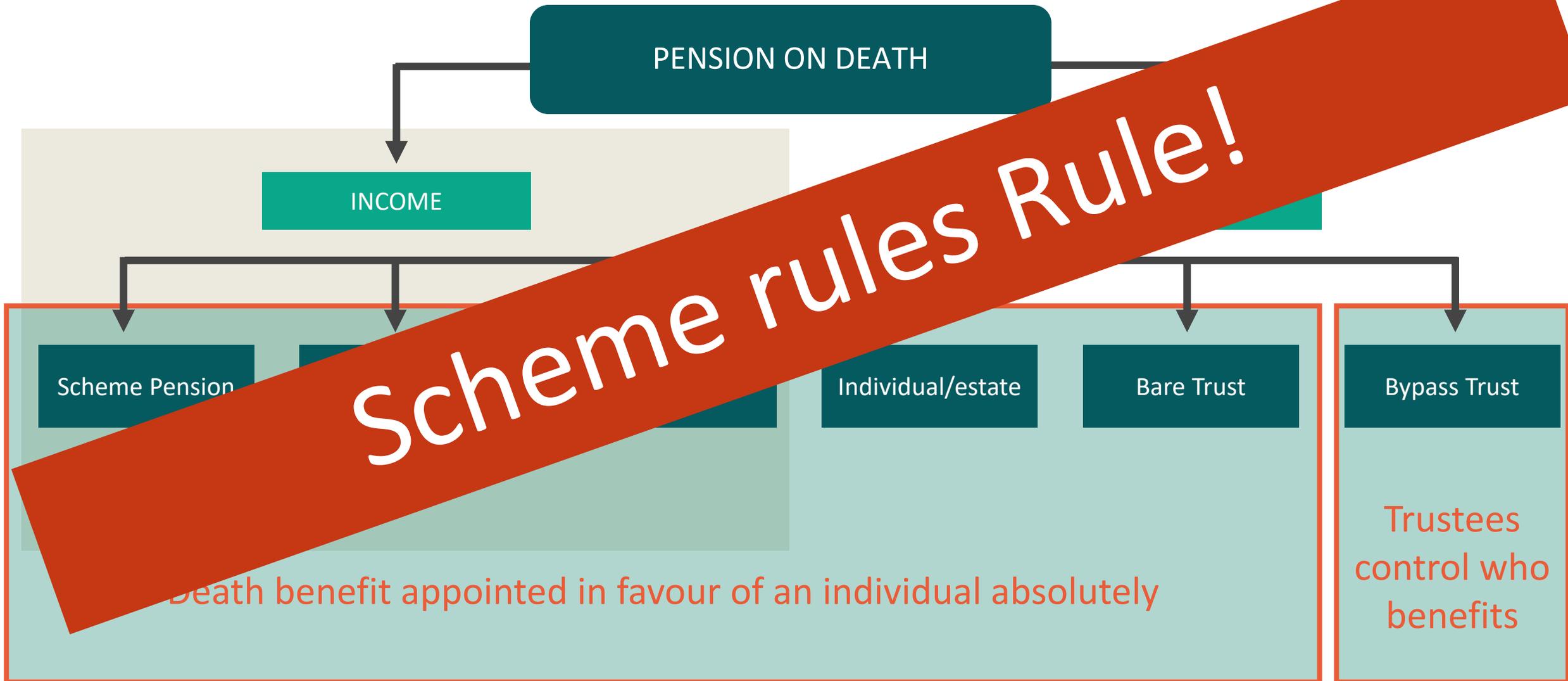
The trust is outside the pension system

A trust created by the member's Will may be nominated and used as a bypass trust!

Why would you use one?



Why would you use one?



How do you set it up?

- Member (settlor) completes the trust deed
- Trust deed appoints the “initial trustees”
- Trust deed specifies the beneficiaries
- Trust deed outlines the terms of the trust
- Member nominates the trust in expression of wishes to the pension scheme trustees



Bypass trusts and the TRS

Is it a UK
express trust?



Is it exempt?



(UNLIKELY!)

