



Are you aware... unused pensions will be subject to Inheritance Tax from April 2027?



Significant changes to the UK's inheritance tax (IHT) rules are due to come into effect on 6 April 2027, when most unused pension funds will be included in a person's estate for IHT purposes. For many individuals, this will represent one of the biggest shifts in retirement and estate planning in decades.

Historically, pensions have sat outside an individual's estate for inheritance tax, making them an attractive and tax-efficient way to pass wealth to future generations. Many people deliberately preserved their pension savings and instead spent other assets in retirement, knowing that unused pension funds could potentially be inherited tax-efficiently by family members. However, under the new rules announced in the Autumn Budget 2024, most unused defined contribution pension funds and certain death benefits will be counted as part of the deceased's estate when calculating inheritance tax.

While the change will not affect everyone, the impact could still be significant. Government estimates suggest that around 213,000 estates will contain inheritable pension wealth by 2027–28. Of these, around 10,500 estates will face an inheritance tax charge that would not previously have applied, while approximately 38,500 estates will pay more inheritance tax than under the current rules. On average, the inclusion of pension assets in estates could increase IHT liabilities by around £34,000, although the final figure will depend on the size of the pension and the rest of the estate. *

For those who have an inheritance tax liability or have built up substantial pension savings, the change could have a material impact on existing retirement and

estate planning strategies. Decisions around when to draw income from pensions, how wealth is structured, and how assets are passed to family members may all need to be revisited.

Importantly, there is still time to plan. The new rules do not take effect until April 2027, meaning individuals potentially affected by the changes have an opportunity to review their arrangements and consider alternative strategies. These might include reassessing drawdown plans, considering gifting strategies, or reviewing the balance between pension and non-pension assets. However, these decisions can be complex and highly dependent on individual circumstances, including tax position, family situation, and long-term financial goals. Making changes without careful consideration could create unintended consequences.

For this reason, seeking professional financial advice is more important than ever. We can help assess whether these changes are likely to affect you and develop a strategy that ensures your retirement income needs are met while also managing the potential tax impact on your estate. With the rules around pensions and inheritance changing, reviewing your plans sooner rather than later could make a meaningful difference to the wealth ultimately passed on to future generations.

* Source: GOV.UK - Consultation outcome - Inheritance Tax on pensions: liability, reporting and payment — Summary of responses. Updated 21 July 2025.

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

If these changes may affect you, contact us today to review your plans and ensure your retirement strategy remains tax-efficient.

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