



Pension death benefits and **inheritance tax** from April 2027

Introduction

From 6 April 2027, most unused pension funds and pension death benefits will be brought within the scope of inheritance tax (IHT). For advisers, this could change the way some clients think about pensions in later-life planning, particularly where pension wealth has been earmarked for beneficiaries rather than retirement income.

What this could mean for advisers?

The changes may create a need to:

- revisit existing recommendations,
- check beneficiary nominations, and
- assess whether clients' pension, estate planning and withdrawal strategies remain aligned.

This is likely to be especially relevant for clients with significant unused pension savings, more complex family circumstances, or wider inheritance tax planning needs.

IHT and income tax

It'll also be important to explain the distinction between inheritance tax and the separate income tax treatment of pension death benefits, which may still apply depending on the age of the member at death and how benefits are paid. The final position will depend on legislation and HMRC guidance, so advisers should continue to review developments as the rules are confirmed.



What's changing?

Currently, most pension death benefits sit outside a member's estate for inheritance tax purposes, allowing unused pension savings to pass between generations without an inheritance tax charge.

From 6 April 2027, most unused pension funds and death benefits will instead be included when calculating the value of a deceased person's estate for inheritance tax purposes. This applies regardless of whether trustees or scheme administrators have discretion over who receives the benefits.

At a glance:

- Most unused pension funds and death benefits will be included when calculating the value of the estate for IHT tax purposes.
- Existing IHT exemptions for benefits paid to spouses, civil partners and registered charities will continue.
- Personal representatives (PRs) will become responsible for reporting and paying inheritance tax due in relation to pension death benefits.
- Beneficiaries may share some responsibility for inheritance tax relating to pension death benefits after they have been allocated.
- In some circumstances, both IHT and income tax may apply.
- Current thresholds remain unchanged and IHT normally isn't payable if the value of the deceased estate is less than £325,000.



What's included and excluded?

The final treatment will depend on the legislation, HMRC guidance and the type of benefit being paid. Based on the current position, the expected treatment is broadly as follows.

Benefits likely to be affected

The changes are expected to apply to most pension savings that remain unused when a member dies. This may include:

- pension funds that haven't yet been accessed
- money left in drawdown
- most lump-sum pension death benefits

Benefits not expected to be affected

Some benefits are not expected to fall within the new treatment. These may include:

- Death-in-service benefits
- benefits paid to a spouse or civil partner, where the existing IHT exemption applies
- benefits paid to a registered charity, where existing inheritance tax exemptions apply

The impact will depend on each client's circumstances, so advisers should review cases individually. This may be particularly important where clients have more than one pension arrangement, older pension plans, or existing estate planning arrangements that rely on pension wealth passing outside the estate.

New responsibilities



Personal representatives (PRs)

Under the revised approach, personal representatives will take primary responsibility for inheritance tax reporting and payment.

Their responsibilities are expected to include:

- getting details of pension death benefits from pension providers
- gathering information from pension scheme administrators
- calculating any inheritance tax due and submitting a withholding notice where required, allowing pension benefits to be temporarily withheld while IHT is settled.
- reporting pension values to HMRC and obtaining an IHT payment notice
- coordinating payment of inheritance tax
- helping to ensure the estate is dealt with correctly



Pension scheme administrators

Pension scheme administrators will continue to play an important supporting role by:

- providing information to PRs
- confirming values of pension benefits
- complying with information-sharing requirements
- supporting the administration process
- making death benefit payments



Beneficiaries

Beneficiaries may need to:

- provide information requested by PRs
- consider the impact of inheritance tax and income tax on benefits received
- decide how death benefits are taken
- understand any tax that may be due

Beneficiaries may also have a role in meeting any inheritance tax due on pension death benefits.

Review areas and client considerations

Use these areas to structure your discussion with clients and identify where further review may be needed.

1. Identify clients who may be affected

Review clients who have:

- significant unused pension savings
- drawdown funds
- multiple pension arrangements
- complex family circumstances
- existing inheritance tax planning.

Ask:

- How much of your estate could be affected by unused pension savings from April 2027?
- Are you relying on your pension mainly for retirement income, legacy planning, or both?

2. Review beneficiary nominations

Check that expression of wish forms remain appropriate and reflect the client's intentions. Bear in mind that different beneficiaries may be subject to different IHT tax treatment as an exemption applies to spouses and civil partners.

Ask:

- Are your beneficiary nominations still up to date?
- Have there been any changes to your family or financial circumstances since they were completed?

3. Review retirement income strategy

Consider whether the client's withdrawal strategy continues to meet their retirement and legacy objectives.

Review:

- whether pension income should be taken earlier, later or at the current pace
- whether other assets should be used first
- whether retaining pension wealth for beneficiaries remains appropriate.

Ask:

- Does your current withdrawal strategy still support your retirement income needs?
- Is part of your pension intended to be passed on rather than used during retirement?
- Should the balance between pension savings and other assets be reconsidered?

4. Consider wider estate planning

Review whether other opportunities should be explored, such as gifting, trusts or protection.

Ask:

- Who do you ultimately want to benefit from your wealth?
- Have you discussed your intentions with your family?
- Would your personal representatives or beneficiaries have access to funds if inheritance tax became payable?

5. Coordinate advice

Consider whether pension, tax and estate planning should be reviewed together.

Ask:

- Should your pension, tax and estate planning be reviewed alongside your solicitor or accountant?



Common misconceptions

There are some common misconceptions clients may have about the changes.

Myth: “Pensions will always be outside the estate.”

Reality: From 6 April 2027, most unused pension funds and death benefits will be included when calculating the value of the estate for inheritance tax purposes.