Unless exempt it will need registered within 90 days of the trust being created

Bypass trusts and the TRS

Is it a UK
express trust

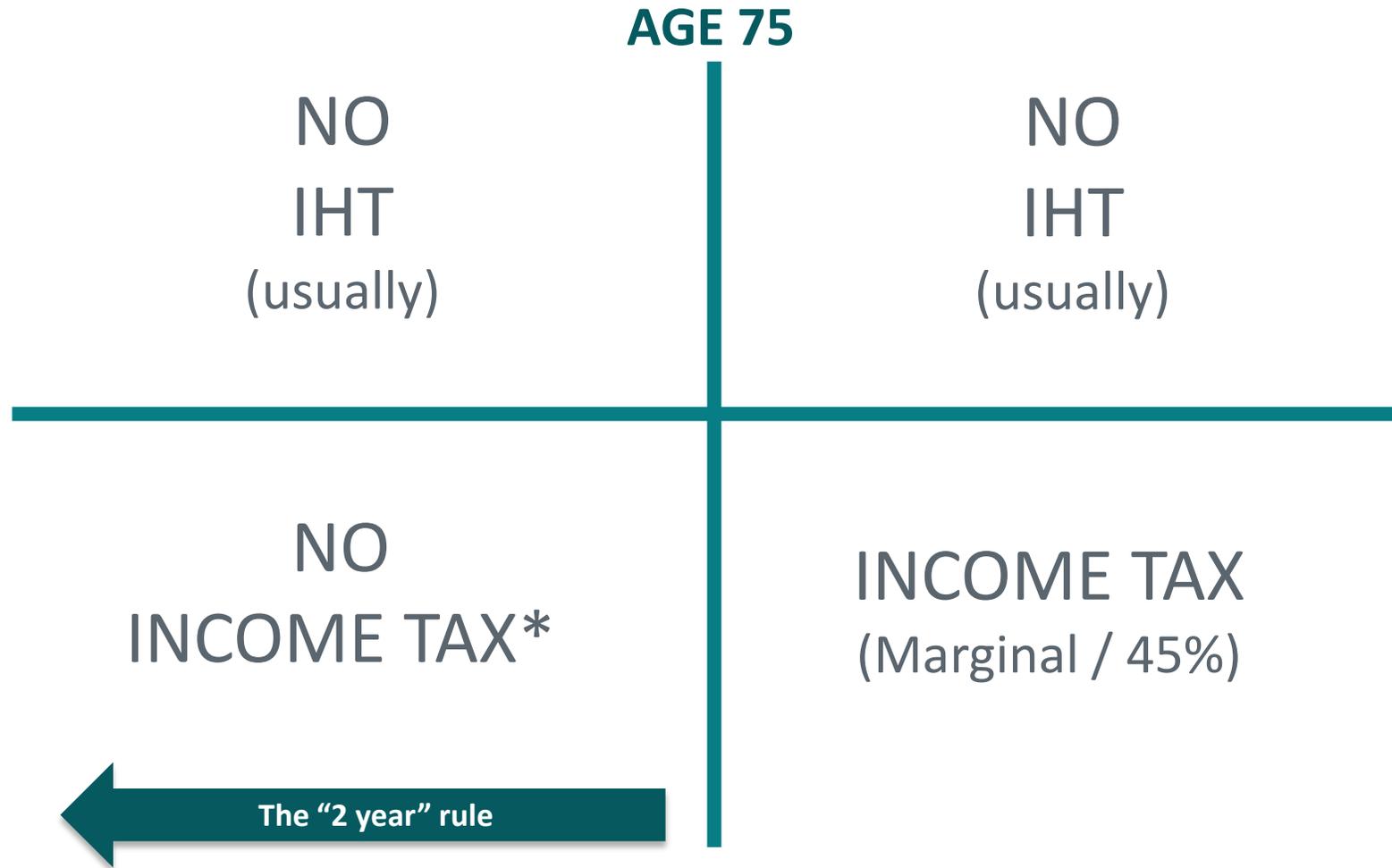
The government have proposed introducing a de minimus exemption for registration of non-taxable trusts so this may change!

(UNLIKELY!)

