Inheritance Tax and Pensions

What you need to know

The following is for information only and should not be considered financial advice. It's based on our current understanding of taxation law and practice in the UK, which can change, and the impact of taxation depends on your circumstances and where you live.

Could the changes to pension rules impact your finances and how much you pass on to your loved ones?

To date, pensions have been treated as separate from a person's 'estate' when it comes to inheritance tax (IHT). This has meant pension savings were able to be passed on to loved ones without IHT being charged.

However, from 6 April 2027, pensions will move into the scope of IHT and form part of your taxable estate – which includes your house, other property, investments and valuables – when you die. This change could impact people who have never previously had to think about IHT planning.

You can of course, continue to pass things on from your estate, including your pension, to your spouse, civil partner or charity, just as you can today, and there will still be no IHT to pay.

Not all pensions are included

It's important to note that not all pension and death benefits will be included in your estate, like:

- death in service benefits, providing you're still in employment if you were to die
- where you already have a pension in payment that will pass to someone else when you die
- where your scheme only pays a scheme pension to your loved ones, when you die.

You might want to ask your pension or annuity provider whether the value of your pension, and what your family receives when you die, will be included in your estate, or speak to a financial adviser.

As financial advisers, we're here to help you understand if you could be impacted by this change. And we can help you plan for it too.

Why this change matters

Pensions are one of the largest assets many people will ever build up, so this change has the potential to impact more families.

Government estimates suggest that some estates could see an increase in inheritance tax from 2027, due to changes in how pension and death benefits are treated.

So it's more important than ever to understand if this will impact you.

The key question: will this affect me?

This change could impact you if:

- You're already in a position where IHT could apply
- The value of your pension and death benefits, when added to all your other assets, could be over the IHT tax-free thresholds – usually, but not always, £500,000 for an individual or £1 million for a married couple or those in a civil partnership
- You're currently leaving your pension untouched in order to maximise what goes to your loved ones.

What steps can you take?

Inheritance tax and pensions are complex, and everyone's circumstances are unique

An adviser can help you understand whether you might be affected and put plans in place, or revisit your existing arrangements. They can help you find the right balance between meeting your retirement needs and passing on your wealth in line with your wishes.

An adviser might, for example:

- Review asset location and withdrawal strategies
- Consider alternative investment wrappers
- Explore trust-based solutions
- Help you with 'gifting'
- Consider using bonds and other investment products as part of a wider estate strategy
- Recommend how you take an income or spend your wealth in your retirement – in light of these changes.

It's important to remember that each of these options carries its own risks and tax implications and may not be suitable for everyone. The value of investments can go down as well as up and you may not get back the amount originally invested.

Speaking to an adviser could make a real, positive difference to your finances and the legacy you're able to pass on to those who matter the most. The sooner you start to plan, the more options you're likely to have.

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SFP1461103_SFP 06/2026_WEB