

Inheritance tax on pensions

Outline of HMRC proposals and their implications

Summary of measures that were announced on 21 July 2025, which build on the Budget announcement of 30 October 2024, to apply inheritance tax (IHT) to pensions.

- IHT is to apply to certain unused pension funds and death benefits for deaths on or after 6 April 2027.
- Payments to a spouse or civil partner will normally be exempt, as will dependant scheme pensions and benefits which are only payable if the death is in service (such as a multiple of salary). Other benefits from registered pension schemes will be in scope (see examples page 4).
- Personal Representatives will be responsible for calculating the total IHT due and apportioning it pro-rata between pension assets / benefits and the non-pension estate. This is equivalent to apportioning the nil-rate band (typically £325,000 but potential increasing to £1,000,000 with the residence nil-rate band and a transfer between a married couple) pro-rata.
- The valuation used is that on the date of death.
- A valuation of pension (and non-pension) assets may be needed even if no IHT is due. (Most forms to obtain a grant of representation require a valuation of the estate, even if exempt of IHT.)
- Personal Representatives will be liable for reporting and payment of any IHT due but their personal liability will be limited to the value of the assets which pass directly through the estate.
- Pension beneficiaries will become jointly and severally liable for any IHT due on unused pension funds and death benefits to which they are entitled from the point at which they are appointed.
- Pension beneficiaries will have the option to direct the pension scheme to pay the IHT due on the pension benefit to HMRC from that benefit (a new form of “scheme pays”) provided the IHT due on the pension benefit is £4,000 or more and other requirements are met. (Schemes will have the option to allow “scheme pays” on a voluntary basis where less than £4,000 tax is due.)
- Alternatively pension beneficiaries can pay the IHT from the benefit received. Where the benefit has been subject to income tax, they would then need to reclaim the income tax paid on the proportion of the benefit used to pay the IHT.
- Personal Representatives will have the option to pay the IHT due from the non-pension assets if the pension beneficiaries have not used “scheme pays” nor paid the tax from the benefit received.

 More detail of what has been announced is set out in our News Alert:

[Government makes significant changes to application of IHT to pension benefits | LCP](#)



Key actions

Trustees of pension schemes

- Check which death benefits will fall within scope of the new IHT regime
- Review your policies and processes for managing death benefits and look to streamline these as much as possible
- Ensure that your administrator is prepared to make the necessary updates to their processes ahead of April 2027
- Consider what information about the new regime should be provided to scheme members (Defined Contribution and Defined Benefit)
- Consider responding to the new consultation which closes on 15 September 2025

Employers providing life cover

- Consider what information about the new regime should be provided to employees
- Check which death in service benefits you provide will be in or out of IHT
- Review the suitability of your death in service arrangements in comparison to alternatives in the light of the new regime
- Consider responding to the new consultation which closes on 15 September 2025

We can assist you with all these points

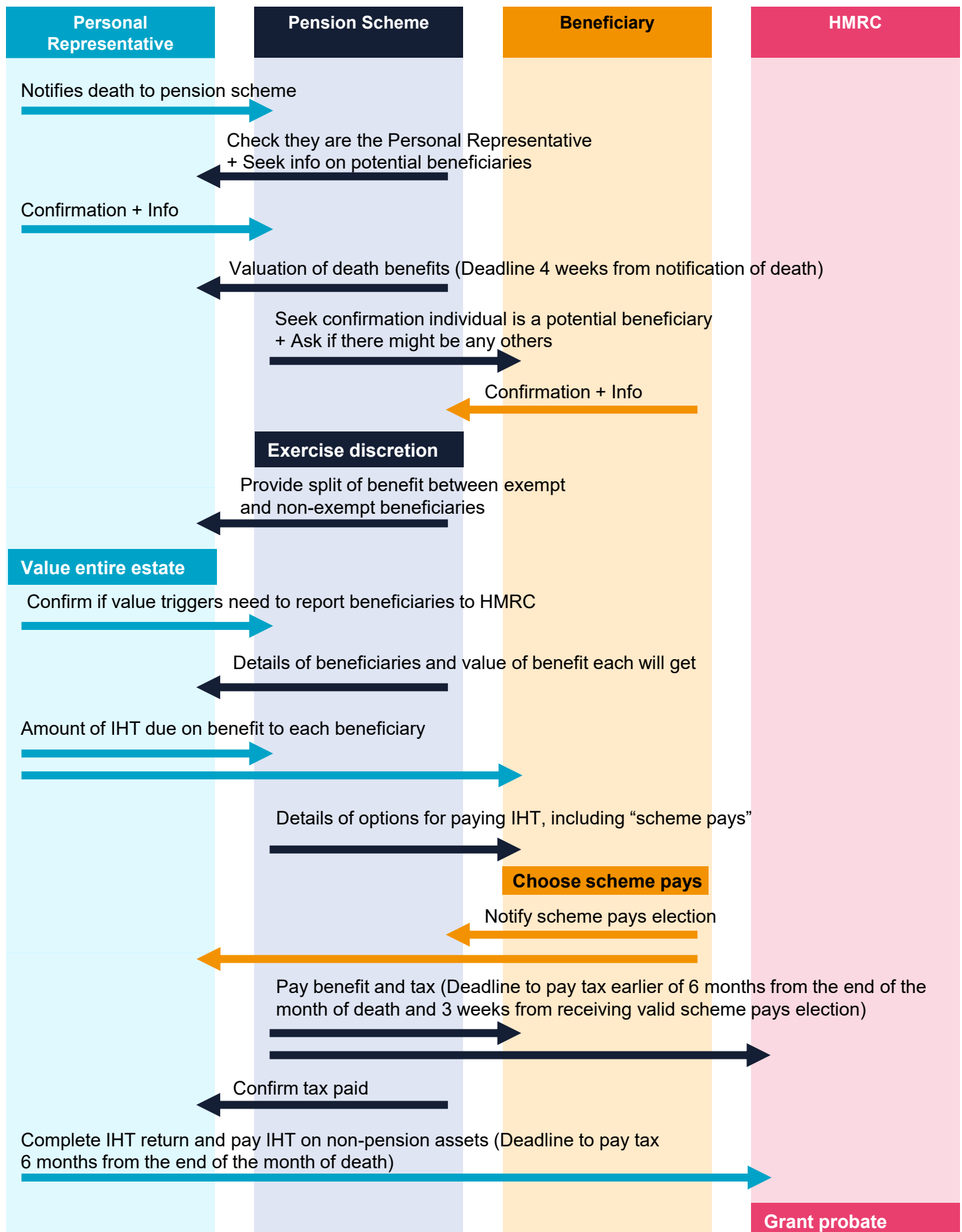
The changes to the proposed regime are welcome but pension scheme trustees and their administrators are still likely to come under significant pressure to settle claims for death benefits quickly. There is a risk of complaints if interest and tax penalties start to accrue. Seeking to streamline processes will be important, as will clear communication to members, potential beneficiaries and Personal Representatives.