Unless exempt it will need registered within 90 days of the trust being created

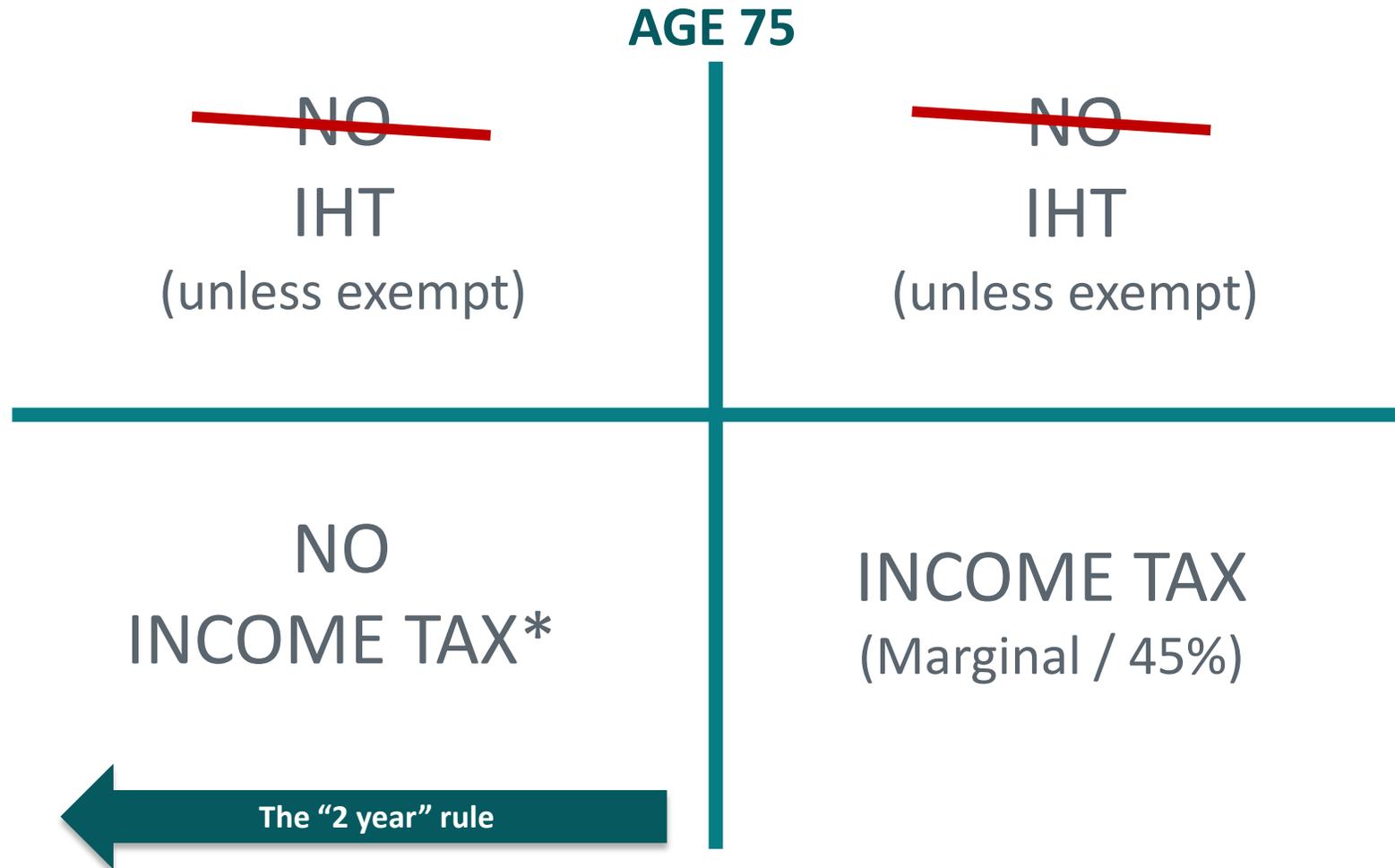
Taxation of pension death benefits

Pensions Death Taxation pre 2027



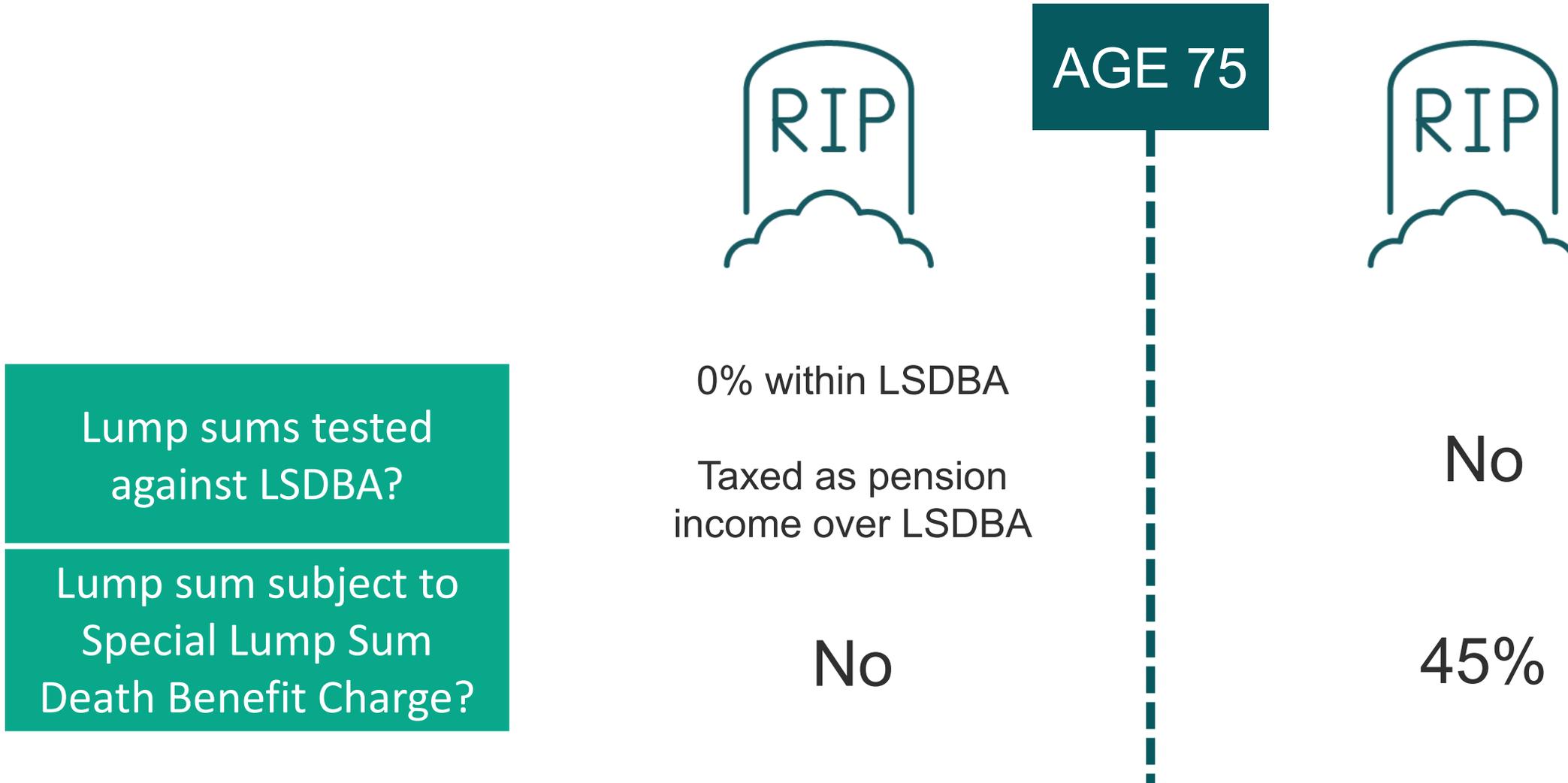
* DB income is taxable, lump sum benefits subject to LSDBA