Myth: “Everyone will pay inheritance tax on their pension.”

Reality: Not all estates will be liable to inheritance tax. Whether tax is due will depend on the value of the estate and any available exemptions or allowances. Inheritance tax is generally only payable if the value of an estate exceeds the available thresholds, including the current nil-rate band of £325,000.

Myth: “Death-in-service benefits are affected.”

Reality: Registered death-in-service benefits are expected to remain outside the scope of the new rules.

Myth: “Updating beneficiary nominations is no longer important.”

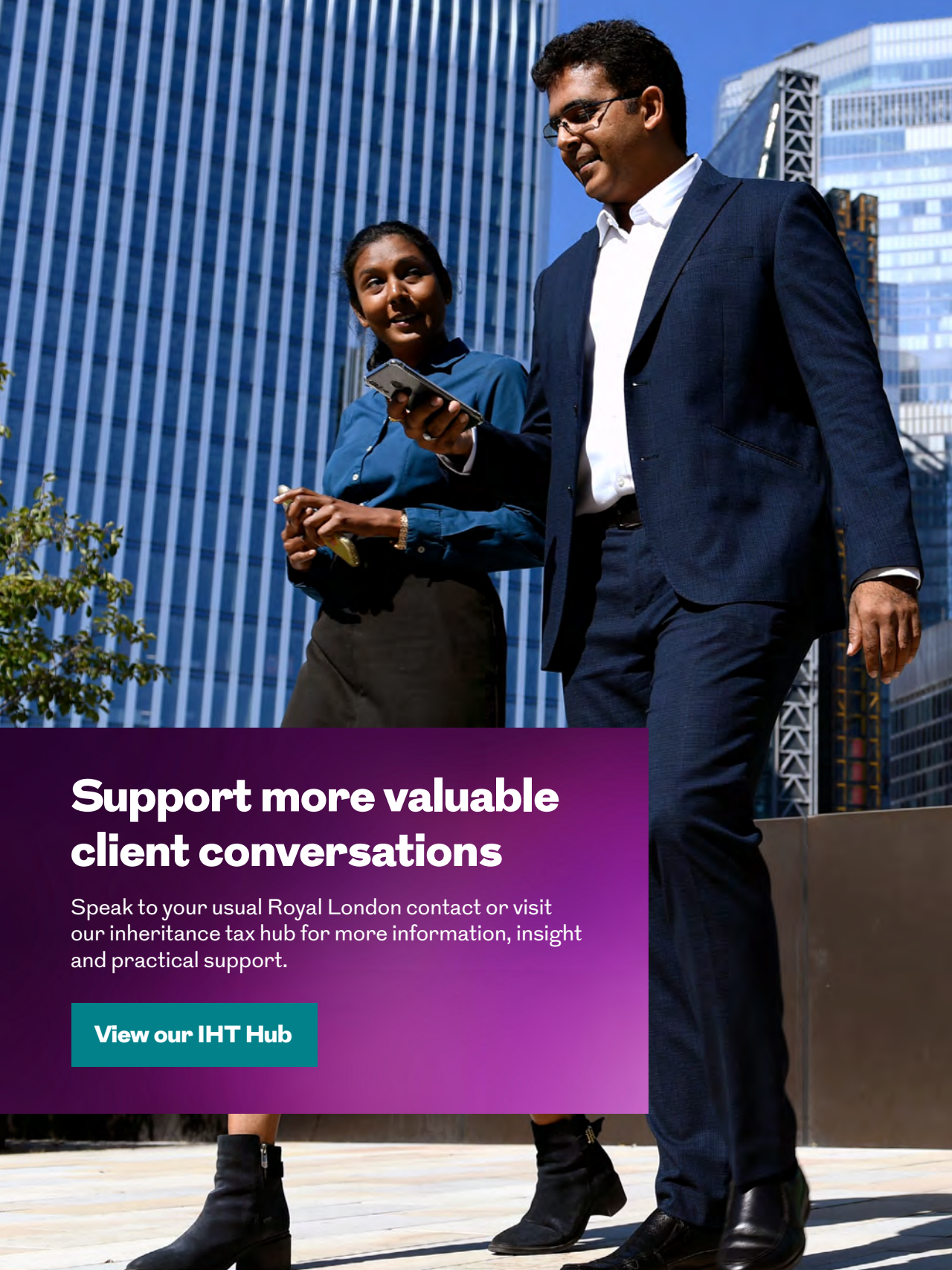
Reality: Expression of wish forms remain an important part of the death benefit process and should continue to be reviewed regularly. Bear in mind that different beneficiaries may be subject to different IHT tax treatment as an exemption applies to spouses and civil partners.

Myth: “Inheritance tax and income tax are the same thing.”

Reality: The inheritance tax treatment of pension death benefits is separate from any income tax treatment that may apply to beneficiaries. In some cases, both taxes may be relevant but there will be rules in place to avoid double counting.

Key terms and definitions

Technical term	Explanation for clients
Pension death benefits	Pension benefits paid after someone dies.
Unused pension funds	Pension savings left in a scheme when someone dies.
Beneficiary	Someone who receives money or benefits from a pension after death.
Nominated beneficiary	Someone named by the pension holder to receive benefits.
Expression of wish	A form that tells the pension provider who the member would like to receive their pension benefits after they die.
Dependant	Someone who relied on the deceased financially, such as a spouse, partner or child.
Personal representative (PR)	The person responsible for dealing with someone's estate after they die (often the executor).
Estate	The total value of a person's money, property and possessions when they die.
Pension scheme administrator	The organisation responsible for administering the pension scheme.
Death-in-service benefit	A benefit paid by an employer or pension scheme when someone dies while still employed.



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