Navigating the Changing Landscape for Pension Funds and Inheritance Tax.

In the Autumn Budget 2024, Rachel Reeves announced sweeping changes to how pensions would be taxed on death.

A consultation was announced following the budget, which has now concluded, with changes set to come into effect from April 2027.

We have explored these changes in more detail below, as well as the potential impact this may have and how your Attivo Lifestyle Financial Planner can support you.

Key Changes to Pension Funds and Inheritance Tax (IHT) from April 2027

Starting from April 2027, there will be important changes to how unused pension funds and death benefits are treated for IHT purposes:

1. Inclusion in Estate

Most unused pension funds and death benefits will be included in the estate for IHT purposes. This means that your beneficiaries may have to pay an additional 40% tax on the funds they receive.

2. Responsibility for Reporting and Paying IHT

Personal Representatives (PRs), often an executor of a Will or an estate, will be responsible for reporting and ensuring payment of IHT on inherited pension funds, aligning with the current process for other estate assets. This is a change from the initial proposal, which suggested that Pension Scheme Administrators (PSAs) would manage this.

3. Liability of Pension Beneficiaries

Pension beneficiaries will be jointly and individually liable for any IHT due on inherited pension benefits.

4. Notification and Valuation

PRs must notify PSAs of a scheme member's death, and the PSA will provide the value of unused funds or death benefits within four weeks.

5. Payment Options for IHT

There will be three options for paying IHT on pensions:

- Pay it directly from the free estate.
- Pension beneficiaries can direct Pension Scheme Administrators to pay it.
- Pension beneficiaries can take their pension benefits in full and pay IHT directly to HMRC.

6. Further Guidance

HMRC will provide further guidance on these payment options before they are implemented.

7. Income Tax Exemption

Income Tax will not be due on amounts withdrawn from death benefits to pay the IHT. HMRC will ensure systems are in place for pension beneficiaries to recover any overpayments of income tax if needed.

8. Scope of IHT

From 6 April 2027, all death in service benefits payable from registered pension schemes will be out of scope of IHT, regardless of whether the scheme is discretionary or non-discretionary.

These changes mark a very different landscape for pensions.

Pensions previously formed the bedrock of IHT planning, thanks to generous tax advantages when paying in to a pension, when drawing from a pension and – up until April 2027 – on death.

Pensions are still a core component of financial planning, and the tax advantages on the way in remain (as it currently stands) unchanged.

How might the changes impact you?

Any changes you make could be consequential for both you and your beneficiaries. If you have any questions, be sure to speak to your Attivo Lifestyle Financial Planner; they will work with you and your beneficiaries to ensure your objectives are clear and that an optimal course of action is taken.

Preparing for the Autumn Budget announcement.

The upcoming budget announcement on 26 November will likely be followed by a media frenzy on the potential changes.

It's important to consider any media coverage carefully, and to not take this at face value to prevent any hasty or (at worst) detrimental decision making.

It's also important to remember that, historically, the government has not retrospectively implemented charges or taxes, as these are usually enshrined in law. Plus, much like the pension changes, these require a consultation, a bill drafted by parliament, and the Finance Act to be enacted.

At Attivo, our Lifestyle Financial Planners will be monitoring the Autumn Budget announcement carefully to plan for any potential changes, and to provide you as our client with comprehensive advice on any changes that may be required for your strategy as a result.

Please note that this communication is intended for information only. It is not financial advice or a recommendation and should not be considered as such.

As a client of Attivo paying for an ongoing service, you have access to your Financial Planner. Should you wish to discuss any of the changes made in the Budget, please contact Client Services on 01242 585444 or email clientservices@attivo.co.uk.