[FIRM NAME]

A GUIDE FOR CLIENTS

SAMPLE

Pensions and Inheritance Tax

What changes in April 2027, and what it means if your pensions are spread across several providers

[FIRM NAME]

This guide is for information only and is not personal advice. Tax treatment depends on your individual circumstances and may change. Please speak to [FIRM NAME] before acting on anything in it.

Contents

Introduction	2
1. What is changing, and when	3
2. What is caught, and what is not	4
3. How the tax is worked out	6
4. Two taxes on one pot: the age 75 question	7
5. Worked examples	9
6. The scattered pension problem	15
7. What can be done about it	18
8. How [FIRM NAME] can help	21
9. Common misunderstandings	22
Glossary	23
Key dates	24
Important information	24

Introduction

On 6 April 2027, pensions stop being the one part of your wealth that inheritance tax cannot reach. For most families this will change nothing at all. For a sizeable minority it will change a great deal, and for anyone whose pension savings sit with several different providers it creates a practical problem that has had very little attention.

This guide sets out what is changing, who it affects, how the tax is worked out, and what can be done about it. It also explains, in some detail, why having pensions scattered across old employers and forgotten providers is about to become expensive and stressful for the people you leave behind.

KEY POINT

The change in one paragraph

From 6 April 2027, most unused pension funds and pension death benefits will count as part of your estate for inheritance tax. Your executors, not your pension providers, have to find every pension you hold, value it, report it and pay the tax, within six months of your death. If you have seven pensions, that is seven separate processes running against a single deadline that does not move.

6 April 2027	40%	6 months	£31.1bn
The rules apply to deaths on or after this date	Inheritance tax rate on anything above your allowances	Your executors have this long to find every pension and pay the tax	Sitting in 3.3 million lost UK pension pots

KEY POINT

This is a sample

The shaded blocks are text that has been removed. Everything else, the structure, the headings, the tables, the worked examples and the design, is exactly what the finished guide looks like. The first row of each table and the first item of each list have been left in so the standard of the writing is visible.

Who this guide is for

Your estate may be taxable

Your pensions are scattered

You planned to pass the pension on

You will be over 75

You are an executor

A trust is named on a pension

1. What is changing, and when

1.1 Where we are today

1.2 What happens on 6 April 2027

NOTE

This is settled law, not a proposal

1.3 The date that matters is the date of death

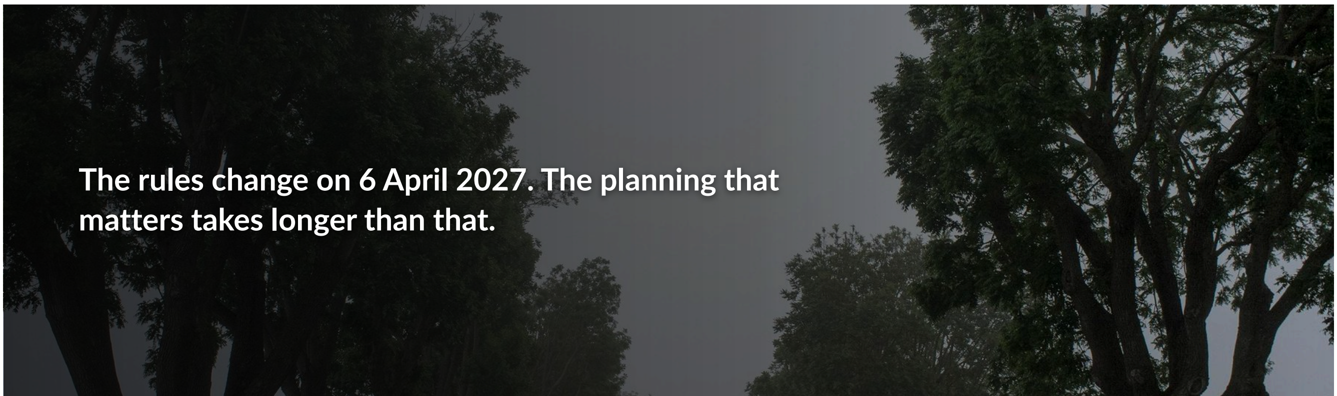
1.4 How many people does this actually affect?

HM TREASURY IMPACT ESTIMATE FOR THE 2027/28 TAX YEAR

	Estates
Estates containing inherited pension wealth	around 213,000

IMPORTANT

Frozen allowances make this worse every year



2. What is caught, and what is not

2.1 Caught by inheritance tax

Type of pension	What is included
Defined contribution: personal pensions, SIPPs, most modern workplace schemes	Unused (uncrystallised) funds, drawdown and flexi-access drawdown funds, annuity protection lump sums (value protection), remaining guaranteed instalments

2.2 Outside inheritance tax

Excluded	Notes
Death in service benefits from a registered pension scheme	Excluded outright, whether or not paid at the trustees' discretion. This was changed in response to the consultation. Earlier drafts would have caught them

