

## Pensions and Inheritance Tax: Big changes coming in 2027

Understanding how removing the pensions exemption could affect your legacy

For decades, UK savers have relied on pensions not only for retirement income but also as a highly tax-efficient way to pass on wealth. Under current rules, pension pots generally fall outside your estate for Inheritance Tax (IHT) purposes. However, a significant shift is on the horizon. From 6 April 2027, the government will remove this long-standing exemption, bringing unspent pension wealth within the scope of IHT.

This policy change marks a fundamental overhaul of the wealth-transfer system. The government announced that it was introducing this measure to create a fairer tax framework and address wealth inequality. For many families, this means that the money accumulated over a lifetime of hard work may suddenly be subject to a substantial tax burden when passed on to beneficiaries.

### HOW THE FORTHCOMING TAX FRAMEWORK OPERATES

Research indicates that 9 in 10 (89%) UK adults have little or no awareness of the change<sup>[1]</sup>. When the new rules take effect, your remaining pension funds will form part of your estate's total value on your death. If the combined value of your assets, including property, cash savings, investments and pensions, exceeds the standard nil rate band, the excess will typically be taxed at 40%.

For the 2026/27 tax year, the standard IHT threshold is £325,000, with an additional £175,000

allowance if you pass your main residence to direct descendants. Adding a substantial retirement pot to your estate could easily push many families over these thresholds, leading to unexpected tax bills for grieving loved ones.

### RETHINKING YOUR LONG-TERM WEALTH STRATEGY

Historically, most people have spent other taxable assets first, leaving their pension funds untouched as an effective wealth-transfer tool. Because pensions were shielded from IHT, they provided a safe harbour for inheritance, allowing funds to grow in a tax-advantaged environment.

The 2027 deadline forces a complete rethink of this conventional wisdom. You may need to reassess the order in which you draw down your retirement assets. Using your pension to fund your lifestyle earlier in retirement, while preserving other assets that may benefit from different tax treatments, could soon become the standard approach for many households.

### PRACTICAL STEPS TO PROTECT YOUR LEGACY

Although the changes do not take effect until April 2027, early preparation will put you in a much stronger position. Initially, it's important to calculate the projected value of your entire estate, including your current pension balances, to give you a clear picture of your potential IHT exposure under the new regime.

You might also consider alternative ways to reduce the taxable value of your estate before the deadline. Making lifetime gifts to your family, utilising annual exemptions or exploring trust structures can help mitigate the impact of these changes. Each situation requires a tailored approach based on personal goals and family circumstances.

### SECURING YOUR FAMILY'S FUTURE

Pensions and tax legislation are inherently complex, and their intricacies often pose challenges

for individuals and businesses alike. They are also frequently subject to subtle yet significant adjustments before reaching their final stage of implementation. Navigating these changes can be daunting, but staying informed is crucial to making sound financial decisions.

We are committed to keeping you up to date on the latest developments, including updates to official guidance, new consultations and proposed amendments. By providing timely, accurate information, we aim to help you make well-informed decisions that protect and optimise your hard-earned wealth. With our support, you can approach these changes with confidence, knowing you have the insights to adapt and thrive in an ever-evolving tax landscape. ■

## TIME TO DISCUSS HOW THE NEW PENSION RULES COULD AFFECT YOUR FAMILY'S INHERITANCE?

The upcoming changes require careful planning and a thorough understanding of estate planning and preservation. If you want to know exactly how the April 2027 pension rules could affect your family's inheritance, please contact us as soon as possible to arrange a comprehensive review of your retirement strategy.

### Source data:

[1] Standard Life research IHT research was conducted among 2,000 UK adults in February 2026. Findings are weighted to be nationally representative.

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