AJBell Investcentre

Adviser Update

Pensions and inheritance tax (IHT)

November 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.

Finance Act 2026 contains the legislation to bring these changes into force.

The information-sharing regulations were laid on 15 July 2026 and take effect from 6 April 2027. HMRC published a second Technical Note on 27 August 2026, providing further practical detail and draft supporting material.

Further changes were announced in the 2026 Budget.

This update reflects information available as at 6 November 2026.

Final guidance and supporting materials are expected in Spring 2027.

Timeline for further details from HMRC

By the end of 2026

- HMRC is expected to publish Technical Note 3, covering further detail on the operation of IHT on pensions.

Autumn / Winter 2026 / 2027

- Share draft guidance with industry stakeholders and develop guidance and other support tools.

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.

Excluded benefits

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, the following are classed as "excluded benefits":

- Dependants' scheme pensions
- Death in service benefits
- Joint life annuities
- Trivial commutation lump sums (only available from defined benefit schemes)

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.

Exempt beneficiaries

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 to inheritance tax.

There is also an exemption for payments made to charities or registered clubs.

Spousal exemption will apply to inherited pensions

IHT reliefs

It has been confirmed that business property and agricultural property reliefs will **not** apply to assets held in pensions on death.

Loss on sale relief will not apply. This means that the pension value at date of death will determine the amount of IHT due, regardless of whether the assets fall in value before they are distributed to beneficiaries.

There will be no ability for the pension to pay the IHT due by instalments – even when commercial property is held.

Relief	Available
Loss on sale	X
Quick succession	✓
Business property	X
Agricultural property	X
Instalments	X

Quick succession relief **will** apply to pension benefits. This means that if IHT is paid on the death of the member, and the beneficiary who receives the remaining funds dies within five years, no IHT will be payable on their death on the funds they inherited.

Reduced rate of IHT when gifting to charity

In the 2026 Budget, the Government announced that, for deaths on or after 6 April 2027, notional pension property will form a separate component of the estate by default for the charitable giving test. Personal representatives can elect to merge it with the general component.

Under the default treatment, the general component could qualify for the reduced 36% IHT rate without increasing the charitable gift to reflect the pension's value. If the separate pension component does not meet the charitable giving test, its taxable value will be subject to IHT at 40%. If the components are merged and together meet the 10% test, the 36% rate will apply to both.

Advisers should consider wills and pension nominations together and compare the overall IHT outcome with and without a merger election.

Personal representatives (PRs) and prospective personal representatives (PPRs)

PRs are responsible for the payment of IHT on a deceased individual's estate. For deaths occurring from 6 April 2027, this will also include responsibility for the IHT arising from pensions.

Where the deceased left a will, the PR will be the executor named in that will. However, if the named executor is deceased, unable or unwilling to act, or if no will has been made then establishing who is the PR is less straightforward.

Only PR / PPRS can request information from the PSA to deal with the IHT

Under the rules of intestacy the closest relative will become the PR – the spouse if there is one, then any adult children, followed by parents then siblings. The individual will need to apply for letters of administration to be appointed, and this process can take time. Because of this eventuality the regulations contain provisions for "prospective personal representatives (PPRs)".

PRs and PPRs can request the information needed to deal with pension IHT. HMRC has published draft guidance on evidence of their identity and authority in Technical Note 2. Applicable response periods begin once the PSA has received reasonable supporting evidence.

Information sharing

The PR / PPR will need to notify the PSA of the member's death and request a valuation and details of the split between exempt and non-exempt beneficiaries.

The PSA has 28 days to provide the valuation to the PR / PPR, and the later of 28 days or 14 days after the beneficiaries have been determined to provide the beneficiary information. The most common exempt beneficiary will be the spouse.

