Financial Pulse

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ACCESSION

Pensions and Inheritance Tax

What's changing from April 2027 and what you should do now

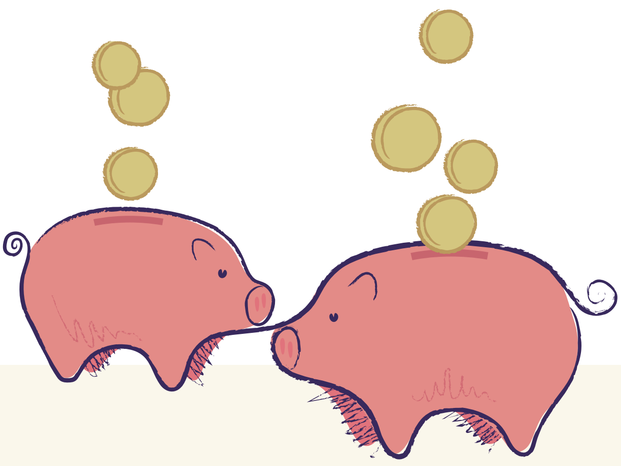
For many years, pensions have been one of the most effective tools in UK estate planning. Unlike most other assets, unused pension pots typically sat outside your estate for inheritance tax (IHT) purposes, allowing wealth to be passed on efficiently to the next generation. That is about to change. From 6 April 2027, most unused pension funds will become liable to inheritance tax on death, fundamentally altering how pensions fit into long-term financial planning. With the clock now ticking, individuals have a limited window to review their arrangements and decide whether action is needed. For anyone with a sizeable defined contribution pension, this represents a major shift. What was once an efficient inheritance planning vehicle may soon be treated much like any other taxable asset.

What Is Changing?

Under the current rules, defined contribution pensions, such as workplace pensions, SIPPs and personal pensions, are generally excluded from the value of your estate when calculating inheritance tax. In many cases, beneficiaries can receive the pension free of IHT, and sometimes free of income tax too. From April 2027, this protection will largely be removed. Unused pension funds and certain death benefits will be included within the deceased's estate for IHT purposes, potentially pushing more estates above the IHT threshold. Inheritance tax is charged at 40% on the value of an estate above the available nil-rate bands, currently £325,000, plus the residence nil-rate band where applicable. Including pensions in this calculation could significantly increase the tax bill faced by heirs.

The Double-Tax Risk

One of the biggest concerns is the potential for double taxation. If pension funds are included in the estate and subject to inheritance tax, beneficiaries may still face income tax when they withdraw money from the pension, particularly if the individual died after age 75. While the precise mechanics will depend on final legislation and personal circumstances, the combined tax burden could be substantial. This makes proactive planning more important than ever.



Effective succession planning is about ensuring your farm/business remains a thriving legacy for future generations. Early and transparent family discussions are essential for creating a lasting plan.

Visit our website and download our 'Secure your Family's Legacy' booklet. Scan the QR code or visit **accessionfp.co.uk**

What Should People Be Doing Now?

Although April 2027 may seem some way off, effective estate planning takes time. Here are some practical steps to consider between now and then.

1. Reassess Your Estate Value

Start by calculating the true value of your estate including your pensions. Many people have focused their IHT planning on property and savings, assuming pensions were exempt. That assumption will no longer hold. If your estate is likely to exceed the available thresholds, further planning may be warranted.

2. Review Your Pension Withdrawal Strategy

Leaving pension funds untouched has often been encouraged, as pensions were tax-efficient to pass on. With that advantage reduced, it may make sense for some individuals to consider starting to draw down pension funds earlier, using them for living expenses while preserving other assets. However, withdrawals can trigger income tax, so the timing and amount need careful consideration. There is no one-size-fits-all answer.

3. Check Beneficiary Nominations

While pensions may become part of the estate for tax purposes, keeping beneficiary nominations up to date remains essential. This helps ensure funds are paid to the intended recipients quickly and according to your wishes. Out-of-date nominations can still cause complications, even under the new rules.

4. Use Existing IHT Allowances and Exemptions

Traditional inheritance tax planning tools remain relevant. These include:

- Spousal and civil partner exemptions
- Gifts that fall outside the estate after seven years
- Regular gifts out of surplus income
- Charitable giving

Used effectively, these can help offset the impact of pensions being brought into the IHT net.

5. Get Professional Advice

The interaction between pension tax rules, inheritance tax and income tax is complex — and likely to evolve as further guidance emerges. We are able to help you model different scenarios, assess whether drawing pension income earlier makes sense, and align pension decisions with wider estate planning goals.

The Bottom Line

The inclusion of pensions within inheritance tax from April 2027 marks one of the most significant changes to UK retirement and estate planning in years. For many families, it will mean higher tax bills and more complex decisions at an already difficult time. The good news is that there is still time to act. Reviewing your position now, rather than waiting until the rules change, gives you more options and greater control over how your wealth is ultimately passed on. As with most tax planning, those who prepare early are likely to fare best.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief is dependent on individual circumstances.

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