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Pension death benefits taxation and IHT

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August 2025



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

- Explain how the Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA) work.
- Describe what options are available from pensions when someone dies and how they're taxed.
- Outline how Inheritance Tax (IHT) will apply to unused pension plans and death benefits from 6 April 2027.

LSA and LSDBA



Lifetime allowance

From 6 April 2024

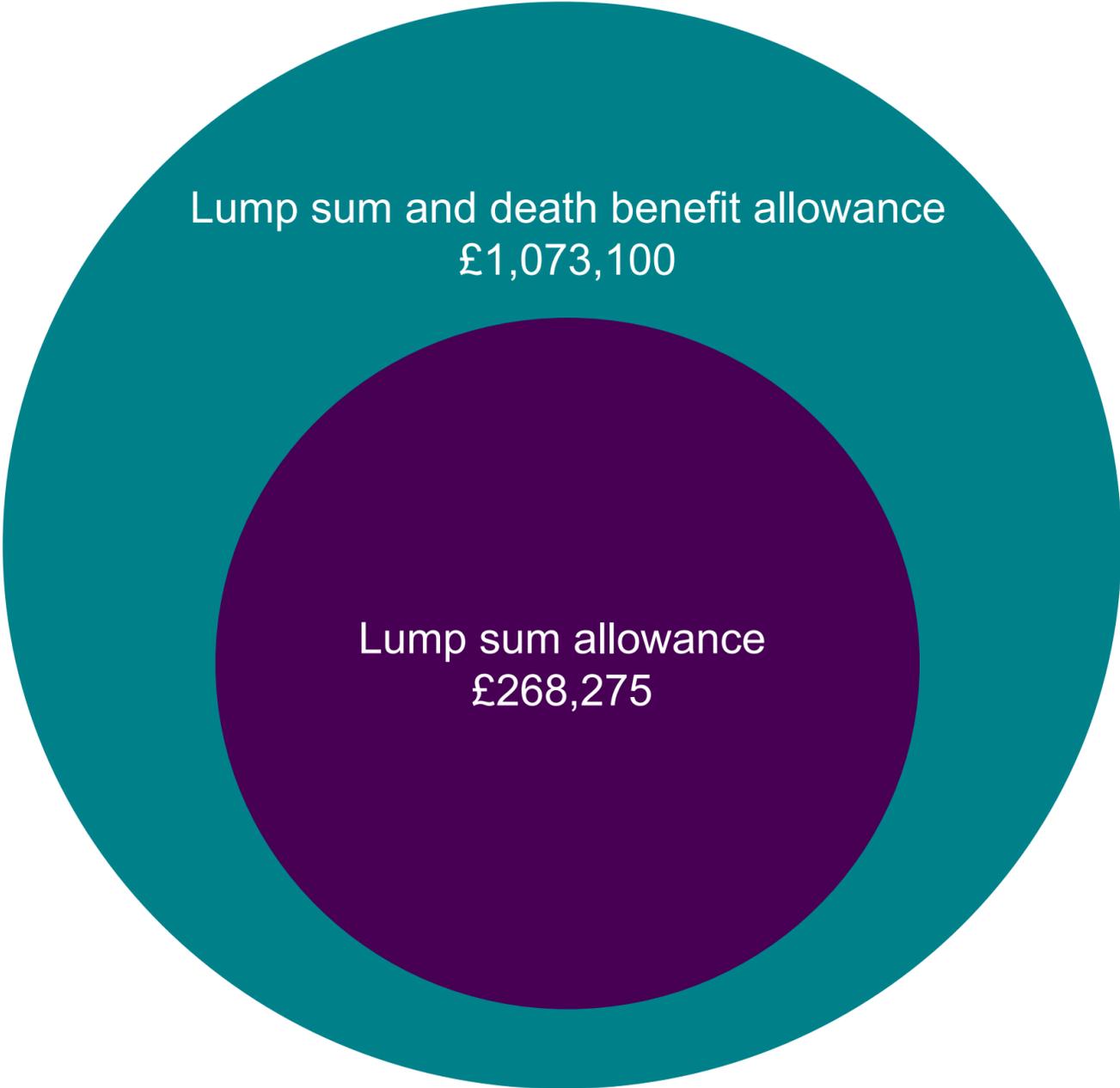
Lifetime allowance **abolished**
from 6 April 2024

