

## Adviser Update

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# Pensions and inheritance tax (IHT)

April 2026

### Overview

In the 2024 Budget, the Chancellor announced that from 6 April 2027 pensions will be included in an individual's estate on death. Where the nil-rate band has been used up, inheritance tax (IHT) at 40% will apply on the excess.

There was an initial technical consultation on how IHT would be applied to pensions, which ran from October 2024 until January 2025, with a response and draft legislation published in July 2025.

In the Budget delivered on 26 November 2025 further changes were announced, and updated legislation on how inheritance tax will be applied to pensions is included in Finance Act 2026.

This update provides the latest position as at 1 April 2026. The final details are still subject to confirmation, most notably amendments to the information sharing regulations which are yet to be released.

### Timeline

#### 30 October 2024

- Changes announced in Budget to bring pensions into an individual's estate
- Technical consultation launched: [Technical consultation — Inheritance Tax on pensions: liability, reporting and payment - GOV.UK](#)

#### 22 January 2025

- Technical consultation closed

#### 21 July 2025

- Consultation response document published: [Inheritance Tax on pensions: liability, reporting and payment — Summary of responses - GOV.UK](#)
- Policy paper published: [Inheritance Tax on unused pension funds and death benefits - GOV.UK](#)
- Draft legislation published for consultation: [Draft Finance Bill Measures](#)

#### 15 September 2025

- Consultation on draft legislation closed

#### 17 September 2025

- House of Lords Finance Bill sub-committee launched call for evidence on “Reforming inheritance tax: unused pension funds and death benefits”: [Finance Bill Sub-Committee launches call for evidence — Committees — UK Parliament](#)

## 7 October 2025

- House of Lords call for evidence closed

## 26 November 2025

- Budget 2025

## 4 December 2025

- Finance Bill 2025-26 published containing relevant clauses to apply IHT to pensions

## 18 March 2026

- Finance Bill 2025-26 passed and became Finance Act 2026

## 27 March 2026

- HM Treasury response to House of Lords Finance Bill sub-committee report issued confirming the Government's indicative timetable for next steps as:
  - Spring 2026: publish a list of clarifications to common questions that have been raised by industry via HMRC newsletters
  - Spring 2026: publish draft regulations on information-sharing requirements for technical consultation
  - Spring / Summer 2026: make and lay the regulations on information-sharing requirements with a commencement date of 6 April 2027
  - Spring / Summer / Autumn 2026: continue process design and develop guidance and other support tools
  - Autumn / Winter 2026 / 2027: share draft guidance with industry stakeholders
  - Winter / Spring 2026 / 2027: communications activity to publicise upcoming changes to impacted groups
  - Spring 2027: publish guidance and other supporting materials

## 6 April 2027

- Pensions to be included in estate for IHT purposes for deaths occurring from this date

## Which pension death benefits will be included?

Most types of pension death benefits will be included in the value of the deceased member's estate and may be subject to IHT. However, there are exceptions:

- Dependant's scheme pensions
- Death-in-service schemes
- Charity lump sum death benefits
- Joint life annuities



**Spousal exemption will apply to inherited pension funds**

It is important to note that the spousal exemption will apply. This means that any death benefits paid to a spouse or civil partner will not be liable for inheritance tax.

The exemption for annuities only applies to joint life annuities. There is no exemption for payments that continue under a guarantee period, or value protection payments (unless they are paid to a spouse / civil partner).

The legislation also confirms that business property and agricultural property reliefs will not apply to assets held in pensions on death.

## How will IHT be applied to pension death benefits?

Initially it was proposed that pension scheme administrators (PSAs) would handle the reporting and payment of IHT on pensions. However, following feedback from the technical consultation, HMRC has instead decided that the personal representatives (PRs) will handle the reporting and payment of IHT on unused pension funds and death benefits, starting from 6 April 2027.

The changes involve amending the Inheritance Tax Act 1984 (IHTA 84) to include pensions, rather than modifying pensions legislation itself. As a result, guidance will be incorporated into the existing IHT Manual, not pension scheme rules. This distinction means pension providers will need to apply established IHT principles and procedures, rather than develop bespoke rules specific to pension arrangements.

## Proposed process

### Stage 1

#### Information exchange

PRs notify PSAs of the death and if there is any surviving spouse / civil partner.  
PSAs begin benefit distribution process and provide pension value for IHT within four weeks.

### Stage 2

#### Estate valuation

PRs gather pension and estate data to value the estate.  
If needed, PRs notify PSAs and request beneficiary details for IHT reporting.

### Stage 3

#### File inheritance tax account

PRs file IHT account if required and notify PSAs and beneficiaries.  
If tax is due, PRs calculate and arrange payment; multiple payment options are available.

### Stage 4

#### Distribution of pension benefits

PSAs identify beneficiaries and outline benefit options.  
Exempt beneficiaries receive benefits immediately; non-exempt may owe IHT and income tax.  
(This stage may overlap with stages 1-3.)

## Stage 5

### Amendments

PRs manage estate amendments and submit revised IHT accounts to HMRC.

If more IHT is due, PRs notify beneficiaries or PSAs; if less, refunds are issued after settlement.

Beneficiaries must contact HMRC for any related income tax adjustments.

Upon notification of a member's death, each pension scheme must provide a date-of-death valuation within four weeks. The PRs are responsible for collecting these valuations and managing all non-pension assets.

Once a scheme has reviewed its discretionary disposal position and identified the beneficiaries, it must inform the PRs. The PRs will then allocate the nil-rate band proportionally between each scheme and non-pension assets paying to non-exempt beneficiaries.