2.3 Your spouse or civil partner

IMPORTANT

If your spouse is not a long-term UK resident

2.4 Charitable giving becomes more attractive

3. How the tax is worked out

3.1 The allowances

INHERITANCE TAX ALLOWANCES, FROZEN UNTIL 5 APRIL 2031

	Per person	Married or widowed (maximum)
Nil rate band	£325,000	£650,000

3.2 How the nil rate band is shared between your estate and your pensions

NOTE

One point of detail still being finalised

3.3 The residence nil rate band trap

3.4 Reliefs that do not apply to pensions

- **No business property relief**, even where the pension holds qualifying trading company shares

4. Two taxes on one pot: the age 75 question

4.1 The cliff edge

Age at death	Income tax on death benefits
Under 75	Generally none for the beneficiary, within the lump sum and death benefit allowance of £1,073,100

4.2 The relief that most coverage misses

4.3 The real effective rates

EFFECTIVE TAX RATE ON A £100,000 PENSION, DEATH AT 75 OR OVER

Beneficiary's income tax position	Inheritance tax	Income tax	Total tax	Effective rate	They receive
Non-taxpayer, within the personal allowance	£40,000	£0	£40,000	40.0%	**£60,000**

KEY POINT

The number to remember is 67%, not 90%

4.4 Band drag, the risk nobody talks about

HOW WE HELP

One of the most valuable things we look at

5. Worked examples

EXAMPLE 1

Nothing changes at all

David is 70, a widower, and dies in 2028. He leaves everything to his daughter.

Home	
Savings and ISAs	
Pensions, three pots	
Total estate	

KEY POINT

Inheritance tax: £0 before, £0 after

EXAMPLE 2

The tipping point

Susan is 74, divorced, and dies in 2028. She leaves everything to her two children.

Home	
ISAs and savings	
SIPP	
Total estate	

	Old rules	From April 2027
Estate for inheritance tax	£550,000	£870,000

NOTE

One piece of good fortune

EXAMPLE 3

Two taxes on one pot

Robert is 79 and dies in 2029. His estate has already used all of his allowances. He leaves a **£400,000 pension** to his son, a higher rate taxpayer, so every pound of it sits above the nil rate band.

	Old rules	From April 2027
Pension fund	£400,000	£400,000

IMPORTANT

And it may well be worse than shown

EXAMPLE 4

The residence nil rate band cliff edge

Angela is 80, a widow, and dies in 2029. She leaves everything to her two children.

Home	
Investments	
Pensions, five pots	
Total estate	

	Old rules	From April 2027
Estate for inheritance tax	£1,500,000	£2,200,000

KEY POINT

Total tax on Angela's £700,000 pension: £398,364, or 56.9%

EXAMPLE 5

Who actually pays: a spouse and children split

Margaret is 82 and dies in 2028. Her free estate is £900,000 and her pension is £600,000. She leaves half her estate to her husband and half to her children. The pension trustees pay £200,000 to her husband and £400,000 to the children.

	To husband (exempt)	To children (taxable)
Free estate	£450,000	£450,000

	Free estate	Pension	Total
Chargeable value	£450,000	£400,000	£850,000

HOW WE HELP

The point of this example

EXAMPLE 6

The same pension, four very different outcomes

A **£300,000 pension**, death at 75 or over, the whole amount above the nil rate band. Inheritance tax of £120,000 is due in every case. What changes is who receives the remaining £180,000, and over how long.

How the money is taken	Income tax	Total tax	Effective rate	Family receives
One child earning £45,000 takes it all as a lump sum	£81,596	£201,596	67.2%	**£98,404**

HOW WE HELP

Two things we check for you

EXAMPLE 7

The bypass trust trap

A £200,000 lump sum is paid to a bypass trust, the member having died at 78. Bypass trusts were widely used when pensions sat outside inheritance tax. That logic has now inverted.

Lump sum death benefit	
Less inheritance tax at 40%	
Less special lump sum death benefit charge at 45%	
Trustees actually receive	

IMPORTANT

Worth checking your nomination forms

6. The scattered pension problem

6.1 How we all ended up with so many pensions

Lost pension pots in the UK	Total value sitting in them	Average value of a lost pot	Typical number of pots after a full career

IMPORTANT

The timing is unfortunate

6.2 Why several pensions is so much harder than one

1. **You cannot ask a provider you do not know exists.** HMRC expects executors to take reasonable steps to identify all pension savings. A provider's clock only starts when the request is made, so a pension discovered in month five means 28 days of process beginning in month five.

6.3 The clock your executors are running against

STATUTORY DEADLINES FOLLOWING A DEATH

What has to happen	Deadline
Pension provider gives a valuation after the executors ask	**28 days** from the request, or an estimate with the basis explained

EXAMPLE 8

What this looks like in practice

Peter dies on 12 May 2028, aged 77. Over a forty year career he accumulated seven pensions: two old defined benefit schemes, three workplace pots from job moves, a SIPP he consolidated some but not all of his savings into, and a stakeholder plan from the 1990s that nobody in the family knows about.

