

Inheritance Tax

Departure from previous rules where pensions were excluded from calculations

In a significant shift announced by Chancellor Rachel Reeves, inherited pensions will become subject to Inheritance Tax (IHT) from April 2027. This marks a departure from previous rules where pensions were excluded from IHT calculations. Currently, pensions are usually passed on tax-free if you die under the age of 75 – or taxed at the beneficiaries' marginal rate of Income Tax if you die over 75 – but in most cases, pensions don't attract IHT.

This announcement is expected to impact roughly 8% of estates annually, as those who have heavily saved in pensions to lower their IHT liabilities may now face new tax burdens.

Additionally, the IHT tax-free threshold remains frozen at £325,000 (your property, money and possessions) until 2030. If your assets include the family home that you're giving away to children or grandchildren, you also receive up to a £175,000 residence nil rate band. As property and asset values rise, more estates will likely fall above this threshold, incurring IHT at the standard 40% rate.

Chancellor Reeves emphasised that these adjustments aim to make the IHT system fairer, ensuring wealthier estates contribute more to public finances. Also, starting April 2026, reductions in agricultural and business property relief will be introduced. The first £1 million of such assets will remain tax-free, with a 20% IHT levied beyond that.

Retirees may need to reassess their long-term financial plans, as defined contribution pension

funds could attract up to 40% IHT. Despite these changes, no adjustments to existing gifting rules were announced. ■

TIME TO ACT NOW TO SECURE YOUR FAMILY'S FINANCIAL FUTURE?

As the landscape of IHT undergoes significant changes, it's crucial to stay ahead of the curve. With pensions soon to be included in IHT calculations starting April 2027, now is the time to reassess your long-term financial strategy. Don't leave your estate planning to chance. Contact us and take proactive steps to ensure your wealth is preserved for future generations, aligning with your goals and minimising tax burdens.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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