Pensions Death Taxation from 2027



* DB income is taxable, lump sum benefits subject to LSDBA

LSDBA and SLSDB charge



Lump sums not tested against LSDBA



Trivial
Comm
LSDB

Charity
LSDB

Previously
LTA tested
pots

All other Lump Sum Death Benefits ARE tested INCLUDING
Lump Sums from Beneficiary Drawdown pots and DIS

Individuals Starting Allowances

LSA and LSDBA

LESS

DEFAULT
TRANSITIONAL
AMOUNT

OR

TRANSITIONAL
TAX FREE
AMOUNT

Default Transitional Amount

LSA

LTA % Used
X
LTA at 5th April 24
X
25%

**LSDBA
(No SIHLS)**

← SAME

**LSDBA
(with SIHLS)**

LTA % Used
X
LTA at 5th April 24
X
100%

IF 100% LTA USED THEN ALLOWANCES ARE ZERO

TTFAC



Roberta used 100% of her LTA when she took her DB pension when the LTA was £1,073,100 taking full PCLS of £268,275?

What difference would a TTFAC make?

LSDBA no TTFAC

£0

LSDBA with TTFAC

£1,073,100

-

£268,275

=

£804,825

When might you use a
bypass trust?

Why use a bypass trust?



Control



Tax Planning

Complex family situations



Andy (78) and Gillian (72) are married. Andy is not in the best of health and expects to pass away before Gillian. They each have children from previous marriages.

Andy wants to:

- Ensure Gillian is financially secure.
- Protect his children's inheritance.

On Andy's death:

- Gillian will have the right to live in the family home for life, after which it passes to Andy's children.
- She will also receive a 50% dependant's pension from Andy's defined benefit scheme so will have income of £30,000 p.a.
- Andy has a £400,000 drawdown pension pot.

To balance these needs, Andy could nominate a bypass trust to receive the drawdown pot.

Complex family situations

PENSION DEATH BENEFIT

```
graph TD; A[PENSION DEATH BENEFIT] --> B[GILLIAN]; A --> C[BYPASS TRUST];
```

GILLIAN

- Gillian can spend/gift as she likes
- Gillian's nomination/Will affects who benefits on her death from any remaining funds

BYPASS TRUST

- Trustees have control over who benefits
- Andy's letter of wishes gives guidance to trustees on distribution
- Gillian can be a potential beneficiary of the trust
- Andy's children/grandchildren can be potential beneficiaries of the trust

SLSDB charge

	Beneficiary Drawdown	Bypass Trust
Pension death benefit	£400,000	£400,000
Inheritance Tax	Exempt	Exempt
Beneficiary Drawdown Pot	£400,000	
SLSDB charge (45%)		£180,000
Bypass trust value		£220,000
Lump sum distributed	£400,000	£220,000
Tax credit on distribution		£180,000
Income tax on beneficiary	£176,217	
Income tax reclaimed		£3,783
Net proceeds	£223,783	£223,783

Desire for control



Robert, 46, is recently divorced and has a 13-year-old son, Alan, who lives with his ex-wife. He owns a successful business and has a pension pot worth around £600,000.

Robert wants his entire estate, including his pension, to benefit Alan if he dies. However, he's concerned about two things:

- While Alan is under 18, his guardian would control the inheritance.
- At 18, Alan would gain full access to the funds, which may be too soon.

To address this, Robert:

- Sets up a discretionary trust in his Will to manage his estate.
- Completes an expression of wish for his pension, directing the lump sum death benefit to the trust.

Desire for control

Pension Death Benefit

```
graph TD; A[Pension Death Benefit] --> B[ALAN]; A --> C[BYPASS TRUST];
```

ALAN

- While under age 18, Alan's guardian controls the pension
- At age 18, Alan has full access to the pension to spend as he likes

BYPASS TRUST

- Trustees have control over who benefits
- Robert can appoint the trustees who will look after the trust fund
- Robert's letter of wishes gives guidance to trustees on distribution
- Alan can be a potential beneficiary of the trust

Why use a bypass trust?



Control



Tax Planning

IHT planning

- Death in service



Bill and Angie, both 63, are married with two adult children and four young grandchildren.

Bill is employed and has a group life assurance benefit of £500,000 through his employer.

Together, they have other assets worth £1.5 million, including their home, savings, and investments.

Their mirror Wills leave everything to the surviving spouse, then to their children on second death.

To improve flexibility and tax efficiency, they could nominate a bypass trust to receive the £500,000 death-in-service benefit.