Inheritance tax due and payable	
Inheritance tax account due	
Deadline to notify HMRC of allowance excess	
Withholding notice window closes	

KEY POINT

Had Peter consolidated to two pensions, this would be a different story

6.4 Withholding notices, or half the inheritance on hold

HOW WE HELP

Payment notices are the useful counterpart

6.5 Who is actually liable

Who	Position
Your executors (personal representatives)	Responsible for reporting and paying, and liable from the outset. This reversed the original 2024 proposal, which would have made the pension providers liable

IMPORTANT

What this means if you are choosing executors

7. What can be done about it

7.1 Getting the free things right first

Lever	Why it matters
Nomination and expression of wish forms	Directs benefits towards exempt or lower rate beneficiaries and shortens the trustees' discretionary process, which sits on the critical path for your executors. Costs nothing and is often the single most valuable thing to fix

7.2 Consolidation

IMPORTANT

Consolidation is not automatically right, and some transfers cannot be undone

- **Safeguarded benefits.** Guaranteed annuity rates on older policies can be worth far more than the fund value and are lost on transfer

7.3 Reversing the order in which you spend

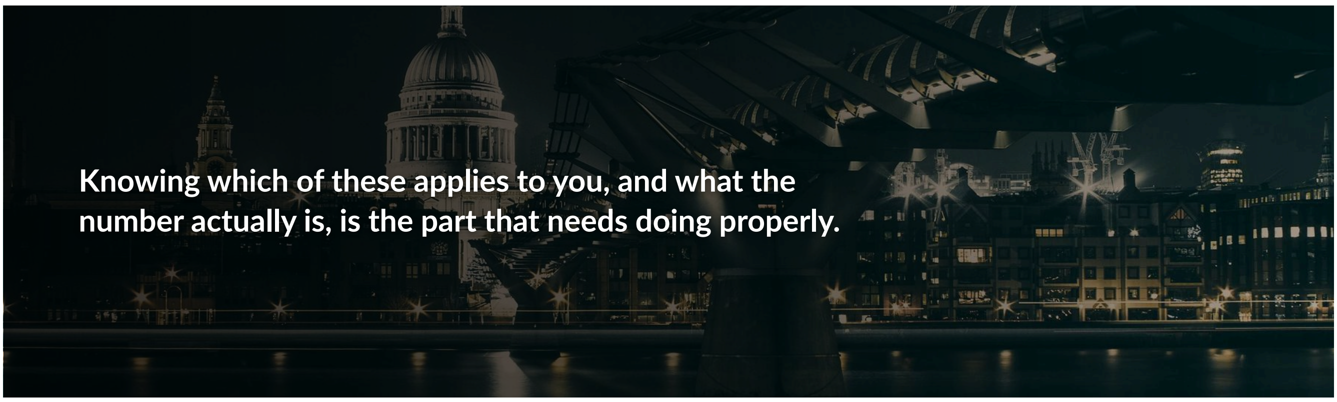
7.4 Gifting

Route	How it works	Watch out for
Normal expenditure out of income	Regular gifts made from genuine surplus income are immediately exempt, with no upper limit. Often the most powerful exemption available, and pension income can fund it	The gifts must be regular, made from income rather than capital, and must not reduce your own standard of living. HMRC expects a documented pattern over three to four years, so the record keeping matters. Your executors will need it on form IHT403

7.5 Insurance

7.6 Structural options

Option	Effect
Annuity purchase	The purchase price leaves your estate immediately, and joint life or dependants' annuities bought at retirement stay outside the charge. Against that, it cannot be reversed, and it is poor value if you die early without value protection



8. How [FIRM NAME] can help

What we do

We find every pension you hold

We work out your actual number

We review every nomination form

We check what your schemes will actually allow

We tell you whether consolidating is right

We model the options side by side

We make sure your will and your pensions agree

We prepare the people who will have to deal with it

The questions we will answer for you

1. Based on my total wealth including pensions, will my estate pay inheritance tax, and how much?

Why the timing matters

9. Common misunderstandings

What you may have heard	The position
Pensions will be taxed at 90%	**No.** The realistic ceiling is 67% for a UK taxpayer outside Scotland, and 68.8% at the Scottish top rate. The higher figures assume income tax is charged on the part already taken as inheritance tax, which the legislation specifically prevents

Glossary

Term	What it means
Beneficiary drawdown	Where a beneficiary inherits a pension as an income fund they can draw from over time rather than as a single lump sum. Allows income tax to be spread across tax years

Key dates

Date	What happened or happens
30 October 2024	Announced at the Autumn Budget

Important information

This guide is not personal advice

Tax rules change

Investment risk

Pension risk

Regulation

Sources

Let's work out where you stand

The change takes effect on 6 April 2027, but the planning that matters takes longer than that. If you would like to know what this means for your family, in numbers rather than in general terms, we would be glad to hear from you.

TELEPHONE	[TELEPHONE]
EMAIL	[EMAIL]
WEBSITE	[WEBSITE]
ADDRESS	[FIRM ADDRESS]