

Changes to Pensions & Inheritance Tax

Sept 2025

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Important Tax Change: Pensions Will Be Counted in Your Estate for Inheritance Tax from April 2027

From **6 April 2027**, draft legislation (to be included in the Finance Bill 2025–26) confirms that most pension death benefits will be brought into your estate for Inheritance Tax (IHT) when you die, regardless of your age.

Until now, pensions in this situation have usually been exempt from IHT. From 2027, they will be counted towards your estate's total value when IHT is calculated.

For many clients, this could mean:

- **New IHT bills** where none existed before.
- **Bigger IHT bills** if you're already over the thresholds.
- **Losing your Main Residence Nil Rate Band** if your estate exceeds £2m (tapered away completely by £2.35m).
- **Personal Representatives**, rather than pension schemes, **being responsible** for reporting and paying any IHT due on pension death benefits.

Exceptions:

- Spousal exemptions on estate transfer including pensions.
- Death in Service pension payments will remain exempt, regardless of who benefits.
- Dependants' scheme pensions (e.g. from DB/CMP schemes) remain out of scope.

Why This Matters

Pensions have been one of the most effective ways to pass on wealth tax-efficiently. These changes remove much of that protection. If your total assets — property, pensions, investments, savings, shares — exceed the IHT thresholds, your beneficiaries could face a **40% tax charge** on the excess.

HMRC estimates that around 10,500 estates will become newly liable to IHT, and a further 38,500 estates will face higher bills. The average increase in tax liability for affected estates is expected to be around £34,000.

You could be affected if:

- Your combined assets are near or over £325,000 for individuals or £650,000 for married couples (plus the main residence nil rate band if applicable).
- You've relied on your pension as a "tax-free inheritance" tool.
- You are married and your net worth pushes your estate above £2m.

What You Can Do Now

There are steps you can take to reduce the impact:

1. **Review your estate plan early** — Wills, trusts, gifting strategy, life cover and pension nominations all need to be reviewed and given time to update.
2. **Consider lifetime gifting** — Use allowances, gift from surplus income, or make larger gifts (usually IHT-free after 7 years).
3. **Check your pension nomination forms** — Ensure they still reflect your wishes and are tax-efficient.
4. **Use other tax-efficient wrappers** — Enterprise Investment Schemes (EIS), Business Relief Schemes (BPR) and Trusts may help.
5. **Life insurance in trust** — A simple solution that provides capital to cover future IHT bills without inflating your estate.
6. **Review your lifetime spending strategy** — Consider mitigating IHT with carefully planned spending.

Next Steps

We're raising this with our continuous wealth planning clients as part of their ongoing services, but if you believe your estate may be affected, we suggest speaking to us sooner rather than later. The earlier we start, the more strategies we can use to protect your family's inheritance.

This is one of the biggest shifts in pension and estate planning for years. April 2027 may seem far away, but careful planning now could save your loved one's hundreds of thousands in unnecessary tax.

Contact us to make sure your estate plan is ready for the changes.

Important Regulatory Information

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