IHT planning - Death in service

Pension Death Benefit

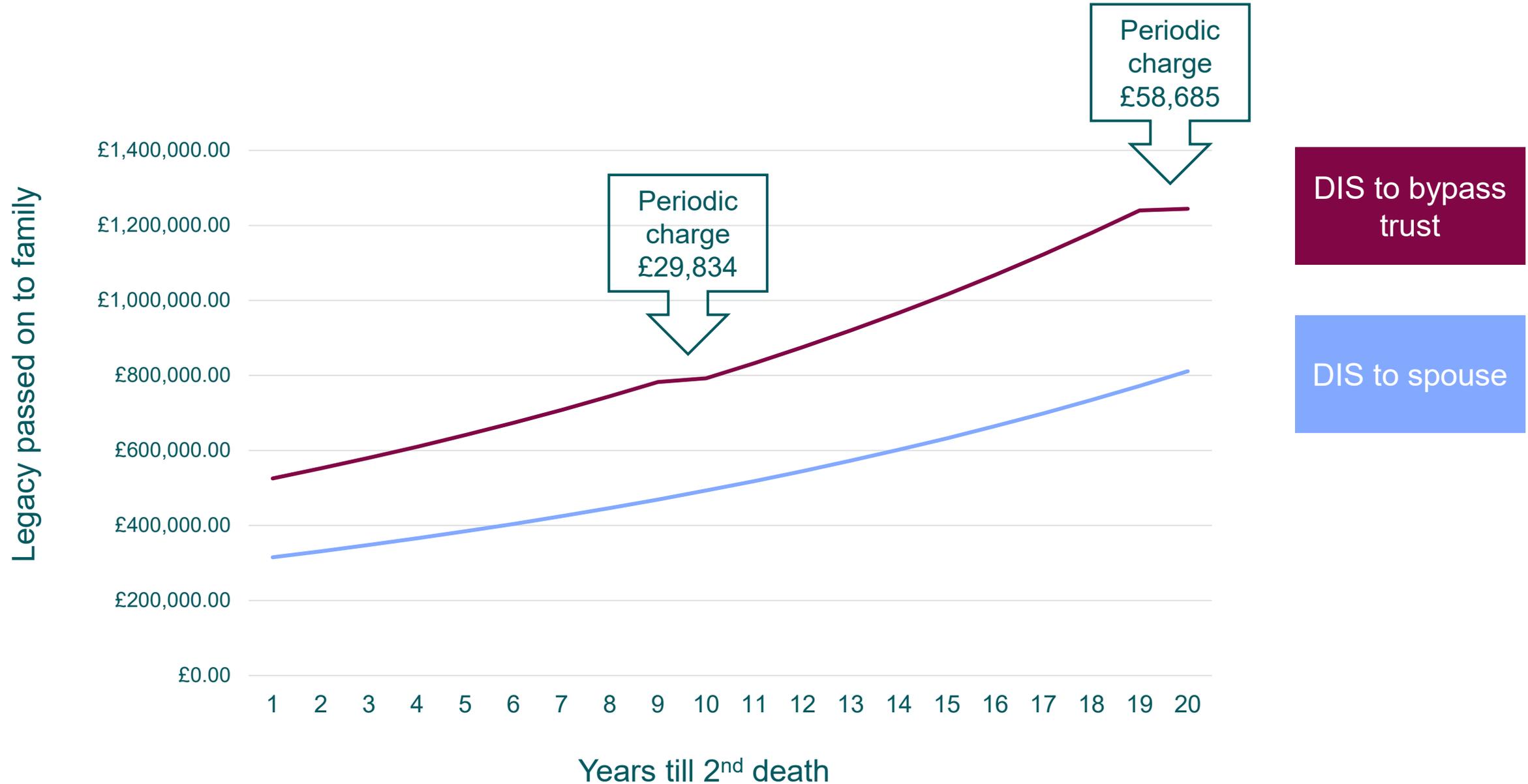
LUMP SUM TO ANGIE

- No Inheritance Tax on DIS payment
- Angie has full access
- If Angie wants children/grandchildren to benefit she will need to make a gift (7 year clock if not exempt)
- Angie's estate increased to £2,000,000 for IHT purposes

LUMP SUM TO BYPASS TRUST

- No Inheritance Tax on DIS payment
- Angie has full access (subject to trustees' discretion)
- Angie can be a trustee of the trust. If she wants children/grandchildren to benefit she can distribute from the trust with no 7 year clock
- DIS not in Angie's estate but subject to relevant property regime