Alasdair Mayes – Partner and Head of Pensions tax

Inheritance tax (IHT) on pensions

Proposed process in scenario IHT is due, beneficiaries for pension benefits are determined under trustee discretion and “scheme pays” used



Steps will be different if scheme pays not used.

Examples

- 1. A dependant's scheme pension** is payable to a financial dependant from a Defined Benefit (DB) arrangement.
The benefit is not in scope of the new IHT regime.
No change in process for trustee.
No interaction with Personal Representative.
- 2. A £1,000 funeral grant** is payable from a DB arrangement at the discretion of the trustee.
They normally pay it to whoever paid the funeral expenses.
The benefit is in scope of the new IHT regime but the beneficiary will not have a right to "scheme pays" if any IHT is due.
The scheme could follow its current process and not offer scheme pays on a voluntary basis.
The additional requirements on the scheme would then be to:
 - a) Provide details of the payment to the Personal Representative and whether it has been paid to an exempt or non-exempt beneficiary.
 - b) Provide details of the beneficiary to the Personal Representative if the Personal Representative informs them that value of combined pension and non-pension assets triggers need to report details of pension beneficiaries to HMRC.

This information may be required even if no IHT is due:
[Inheritance Tax account \(IHT400\) - GOV.UK](#)
- 3. A money purchase pot of £4,000** is payable from a Defined Contribution (DC) arrangement on death in service but the benefit was not conditional on the individual being an active member of the scheme.
The benefit is in scope of the new IHT regime but the beneficiary will not have a right to "scheme pays" if any IHT is due. The same as example 2 above applies.
- 4. A money purchase pot of £40,000** is payable from a Defined Contribution (DC) arrangement.
The benefit was not conditional on the individual being an "active member".
The benefit is in scope of the new IHT regime and a non-exempt beneficiary will have a right to "scheme pays" if £4,000 or more IHT is due. The scheme will likely need to follow the full process outlined on the previous page.
- 5. A death in deferment lump sum of £300,000** is payable from a DB arrangement.
The benefit is in scope of the new IHT regime and a non-exempt beneficiary will have a right to "scheme pays" if £4,000 or more IHT is due. The scheme will likely need to follow the full process outlined on the previous page.

Pressure on schemes to determine beneficiaries quickly

In each case where the benefit is within scope of IHT, the Personal Representative may not be able to obtain a grant of representation (grant of probate, grant of letters of administration or grant of confirmation) without a valuation of the pension benefits and potentially knowing whether the beneficiaries to whom the scheme will pay the benefit are exempt.

Pressure on schemes to establish whether “scheme pays” will be used quickly

Where IHT is due the Personal Representative is likely to be keen to know whether the scheme will be paying the tax on behalf of the beneficiaries before distributing the non-pension estate to its beneficiaries.

Pressure on schemes pay tax quickly

The deadline for payment of IHT is six months from the end of the month of death. Late payment can trigger penalties and interest.

All of the above mean employers and trustees should prepare well ahead of April 2027.

Contact us



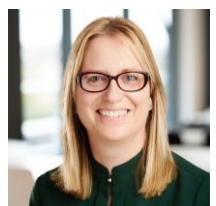
Alasdair Mayes
Partner

+44 (0)1962 872725
Alasdair.Mayes@lcp.uk.com



Lydia Fearn
Partner

+44 (0)20 7432 3060
Lydia.Fearn@lcp.uk.com



Justine Joy
Partner

+44 (0)1962 873365
Justine.Joy@lcp.uk.com



Tim Camfield
Principal

+44 (0)1962 672973
Tim.Camfield@lcp.uk.com

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