Replaced by LSA and LSDBA

PCLS and the tax-free part
of an UFPLS limited to
£268,275 unless entitled to a
higher amount

Allowances

From 6 April 2024



Age 75 disregard

Those turning 75 before 6 April 2024 could have been through BCE at age 75

Those who didn't take any PCLS between age 75 and 6 April 2024 can disregard this BCE

Those who did can apply for a TTFAC

Pension death benefits taxation



Warnings

Things to consider for your pension clients



Scheme rules rule



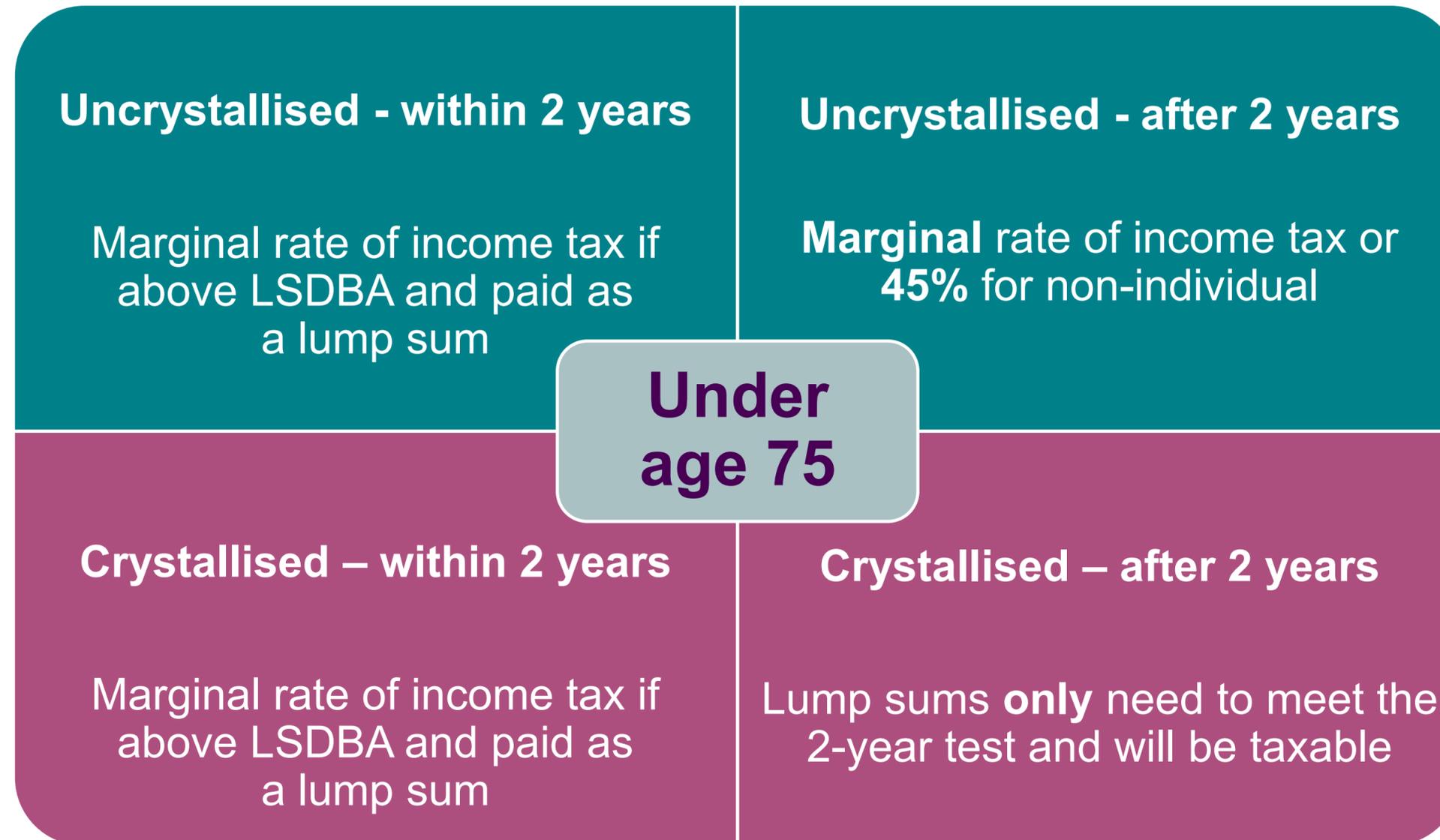
Not all schemes will offer
drawdown



Not all schemes are
discretionary

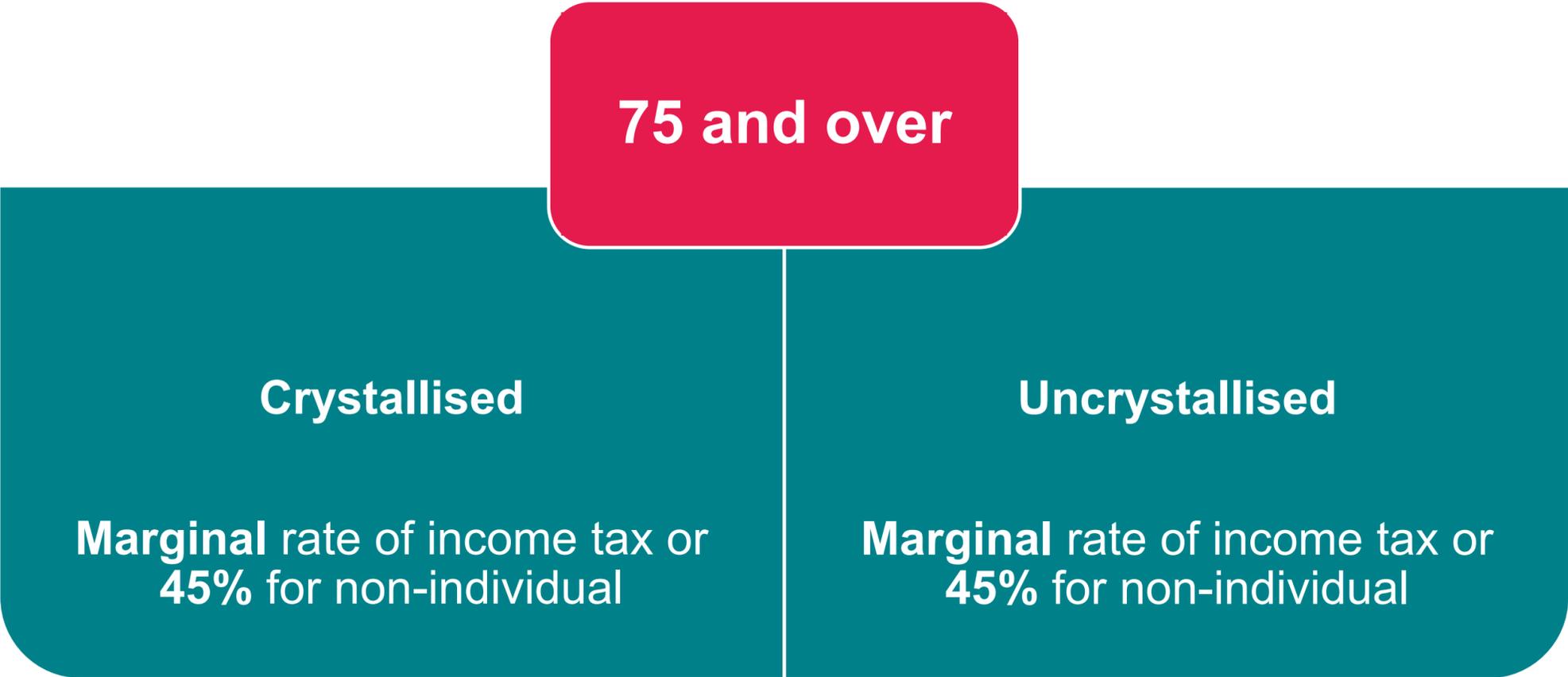
Taxation of DC death benefits

From 6 April 2024



Benefits in drawdown before 6 April 2024 will not be measured against the LSDBA

Taxation of DC death benefits



Planning points



Make sure you're up-to-date with the changes



Make sure the scheme offers the desired options