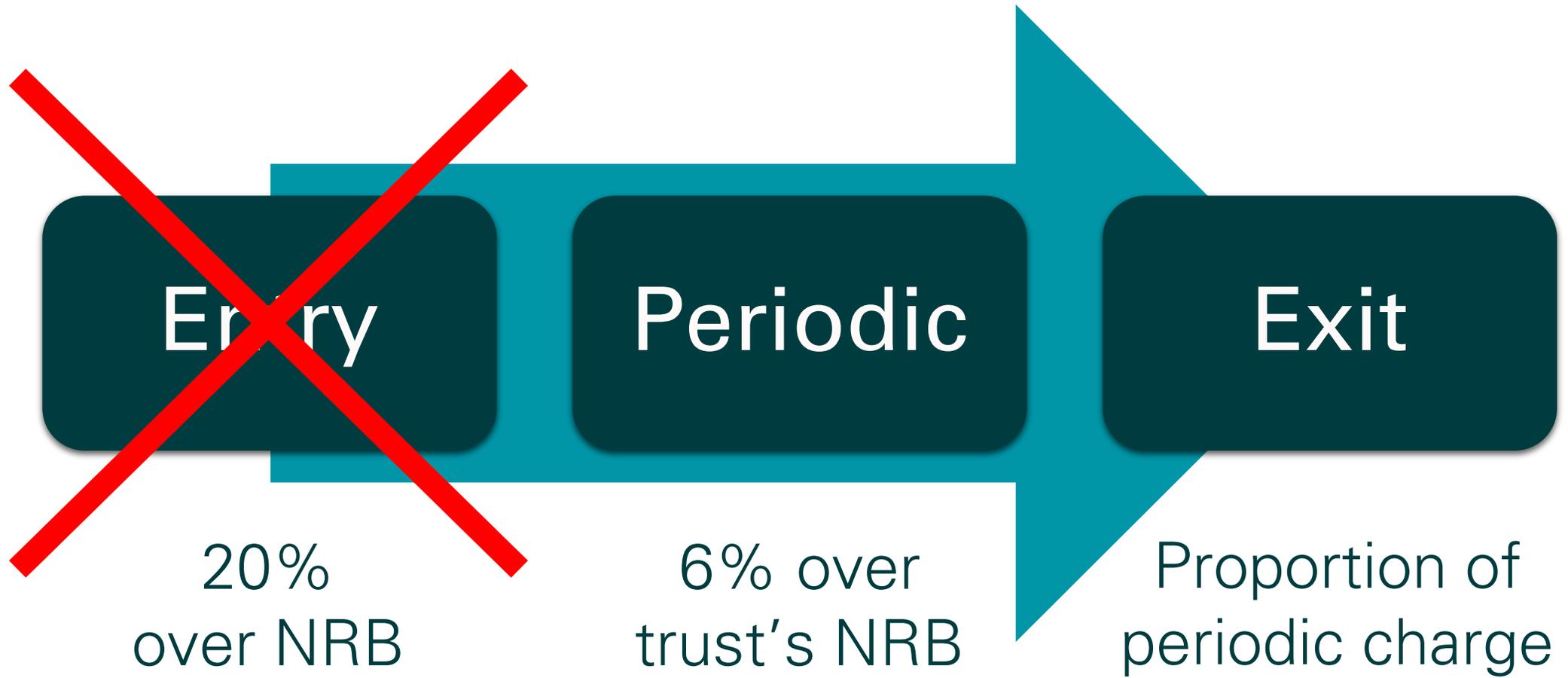
Death in service – £500k no income





Inheritance Tax Matters

Relevant property regime and Bypass Trusts



When is the 10 year anniversary?

Pension
scheme

Every 10 years from the
date of joining the
scheme/placed in trust

Bypass
trust

Every 10 years from date
the trust was set up

Billy's bypass trust

Billy was diagnosed with a terminal illness in 2023

- He wanted to ensure his son James (a minor) didn't have unfettered access to these pensions at age 18
- He didn't want James' guardian to have control over the funds before James was 18
- Billy set up a bypass trust which he nominated to receive his pension death benefits.

Billy passed away in June 2024 at age 50 and the trustees of his pension scheme paid the death benefit to the bypass trust.

The trustees have heard there could be IHT charges on this trust
and ask their financial adviser how this works

Periodic charges

1st December 2008

Billy joins Pension scheme



1st December 2028

Periodic charge

Trust value £770,000



1st June 2024

Billy dies

Death benefit paid to bypass trust

Value £600,000



Periodic charge – simple calculation

Value of Relevant Property the day before the 10 year anniversary

£770,000

PLUS

Value of related settlements
(commenced on same day or added to on same day)

NIL

LESS

Trust's Nil Rate Band*

£325,000

* NRB is reduced by chargeable transfers in the 7 years before the commencement of the trust and any capital distributions subject to the exit charge in the previous 10 years.

Excess taxed at 6%

£445,000 x 6% = £26,700

Reduction due to property only have been in the trust for 18/40 quarters
Tax due £26,700 x 18/40 = £12,015

Multiple pension schemes

Discretionary Bypass Trust

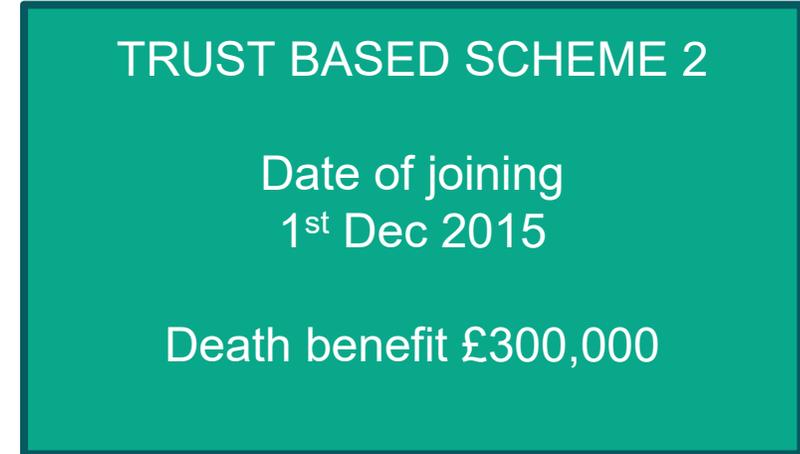
SCHEME 1

Death benefit £100,000

SCHEME 2

Death benefit £300,000

Multiple pension schemes



- Periodic charges every 10 years from date of joining the scheme
- Scheme 1 has its own nil rate band*
- 1/4 value of trust measured against NRB

