INDEPENDENT FINANCIAL ADVISERS

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AN INTRODUCTION TO

Changes to Inheritance Tax on Pensions

TIME TO TUNE IN

What's changing, when and why?

How could the changes affect you and your family?

What do you need to be thinking about now?

Major changes to the Inheritance Tax (IHT) regime surrounding pensions are coming in April 2027 (subject to legislation) and it's important to be prepared for them.

Depending on the size of your pension pot, it could mean your beneficiaries paying more in IHT than you might have planned. You might find that you and your family are affected by the new rules without realising it.

The best thing you can do is make sure that you and your loved ones are informed and protected ahead of time.

WHAT'S CHANGING, WHEN AND WHY?

Previously, pensions were exempt from IHT, meaning there was no need to pay it on inherited pensions. However, from April 2027, pensions will fall under the scope of IHT and form part of a deceased individual's estate. An 'estate' refers to the assets, investments and other valuables a person owns at the time of their death.

This means that your loved ones could have to pay IHT on your unused pension funds and death benefits. The standard rate of IHT is 40%, so your beneficiaries could face considerable tax liability unless you plan ahead.

The government is making these changes because, in some cases, pension schemes were marketed or used for tax planning purposes or for transferring wealth rather than funding retirement. It also means that different types of pensions will be treated more fairly under the new IHT rules.

Although the clock is ticking, there is still plenty of time to act. We're here to help you every step of the way.

HOW COULD THE CHANGES AFFECT YOU AND YOUR FAMILY?

Currently, estates worth up to £325,000 will not attract IHT, but if you own your own property and have a substantial pension pot, it's possible that this could push the value of your estate above the IHT threshold.

If you are married and leave your estate to your spouse or civil partner, they will not have to pay IHT on it when you die. What's known as your nil-rate band – a £325,000 allowance – is passed onto your spouse when you die. Plus, when they then pass away, any children or grandchildren can inherit up to £650,000 (2 x £325,000) before paying any IHT.

There is another allowance known as the residence nil-rate band. This relates to any property or proceeds from a property sale, which are passed onto direct descendants (children, stepchildren and grandchildren). That's up to an extra £175,000 that they can inherit before having to pay IHT.

When added to the existing threshold of £325,000 this could potentially give rise to an overall allowance of £500,000 for those who are single or divorced, or £1m for those who are married or in civil partnerships.

It's important to be aware that larger estates will find that residence relief is tapered; it will reduce by £1 for every £2 of value for estates valued over £2m.

So, who could be affected by the changes to the IHT treatment of pensions?

Individuals with large pension pots
If you have a substantial pension, your beneficiaries could be affected by upcoming changes to the IHT regime. Under current rules, pension pots are generally outside your estate for IHT purposes. However, from April 2027, most unused pension funds and death benefits may be included in your estate.

The tax treatment also depends on your age at death. If you die before age 75, your beneficiaries can usually access your pension tax-free. If you die after 75, any withdrawals are typically subject to Income Tax at their marginal rate.

For example, Jennifer is a widow and owns a property worth £250,000 and has an ISA (Individual savings Account) worth £100,000. She also has a pension fund worth £200,000. Under current IHT rules, the pension fund does not form part of her estate and would not be included in her estate for IHT. Her estate would have been valued at £350,000 for IHT purposes. However, from 6 April 2027, it could now mean that her total estate is valued at £550,000 for IHT purposes – £225,000 over the IHT threshold of £325,000. Based on current rules which are subject to change.

Those using pensions as part of estate planning
If you had previously intended to use pensions as a tool in your estate planning or to pass on wealth, now may be the time to reassess this strategy. Possible options that some individuals consider include reducing reliance on them and purchasing an annuity or switching fund choices to provide income rather than growth. However, it will all depend on your individual circumstances. We can help you make the right decisions for you and your family. These options will not be suitable for everyone.

For example, Peter, 75, has £50,000 in savings and decided to put it into his pension to prevent his son from having to pay IHT on it. This is because funds in Peter's savings accounts could form part of his estate and attract IHT. Under the current rules, pension funds are not included as part of the estate for IHT purposes. However, with the changes to the IHT regime due next April, Peter will need to speak with his financial adviser about other possible suitable options, such as purchasing an annuity or gifting strategies. Based on current rules which are subject to change.

WHAT DO YOU NEED TO BE THINKING ABOUT NOW?
With the changes coming into place from 6 April 2027, now is a good time to examine your options. You may need to reassess your estate planning strategy and rebalance your pension and other assets. We can help you decide on the right way forward for you and your loved ones.

Possible options that some individuals may consider include taking income from their pension pots, making gifts to family members such as children or grandchildren, or taking out life insurance to cover the potential IHT bill. These options will not be suitable for everyone.

However, gifting is not necessarily the right choice for everyone. It is also important to ensure that you have enough money to maintain your lifestyle in retirement.

Choosing the right strategy will depend on your own personal circumstances. We can help you decide what to do.

There's still plenty of time to act but planning now will mean any alterations to your estate planning strategy are in place well before 6 April 2027.

The sooner you start, the more time you will have to make the right choices for you and your loved ones.

TALK IT THROUGH...
Wondering what to do next? Get in touch, we can help you with your strategy and support you with the right course of action for you and your family.

Gifting and trust strategies can have tax implications and may not be suitable for everyone. The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. The Financial Conduct Authority does not regulate Will writing, tax and trust advice and certain forms of estate planning.

Inheritance Tax (IHT) rules on pensions **are changing**

FROM 6 APRIL 2027...

(subject to legislation)

Any unused pension funds will form part of your estate when you die, under current proposals

This could mean your loved ones may need to pay IHT on your pension savings you leave behind

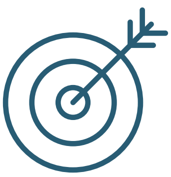
For those with larger pension pots, these changes could increase the taxable value of your estate

The good news is, there are ways to reduce your family's potential IHT liability

However, these options may not be suitable for everyone and can have long-term implications.

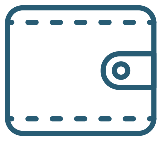
The right approach depends on your personal circumstances and long-term goals

Options you may wish to discuss with your financial adviser include:



Use funds from your pension during retirement

Make gifts (within allowances) to reduce the value of your estate



Buy an annuity to convert part of your pension into a guaranteed income for life

Arrange life insurance to help cover a potential IHT bill

NOW MAY BE THE RIGHT TIME TO REVIEW YOUR ESTATE PLANNING STRATEGY

We can help you explore the options and make plans that work for you and your family