PENGUIN



Pensions, Inheritance Tax & Your Family

The April 2027 changes, without the panic

What is changing, whether it could affect you, and the conversations worth having now.

This guide is for general information only and is not personal Financial Advice, Tax advice or legal advice. Tax treatment depends on individual circumstances and may change.

Your Pension is changing. Your whole Financial Plan doesn't have to.

From 6 April 2027, most unused Pension funds and relevant Pension death benefits will be included when calculating an Estate for Inheritance Tax. That is an important change. It is not, however, the same as saying everybody's Pension will suddenly be taxed at 40%, 67%, 90% or whatever alarming percentage happens to be doing the rounds this week.

For many families, the change will make no difference to the amount of Inheritance Tax they pay. For others, it could be significant. And for some, the biggest issue may be the practical job left to Executors who have to identify and value several Pension arrangements.

So before changing anything, start with a much better question:

What does this actually mean for me and my family?





The change at a glance

6 Apr

2027

New rules apply to deaths on or after this date

40%

Standard IHT Rate

Standard Inheritance Tax rate on the taxable part of an Estate

£325K

Nil Rate Band

Current individual Nil Rate Band

~8%

Estates Affected

Government estimate of the share of all UK Estates initially affected

The central change has been enacted in the Finance Act 2026. Some administrative detail and HMRC guidance may continue to develop ahead of implementation.

Will the change actually cost my family anything?

This is where the headlines and real life begin to separate. Being included in an Estate does not automatically mean paying Inheritance Tax. Broadly, the calculation starts by looking at the value of the Estate, including relevant Pension wealth from April 2027, and then considering the allowances and exemptions available.

The standard Nil Rate Band is currently £325,000 per person. A Residence Nil Rate Band of up to £175,000 may also be available where the relevant conditions are met, including a qualifying home passing to direct descendants. Unused allowances can potentially transfer between spouses or civil partners. That is where the often-quoted potential £1 million of combined allowances for a married couple or civil partners comes from. But not everybody has £1 million of allowances, and not everybody qualifies for the Residence Nil Rate Band.

A useful first check

1. Add up your home, savings, Investments and other Estate assets.
2. Add the Pensions that are likely to be caught from April 2027.
3. Establish which allowances and exemptions may actually be available.
4. Compare the two numbers. If the Estate remains comfortably inside the available allowances, the new Pension rule may create no additional Inheritance Tax. If it is close to or above them, it is worth looking more carefully.

Will my Pension really be taxed at 90%?

No, not in the straightforward way some of the scarier headlines suggest. There can be two different Taxes involved. First, relevant Pension wealth can contribute to an Inheritance Tax liability. Then, where the Pension holder dies aged 75 or over, a beneficiary may also pay Income Tax when taxable Pension benefits are withdrawn. But Income Tax is not simply charged again on the slice already taken as Inheritance Tax.

A simplified £100,000 example

Assume the entire £100,000 sits above the available Inheritance Tax allowances, the Pension holder dies aged 75 or over, and the beneficiary is not a spouse or civil partner.

Beneficiary Tax rate	Effective total Tax	Beneficiary receives
0%	40%	£60,000
20%	52%	£48,000
40%	64%	£36,000
45%	67%	£33,000

Painful in the higher-rate examples? Absolutely. 90%? No. And these figures deliberately assume the whole £100,000 is exposed to 40% Inheritance Tax. Many Estates will not be in that position. If death occurs before age 75, the beneficiary Income Tax position can be very different, subject to the relevant rules and allowances.

The £2 million trap

There is another number that matters even if you do not currently think of yourself as having an Inheritance Tax problem.

£2M

The Threshold

The Residence Nil Rate Band starts to taper away once the relevant Estate exceeds this figure

For every £2 above that threshold, £1 of Residence Nil Rate Band can be lost. From April 2027, bringing relevant Pension wealth into the Estate can push a family across that line without their house, savings or Investments increasing at all.

A simple example

- **Home:** £900,000
- **Savings & Investments:** £800,000
- **Pensions:** £500,000
- **Total wealth:** £2.2 million

Under the previous Pension treatment, the Estate used for this test could have been £1.7 million. From April 2027, including the £500,000 Pension takes it to £2.2 million. The family has not suddenly become wealthier. The rulebook has simply started counting another asset.

This taper can create an effective 60% marginal Inheritance Tax rate on the relevant slice while the Residence Nil Rate Band is being withdrawn. It does not mean the whole Estate is taxed at 60%.

What happens to my Pension when I die?

This is ultimately the question families care about more than the legislation. Who gets the money, and what do they have to do?