- Periodic charges every 10 years from date of joining the scheme
- Scheme 2 has its own nil rate band*
- 3/4 value of trust measured against NRB

* NRB reduced by chargeable transfers in 7 years before joining scheme

Pre April 2027
window of
opportunity?

IHT planning

– Window of opportunity



Mr and Mrs Anyone are retired, married and in good health.

They have some kids

They may or may not have an IHT liability currently

They each have £500k in pensions, which when included in their estate will create an IHT liability/increase their existing IHT liability

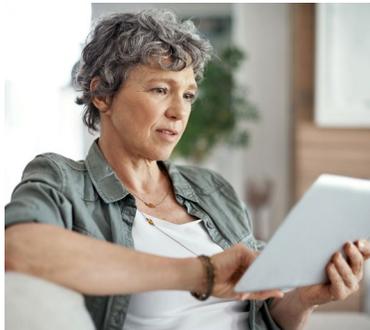
They don't want the surviving spouse to lose access to the pensions but have concerns about the proposed IHT changes and want to pass on as much as possible to their family on second death.

They ask their financial adviser if there's anything they should be thinking about right now

Nominations – Pre April 2027



£500,000
DC pension



£500,000
DC pension

5 April 2027

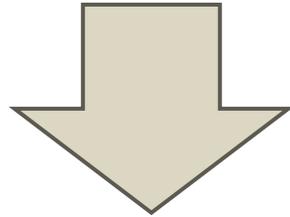


Nominations – Pre April 2027



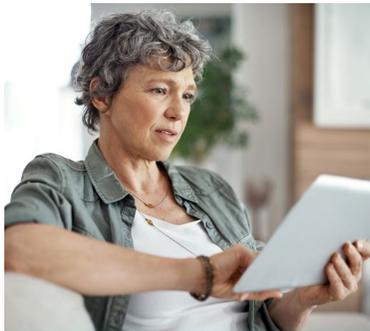
5 April 2027

Pass to
spouse



Nominations – Pre April 2027

5 April 2027



£500,000
DC pension

£500,000
DC pension



Death before 5 April 2027

no IHT due



Death after 5 April 2027

£1,000,000 pension in
estate for IHT

Nominations – Pre April 2027



5 April 2027



Nominations – Pre April 2027



5 April 2027

Nominate
Bypass
Trust?



Nominations – Pre April 2027



5 April 2027



Death before 5 April 2027

no IHT due



Death after 5 April 2027

£500,000 in estate

£500,000 outside estate
(but spouse has full access)

M
&G

After April
2027?

DIS - Post April 2027

Death In Service Payments

Exempt from IHT on
member's death

In IHT'able estate
once paid out

DIS - Post April 2027

Death In Service Payments

Exempt from IHT on
member's death

In IHT'able estate
once paid out

Bypass trust?

Use NRB on first death?

Allocate available NRB to
bypass trust on first death

Trust £325,000



Trust £475,000

IHT

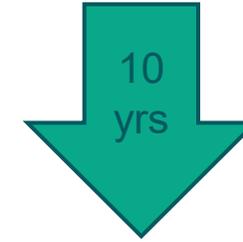
6% x
£150,000
= £9,000

Income Tax

£150,000 x
beneficiary
rate

Leave in pension

Pension £325,000



Pension £475,000

IHT

40% x
£475,000
= £190,000

Income Tax

£285,000 x
beneficiary
rate

Should you use NRB on first death?

Use a bypass trust?

