Dentons Pensions

INFORM

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Pensions and IHT; the current position

Welcome to the latest edition of the Dentons Adviser Inform newsletter.

Pensions and IHT; the current position

As advisers will be aware, at the Autumn 2024 Budget, the Government announced proposals to bring most unused pensions within scope of Inheritance Tax (IHT) from 6 April 2027. This bombshell announcement was followed by an immediate consultation on the mechanics of achieving this.

Importantly, the consultation was not about whether or not pensions should be brought into the IHT world; the premise was that it would be happening come what may. The consultation period lasted until 22 January 2025.

On 21 July 2025 HM Revenue & Customs (HMRC) published its Response to the consultation feedback.

It was confirmed that 649 entities had provided detailed feedback on the proposals.

To put that into perspective:

- a consultation on the abolition of the lifetime allowance (LTA) a few years ago only elicited around 100 responses.
- Hence, the strength of feeling about pensions and IHT was high.

Whilst the Response was not universally welcomed by the pensions industry, it became clear from it that the Government had taken note of some of the feedback it had received and acted accordingly to address some aspects of it.

Key points recognised by the Government

- The deceased's executors (legal Personal Representatives (PRs)) should be better placed than Pension Scheme Administrators (PSAs) to deal with the calculation and payment of any IHT relating to pensions – which had been proposed originally.
- Liquidity within a pension scheme could be an issue when it came to the pension scheme paying its proportionate share of any IHT due on the estate.

Consequently, new proposals were put forward for dealing with liquidity, including:

- an option for the pension scheme's share of the IHT to be paid from non-pension assets if such liquidity exists.

Pensions and IHT; the current position

The draft Finance Bill 2025-26 (which included the provisions for pensions and IHT) was also published on 21 July 2025, along with a consultation period which ran until 15 September 2025.

At the Autumn 2025 Budget, the Government announced some further changes to the proposals. These included on option for PRs to instruct PSAs to withhold up to 50% of taxable benefits for up to 15 months before paying these out to beneficiaries and a statement that PRs will be discharged from any liability to pay IHT on any pensions which are only discovered after they have received clearance from HMRC.

In the background, the House of Lords Economic Affairs Finance Bill Sub-Committee had been appointed on 2 September 2025, and it began taking evidence from a range of interested parties on, amongst other things, the proposals on pensions and IHT.

Select Committee on Economic Affairs Finance Bill Sub-Committee Report

The Lords' Report was published on 28 January 2026. It runs to 95 pages plus appendices.

It covered:

- IHT issues on unused pension funds
- Agricultural and business property reliefs.

It seems clear from the extent of the Report, that a great deal of thought has gone into it and there are numerous paragraphs dedicated to the subject of pensions and IHT alone.

It also seems clear that the Committee listened very carefully to the written and oral evidence it had received and this appears to have shaped its written recommendations to the Government.

The Report provides a comprehensive outline of the background to the proposals to bring pensions within scope of IHT and also of the detailed feedback from various interested parties, which included business organisations, tax and pension professionals, professional advisory firms, law societies, academics, former ministers and businesses. It also took evidence from the Exchequer Secretary to the Treasury and officials from His Majesty's Treasury (HM Treasury) and HMRC.

It is fair to say that the Report is critical of some aspects of the Government's approach to pensions and IHT, as the following direct quotes help to demonstrate:

"...a theme throughout our inquiry was the Government's lack of proper consultation on these measures. The Government failed to listen to the concerns of stakeholders early on, resulting in late-stage changes and avoidable anxiety and costs for those affected. We want to ensure this doesn't happen again in the future."

And:

"We are particularly concerned about the impact these changes will have on personal representatives administering an estate at a time of grief. The practical issues created by bringing pensions into inheritance tax risk causing significant delays and costs. Moreover, many of those affected may be entirely unaware of how these changes will impact them."

In relation to the Government's 21 July 2025 response to the consultation, the Report states:

"However, these changes are not by themselves sufficient to resolve many of our concerns that remain about what these reforms will mean in practice, especially for PRs who will be made responsible for IHT on pensions."

Pensions and IHT; the current position

Asset valuations and liquidity within pension schemes

The Committee has, fortunately, recognised that the proposed four-week timescale for PSAs to provide a valuation of the deceased's pension scheme (following a request from a PR) could be problematic.

They state:

"While in many cases, providing a valuation within four weeks will not be problematic, there may be practical difficulties in obtaining up to-date valuations of certain types of assets within that timeframe, particularly for commercial property and unlisted shares.

We recommend that the Government revisit the four-week timeline for provision of valuation information by PSAs to PRs, particularly in relation to illiquid assets held within a scheme. A longer, more realistic timescale is needed.

We recommend that for assets where it will be impracticable to obtain a valuation within the relevant period, the Government allow an approximate value to be initially provided with formal valuation and any amendments to IHT accounts provided later."

Liquidity options for paying IHT

In terms of liquidity with which to pay IHT, advisers will be aware that three options now exist as a result of the 21 July 2025 Response:

1. pay directly from the free (non-pension) estate: PRs can pay the Inheritance Tax due on the entire estate – including the pension component – directly from funds in the free estate, then proceed to apply for probate;
2. pension beneficiaries direct PSAs to pay Inheritance Tax;
3. pension beneficiaries take their pension benefits in full and pay Inheritance Tax directly

As a result of these options, there is far less likelihood that a SIPP or SSAS will be forced into disposing of an illiquid asset such as commercial property and unquoted shares at a forced sale/ depressed value or at an unwanted and/or inopportune time.

Pensions and IHT; the current position

Timescales

The Committee has also recognised that the current six-month deadline for payment of IHT is challenging, particularly where pensions are concerned.

Incidentally, they also note:

- the mismatch between the two-year discretionary disposal rules for pension scheme death benefits and;
- IHT deadlines.

One of the recommendations in the Report is as follows:

"We recommend that the six-month IHT payment deadline be extended to 12 months for IHT on pension assets for a transitional period, so that PRs have a more realistic timeframe in which to meet their IHT liability while PSAs update their processes."

In relation to overall timescales for implementation of the new rules, crucially, the Report states:

"The Government should not prioritise an April 2027 start date over getting the policy and the processes right. It is important that it takes the time now to find a workable process for managing the IHT process for pensions rather than rush to a solution that falls short of what is needed."

Dentons' commentary

At the time of writing, the Finance Bill 2025-26 is at the Report stage in the House of Commons. Having originated in the Commons, it is currently:

- **less than half-way through the Parliamentary process**
- **working its way through the various stages in the House of Lords on its way to Royal Assent.**

We take a great deal of comfort from the detailed examination of the issues undertaken by the Lords' Committee. It is to be hoped that the Government will make the significant changes suggested by the Committee, not least of which is the delayed implementation date if that is what is necessary, along with addressing proposals regarding valuations of assets which regularly feature in bespoke SIPPs and SSAS.

We do, of course, know that the proposals to allow for IHT to be paid from outside the pension scheme (or by the beneficiary directly) will be welcomed by those SIPP and SSAS members who hold perfectly acceptable illiquid assets such as commercial property and do not wish for a forced disposal of them upon death.

We will provide a further update when more information is known. The Committee has indicated to the Government that HMRC should provide further clarity by April 2026, and it is to be hoped that this will indeed happen.

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