Pension schemes normally have their own death-benefit rules. An Expression of Wish or nomination tells the scheme who you would like to benefit, but it does not always operate in exactly the same way as your Will. The options available can also vary between schemes. Some beneficiaries may be able to keep inherited Pension money within beneficiary Drawdown and take it gradually. Older schemes may offer fewer choices or only a lump sum. That matters because, particularly after age 75, how a beneficiary takes the money can affect their own Income Tax position.

Worth checking now

- ☐ Who is named on each Expression of Wish or nomination?
- ☐ Are the percentages still right?
- ☐ Does the scheme offer beneficiary Drawdown?
- ☐ Is a Trust nominated anywhere, and is there still a reason for it?
- ☐ Does your family know which Pension providers you have?

A nomination written fifteen years ago is not automatically wrong. It is simply worth making sure fifteen-years-ago you still agrees with today-you.

Seven Pensions. Six Months. One Headache.

Tax is only half the story. Many people build up several Pensions during a working lifetime. One current workplace scheme, a couple from old employers, perhaps a SIPP, an inherited Pension and that mysterious small pot nobody quite remembers opening.

From April 2027, Executors may need to identify and value relevant Pension arrangements as part of the Inheritance Tax process. Inheritance Tax is generally due six months after the end of the month in which somebody dies. Suddenly, good administration starts looking a lot like good Financial Planning.

Your Pension Treasure Map

Create a simple record of every Pension. **Do not include passwords.**

Provider / scheme	Type	Reference	Who has details?

> Keep it somewhere your spouse, partner, Executors or family know exists. The aim is not to leave them a perfect filing cabinet. It is to make sure they are not starting with a blank sheet of paper.

Should I spend my Pension first now?

For years, a common planning approach was to spend other assets first and preserve the Pension for longer. So if Pensions are coming into Estates, should we simply reverse that?

Old rule of thumb

Spend other assets first. Preserve the Pension for longer.

Better question now

What is the right withdrawal strategy across the whole plan?

Not necessarily. Pension withdrawals can create Income Tax. And if you withdraw money only to leave it sitting in your bank account, you may simply have moved money from one part of your Estate to another.

The right withdrawal strategy needs to consider: the income you need for Retirement; your own long-term security; Income Tax today; future Inheritance Tax; ISAs, savings and Investments; whether you want to make gifts; what your beneficiaries may need; and what you actually want your money to allow you to do.

The new rules change the calculation. They do not create a new universal spending order. Sometimes the answer will be to draw more from the Pension. Sometimes it will be to change nothing. Sometimes it may be to spend more and enjoy it.

Five things worth doing now

You do not need to redesign your Financial Plan before breakfast. But there are five sensible things worth checking.

1. **Know your number**

   Estimate the value of your Estate including relevant Pensions and understand which allowances may apply.

2. **Find every Pension**

   Make sure you know what you have, where it is and what each scheme allows.

3. **Review your nominations**

   Check beneficiaries, percentages, Trust nominations and death-benefit options.

4. **Look at the whole Financial Plan**

   Model spending, Pension withdrawals, gifting and your own long-term security together rather than chasing one Tax saving.

5. **Make sure somebody else knows the plan**

   Your family, Executors or Trustees do not need every number, but they should know what exists and who to contact.

> And there is a sixth option that deserves more credit than it gets: **Do nothing.** If you have checked the position and the plan still works, doing nothing can be exactly the right decision. Doing nothing because nobody checked is different.



Your Pension & Legacy Health Check

Tick what you can answer confidently today:

☐ I know roughly what our Estate is worth including Pensions.

☐ I know which Inheritance Tax allowances may be available.

☐ I know whether the £2 million Residence Nil Rate Band taper could affect us.

☐ I have a complete list of our Pension arrangements.

☐ I know which schemes offer beneficiary Drawdown.

☐ Our Expression of Wish / nomination forms are current.

☐ Any Trust nominations have been deliberately reviewed.

☐ We have considered whether our Retirement withdrawal strategy still makes sense.

☐ We know whether lifetime gifting is something we genuinely want to consider.

☐ Our Will, Trusts, Pension nominations and wider Estate Planning broadly work together.

☐ The people who may one day deal with our affairs know where to start.

A few unticked boxes do not mean you have a problem. They simply tell you where the useful conversations may be.



The point is not the Tax

It is easy for a guide about Inheritance Tax to become obsessed with the amount eventually paid to HMRC. But the purpose of Financial Planning is not to die with the most Tax-efficient collection of accounts.

It is to use your money intelligently throughout your lifetime. To feel secure. To enjoy what you have built. To help people when you want to. And to make sure whatever is eventually left reaches the people you care about as simply and thoughtfully as reasonably possible.

> April 2027 changes an important Pension rule. It does not change what money is for.

Three questions to take away

1. Will the 2027 changes actually affect my family?
2. Is there anything we should review now, rather than react to later?
3. If something happened to me tomorrow, would the people I care about know what to do?

PENGUIN

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