April
2027

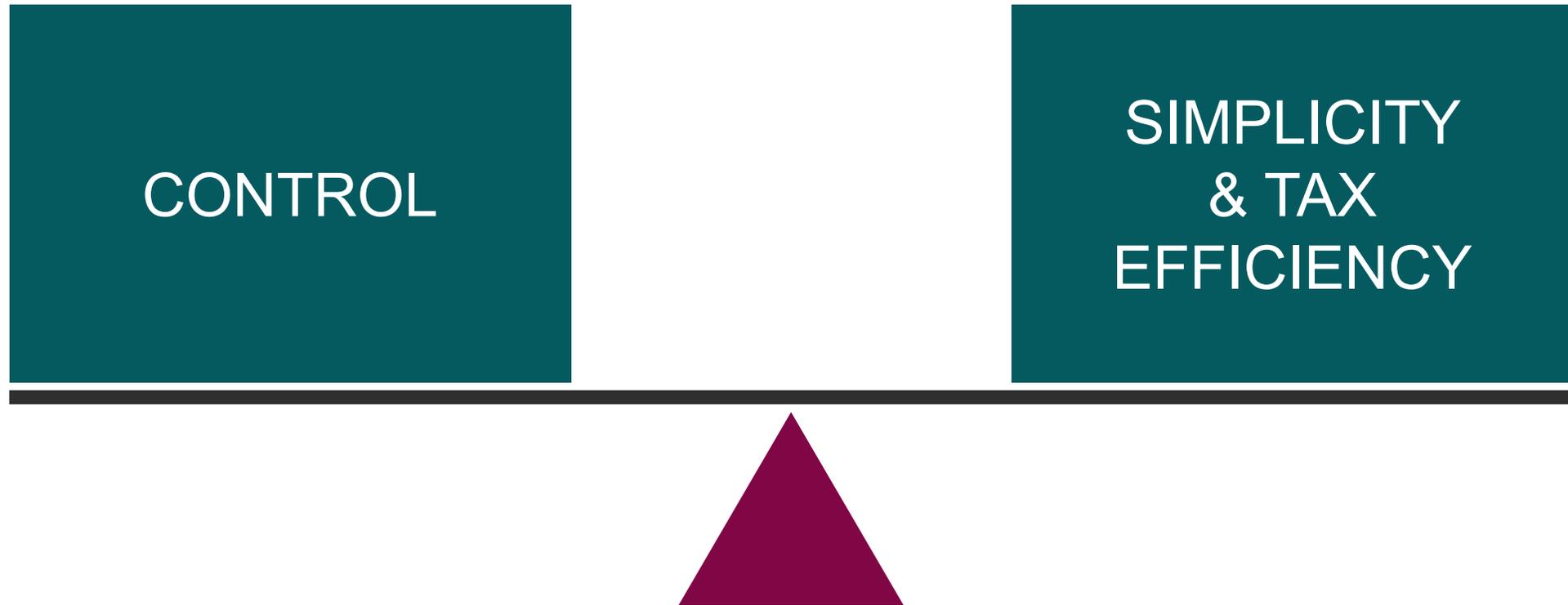
Useful to get pension
out of IHT system IHT
free

Continue to be useful
for exempt DIS
payments

Using NRB on first
death requires
crunching numbers

If using for control then need to crunch the numbers pre and post April 2027

Trade off



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Identify clients who could benefit from using a bypass trust to receive their pension death benefits (pre and post April 2027)

Tech Matters

Award winning technical support for Financial Professionals

What are you looking for today?

 Pensions

 Investment & Taxation

 IHT & Estate Planning

 Tools and Calculators

 Events & CPD

Government

Last Updated: 29 Aug 25 | 5 min read

[Inheritance Tax on unused pension funds and death benefits →](#)

Les recommends

20 Jun 24 | 90 min watch

[IHT planning using Gift, Loan and Discounted Gift Trusts →](#)

Upcoming events

16 Oct 25 | 1 min read

[Bypass Trusts: Reassessing their role in a changing legislative landscape →](#)



Les Cameron Manager

Joined group: Feb 2023

Pending posts 0

Requests to join 3

[Manage group](#)



M&G for Advisers - Tech Matters

Private Listed



Start a post in this group

Video

Photo

Poll

All Recommended

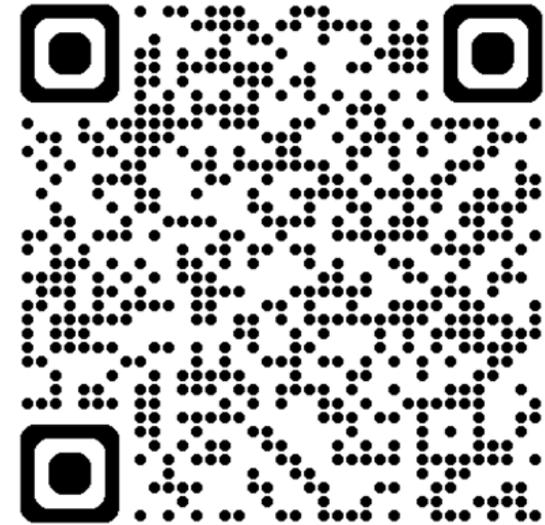
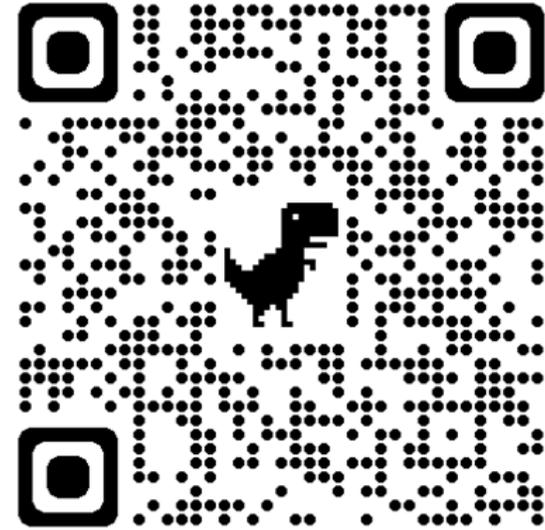


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Les Cameron 1st
Head of Technical at M&G Wealth
★ Admin Admin 1w Edited ...

Hi all
Why not the 19th November! ...more



Thank
you

M
&G