

# INFORM

Newsletter August 2025



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- **Special edition - HMRC's response to the Consultation Paper - Pensions and IHT**

Welcome to our special edition of the Dentons Inform newsletter.



## Autumn 2024 Budget – the Consultation response from HMRC

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You may have read in our June 2025 Inform Newsletter that we were expecting HM Revenue & Customs (HMRC) to provide its response to the Consultation on pensions and Inheritance Tax (IHT) resulting from the Autumn 2024 Budget announcement. The Consultation period ended on 22 January 2025 and on 21 July 2025 the response was published on the Government's website.

There is still more detail to come, and HMRC is consulting on its draft legislation to implement the proposals, but we thought it would be helpful to outline our views on the response now, as there are a number of very important changes to the approach originally proposed by HMRC.

Crucially, however, the underlying Government policy intent – to bring most unused pensions into scope of IHT (meaning that both pension and non-pension wealth is included in the deceased's estate and therefore may give rise to an IHT tax charge) – remains intact.

### **Brief summary of the response outcome**

Firstly, it seems clear that a lot of attention has been paid by HMRC to the feedback it received. Some significant revisions have been made to the original proposals put forward back on 30 October

2024, whilst some suggested changes have not been adopted by the Government – more on this later.

The major revisions appear to be as follows:

1. Instead of Pension Scheme Administrators (PSAs) such as Dentons being responsible for paying IHT on each scheme's respective share of an IHT bill (before any death benefits are settled), the Government has recognised that this was going to be unworkable – from a timescales perspective alone, regardless of any other aspects. From 6 April 2027, the deceased's legal personal representatives (PRs) will be responsible for the payment of IHT. This is a fundamental change to the original administrative proposals.
2. Instead of each pension scheme having to pay its proportionate share of an IHT bill (regardless of whether or not it has any liquidity to do this), the Government has stated that non-pension assets within the estate can be used to settle a pension scheme's share, or the tax can be paid by beneficiaries directly – having taken their benefits. This liquidity issue was potentially going to be difficult for some schemes but it may have been eased and/or swept away by the revised approach.

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3. In order to avoid double-taxation where a beneficiary withdraws benefits from the scheme in order to pay the Inheritance Tax directly, the Government has stated that measures will be put in place to deal with this. This also addresses some well known concerns which were voiced by commentators immediately after the original proposals were announced.
4. PSAs must provide a valuation of the deceased member's pension scheme within 4 weeks of being informed of the death by the PR. This is a new requirement, which will hopefully go some way to addressing concerns about timescales for PRs to deal with the estate.

### Which suggestions were not taken forward?

1. A flat rate of tax applying to all pension scheme death benefits (which had been suggested by some respondents) was rejected by the Government on the grounds that this would be unfair to members whose overall estates were below the IHT thresholds.
2. PRs will still have to settle the IHT bill within 6 months of the member's death, rather than a much longer period - such as 2 years as some respondents had suggested.
3. Suggestions of alternative methods of raising the same amount of tax revenue and leaving the current Registered Pension Scheme system unaffected by IHT implications were rejected by the Government.

### What are the next steps?

The Government has recognised that a lot of work still needs to be done prior to 6 April 2027. It is stated in the response document that "HMRC will continue to work with industry experts to develop and refine the PR-led process, and will publish further guidance tools and process maps to support PRs, PSAs and beneficiaries ahead of implementation in April 2027."

Comments on draft legislation will be taken by HMRC until 15 September 2025.

### Commentary from Dentons

It has been interesting to see some of the initial reaction by some industry commentators, who appear to be unhappy with the Government's response. However, the Government has clearly listened to feedback and revised its proposals for the mechanics of bringing pensions within scope of IHT (whilst rejecting some suggestions with an explanation of why it has done so).

Of course, in an ideal world, bringing pensions into IHT would not be happening, but it is happening - and HMRC was clear on this in the original consultation.

There is clearly still a lot to come in terms of finer and final detail, but, in the meantime, any scheme members who have sound (but perhaps illiquid) scheme investments may also be relieved that they may not have to consider disposing of these in order to create liquidity to settle a pension-related IHT bill from 6 April 2027. As ever, we strongly recommend that pension scheme members could benefit from taking professional financial advice and this latest development reinforces this, given the new range of options which will exist.

If you have any questions about this, please speak to your regulated financial adviser (if you have one) in the first instance, or your dedicated Dentons' Pension Administrator or Pension Consultant. Please note that Dentons can provide you with factual information only.

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DPM.HMRC.Cons.Special.Edition.0925