The PRs can pay the IHT due on the entire estate (including the pension) directly from funds within the free estate, or request that the pension beneficiaries pay it directly. The pension beneficiaries then have the option of requesting the scheme to pay the IHT due on their inherited pension directly to HMRC.

In addition, the Finance Act gives PRs the power to issue a withholding notice to the PSA, if they have reason to believe that IHT will be due on the pension. When in place the notice requires the PSA to withhold 50% of the pension death benefits until the earliest of three dates:

- the notice is withdrawn;
- the IHT liability for the pension has been settled; or
- 15 months after the end of month of death.

Withholding notices have no effect where the beneficiary is a spouse, civil partner, charity or registered club.

The new legislation also gives the PRs the power to instruct the PSA to pay the IHT directly to HMRC, as long as the amount due is at least £1,000.

However it is paid, IHT is due within six months of the end of the month in which the death occurred. After this deadline late payment interest will apply.

In the event of there being any overpaid IHT, this will be refunded by HMRC to the PRs, not via the pension scheme.

### Direct payment by scheme

If the IHT due (including interest where applicable) is £1,000 or more, the beneficiary or the PR may request the PSA to pay the tax directly to HMRC. Provided the notice complies with the specified requirements (which are yet to be confirmed) and the amount requested is not more than the relevant death benefit payable to that individual that has not yet been paid, the PSA must pay the tax due within 35 days. If this deadline is not met, the PSA will become jointly liable with the beneficiary for the IHT due.

## Income tax

Income tax may also apply to death benefits paid out of the pension. The rules on this are not changing; usually if the member dies before their 75th birthday there will be no income tax to pay. For deaths on or after the 75th birthday the benefits will be subject to income tax when the beneficiary takes a lump sum or income from the pension.

If the PSA has paid any IHT due directly from the pension, this will be taken first, then income tax applied to the balance.

For example, if £100,000 pension above the available nil rate band is payable to a non-exempt beneficiary, the IHT due would be £40,000. If this is paid by the PSA directly to HMRC, then £60,000 would remain in the pension, which would then have income tax applied at the point the beneficiary withdrew it.

However, if the £40,000 IHT was paid by the beneficiary personally, or the PR paid from the free estate and then reduced the distribution from the estate to the beneficiary, then £100,000 would remain in the pension. This would all be subject to income tax when withdrawn which would result in the beneficiary paying more income tax than if the pension scheme had paid directly.

To rectify this situation the legislation makes changes to Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003) to allow affected beneficiaries to deduct the amount of taxable pension income for the tax year – up to the amount of IHT paid – from their income for the year when calculating the amount charged to income tax. Any unused amount can be carried forward to future tax years until the total deduction for taxed income received from the pension is equal to the IHT paid in relation to the pension.

## Case study

- Jack is a higher rate taxpayer and sole beneficiary of his mother's SIPP
- SIPP valued at £200,000
- Nil rate band of £50,000 available for SIPP

IHT due =  $(£200,000 - £50,000) \times 40\% = £60,000$

### Option 1

The PR pays the IHT from the free estate.

Jack inherits the full £200,000 SIPP and pays income tax when he makes withdrawals.

He deducts taxable income received from the pension from his income total for the year when calculating tax due (up to a total of £60,000).

### Option 2

Jack asks the PSA to pay the IHT direct.

£60,000 is deducted from the SIPP and paid to HMRC. Jack inherits £140,000 in the SIPP and pays income tax when he makes withdrawals.

### Jack's options: comparison

	Option 1	Option 2
SIPP distribution	£200,000	£140,000
Less income tax @40%	£80,000 <sup>1</sup>	£56,000
<b>Payment received from SIPP</b>	<b>£120,000<sup>2</sup></b>	<b>£84,000</b>
Taxable income on self-assessment (£200,000 less £60,000)	£140,000	-
Income tax due @40%	£56,000 <sup>3</sup>	-
<b>Tax refund</b> <sup>(1-3)</sup>	<b>£24,000<sup>4</sup></b>	-
Reduction in amount received from estate	£60,000 <sup>5</sup>	-
<b>Net position</b> <sup>(2+4-5)</sup>	<b>£84,000</b>	<b>£84,000</b>

Assumes all income taxed at 40% (could be taken over a few tax years)

## Planning

There will be many clients who intended to pass funds on via the pension scheme due to the current generous death benefit rules which lend themselves to taking income from other assets first and using pension funds last. When the new rules come into force this situation may change.

It is important to note that these changes are not due to come into force until 6 April 2027. This means that if death occurs before this date, then the pension should still be outside the estate in most circumstances.

Looking further ahead, the advantages of tax-relieved contributions and tax-free growth will continue to be valuable.

Where members die before age 75, funds will continue to be paid out tax-free in most circumstances if paid to a spouse or civil partner. They will also be tax-free if there is sufficient nil-rate band available.

If the member dies after age 75 the spouse or civil partner can still receive the death benefits subject to income tax without IHT applying. This is also the case where benefits are paid to other beneficiaries and there is nil rate band available.

When the changes are introduced, the clients who will be most impacted by the change will be those who are not leaving benefits to their spouse (which will include most couples on second death), are over 75, and have large funds that they are unlikely to use in their lifetime and are over the available nil-rate band.

For these clients it may make sense to take income and make gifts in their lifetime. As well as the annual gifting allowance of £3,000, regular gifts out of income can be made without IHT applying. The exemption applies when the gifts form part of the client's normal expenditure, are made out of income, and don't impact the client's normal standard of living. Appropriate records should be kept if regular gifts are made.

Some clients may also consider making potentially exempt transfers (PETs) to family members or making gifts to discretionary trusts (which would be chargeable lifetime transfers (CLTs)). These will be outside the estate if made at least seven years prior to death, with taper relief applying if the donor survives at least three years.