The PR / PPR will need to gather information on all assets held by the deceased, both in pensions and elsewhere. Once they have established that an IHT account is needed they will need to make a further request to the PSA for the details of each beneficiary to include their full name, address, NI number (if known) and the value of the pension attributable to them. The PSA must provide this information by the later of 28 days, or 14 days after the beneficiaries are determined.

Withholding notices

If the PR / PPR expects IHT to be due on the pension they can issue a withholding notice to the PSA.

A valid notice requires the PSA to withhold 50% of each non-exempt beneficiary's share of the date-of-death pension value. Excluded benefits and benefits payable to exempt beneficiaries are outside withholding. Investment growth after death is also outside the withholding amount. A PSA does not need to delay distributing death benefits in anticipation of IHT being due, or a withholding notice being issued. If a notice comes in after they have already paid funds across to a non-exempt beneficiary, they must inform the PR / PPR of this fact.

The notice remains in place until the earliest of the following:

- the notice is withdrawn by PR / PPR;
- the relevant IHT is paid; or
- 15 months after the end of the month member died.

Paying the IHT

Once the scheme has reviewed its discretionary disposal position and identified the beneficiaries, it must inform the PR / PPR.

HMRC is creating a calculator into which the PRs / PPRs can input information on all assets held by the deceased, which will then allocate the available nil-rate band proportionally between each pension scheme and non-pension assets paying to non-exempt beneficiaries.

PRs can instruct the PSA to pay pension IHT directly to HMRC. At the 2026 Budget, the Government announced that it will also allow PPRs to issue payment notices where there is no will or named executor, subject to specified conditions. This extension requires legislation. The IHT due on the pension can be paid in one of three ways:

1. From the free estate.
2. By the pension beneficiaries personally.
3. Direct payment from the pension scheme.

It's important to note that although the estate can pay the IHT arising from pension assets, the pension cannot be used to pay IHT arising from assets held outside the pension.

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 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 PR and beneficiary for the IHT due.

The PR or beneficiary can request that the PSA pay the IHT

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.

Current income tax rules will still apply to death benefits

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) x 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[1]	£56,000
Payment received from SIPP	**£120,000**[2]	**£84,000**
Taxable income on self-assessment (£200,000 less £60,000)	£140,000	-
Income tax due @40%	£56,000[3]	-
Tax refund (1-3)	**£24,000**[4]	-
Reduction in amount received from estate	£60,000[5]	-
Net position (2+4-5)	**£84,000**	**£84,000**

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

Both options result in the same net outcome, but cashflow and timing differ.

Planning

- The changes do not start until 6 April 2027. If a client dies before then, their pension will usually sit outside their estate for IHT.
- Many clients will have planned to leave their pension to loved ones because the current rules on pension death benefits are generous. This usually meant using other savings first and leaving the pension until last, but this approach may no longer be appropriate.
- Even after the rule change, pensions will still offer benefits such as tax relief on contributions and tax-free investment growth.
- If a client dies before age 75, death benefits can still usually be paid tax-free to a spouse or civil partner. They may also be tax-free for other beneficiaries if enough nil-rate band is available.
- If a client dies after age 75, a spouse or civil partner can still receive the benefits without IHT, but income tax may apply. Other beneficiaries may also avoid IHT if enough nil-rate band is available.
- The clients most likely to be affected are those who are not leaving pension benefits to a spouse, are over 75, have large pension funds they may never need, and already have estates above the available nil-rate band.
- For these clients, it may make sense to take pension income and make gifts during their lifetime. Alongside the £3,000 annual gift allowance, regular gifts out of income can also be free of IHT if they meet the rules. It's important that appropriate records are kept.
- Some clients may also consider making potentially exempt transfers (PETs) to family members or gifts into discretionary trusts (chargeable lifetime transfers (CLTs)). These can fall outside the estate if the client survives for seven years, with taper relief helping after three years.
- Once the new rules begin, it will be even more important for clients to keep their will and expression of wishes up to date. Clear records and organised paperwork will make things easier for personal representatives.

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