Make sure any expression of wish is up-to-date



Apply for Transitional Tax-Free Amount Certificate (TTFAC) if needed

Inheritance tax



IHT proposal highlights

Following the July 2025 Consultation response



IHT to apply to pensions from 6 April 2027.



IHT then income tax if death over age 75.



Personal representatives responsible for paying IHT.



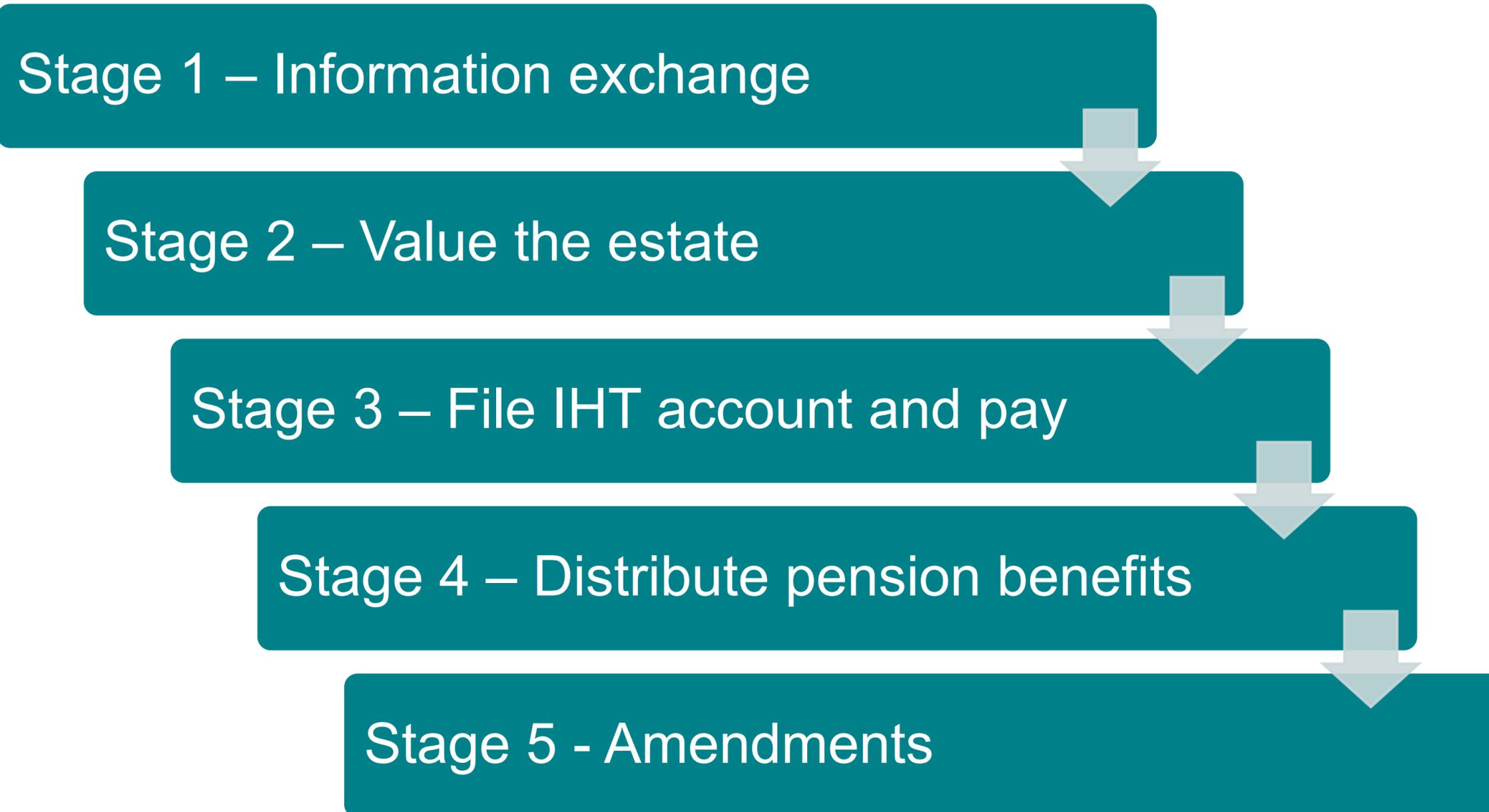
Pension beneficiaries jointly and severally liable once appointed.



Out of scope:

- Charity LSDB
- Dependents pensions
- DIS benefit
- Joint life annuity survivor benefits.

UK inheritance tax process



IHT payment options



Pay from the **free estate**



Pension beneficiaries direct
PSA's to pay



Pension beneficiaries take
the pension benefits in
full and **pay IHT directly**

IHT payment options

Pay directly from free estate

Pay inheritance tax due on entire estate.

If free estate beneficiaries are the same as the pension beneficiaries.

If free estate beneficiaries are different to the pension beneficiaries.



IHT payment options

Pay directly from free estate

Estate total value £2m, Pension assets comprise £1m. Member dies age 77 with no children.

Free estate beneficiaries are different to the pension beneficiary, who is a non-exempt HRTP.

$£2m - £325,000 = £1,675,000$ estate subject to IHT.

$£1,675,000 * 40\% \text{ IHT} = £670,000$ charge due.

PR's pay total charge and recoups £335,000 from pension beneficiary.

Pension beneficiary receives $£1,000,000 - £335,000 - £266,000 = £399,000$.



IHT payment options

Pension beneficiaries direct PSA's to pay

Will be an authorised payment.

IHT payment not subject to income tax.

Income tax may be payable on remainder.



IHT payment options

Pension beneficiaries direct PSA's to pay

Estate total value £4m, Pension assets comprise £2m.
Member dies age 81 with no children.

Free estate beneficiaries are different to the pension beneficiary, who is a non-exempt HRTP.

£4m - £325,000 = £3,675,000 estate subject to IHT

£3,675,000 * 40% IHT = £1,470,000 charge due.

Pension beneficiary instructs the Pension scheme administrators to pay £735,000 directly to HMRC.

Pension beneficiary receives £2,000,000 - £735,000 -
£506,000 = £759,000



IHT payment options

Pension beneficiaries take pension benefits in full and pay IHT directly to HMRC

Take all pension benefits.

Pay IHT from net benefits.

Contact HMRC to arrange a refund of any income tax paid on the IHT charge.



IHT payment options

Pension beneficiaries take pension benefits in full and pay IHT directly to HMRC

Estate total value £1m, Pension assets comprise £1m.
Member dies age 79 with no children.

No free estate beneficiaries, only a pension beneficiary, who is a non-exempt ARTP.

£1m - £325,000 = £675,000 estate subject to IHT

Net benefit at 45% income tax = £550,000

Pension beneficiary pays IHT direct to HMRC £675,000 * 40% = £270,000

Pension beneficiary reclaims ATR on IHT payment from HMRC £270,000 * 45% = £121,500

Beneficiary net position £550,000 - £270,000 + £121,500 = £401,500



Death in service benefits

Not in scope of IHT.

Whether discretionary or non-discretionary.

Improved position for some Public sector schemes.



Other points of clarification

Joint life annuities.

Trivial commutation death benefits.

Unauthorised payments.



Questions

Should I think about gifting now?

Will JLSD become more popular?

What about death benefits payable to a trust?

Will the payment of death benefits be delayed?

Will the order of taking benefits change?

What changed from the consultation?

What exemptions are appropriate?

What should my clients be doing now?

Will 'Whole of Life' become more popular?

What about death in service?



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