

GUIDE

# Pensions & Inheritance Tax

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WHAT CAN YOU DO TO PREPARE?

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## Introduction

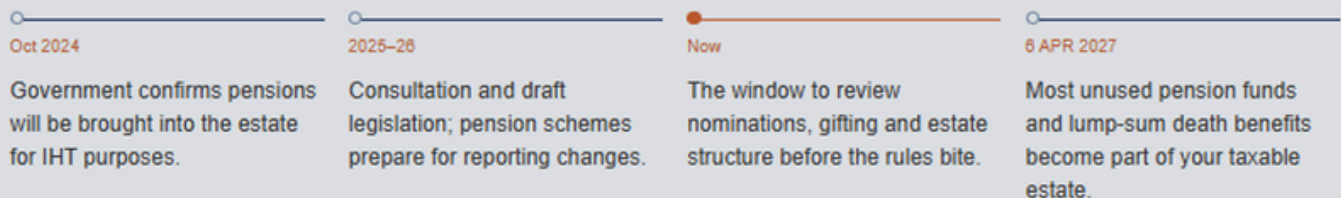
# What changes are happening?

From 6 April 2027, any unspent Defined Contribution (DC) pension funds – including SIPPs – and certain Defined Benefit (DB) pension lump sums – are expected to fall into the Inheritance Tax (IHT) net. This could see many face IHT of up to 40% of their residual pension value, unless left to a spouse or civil partner. Under current rules, pension funds sit outside of your estate entirely, enabling pension funds to be passed on tax-efficiently to beneficiaries. But after April 2027, all of that is expected to change. For those with larger pension pots, the amount they've built up over their lifetime could increase the value of their estate and potentially their IHT liability, triggering many to rethink the role pensions play in their estate planning strategy.

With just a matter of months until the changes come in, now is the perfect time to review your retirement and estate planning strategy, rather than waiting until April 2027. This comprehensive guide covers the current rules, what's changing from April 2027, who the changes will impact, the key financial planning considerations and why early financial planning is essential to reduce your overall IHT exposure.

### WHAT'S CHANGING

## Pensions move inside the IHT net for the first time



## Key takeaways

- An understanding of the incoming changes to pensions and Inheritance Tax (IHT)
- Whether you're prepared for the incoming changes
- Key financial planning considerations

*Tax treatment depends on individual circumstances and may be subject to change in the future.*



*"Our mission is to help you feel financially confident for retirement and help protect the legacy you leave behind"*

**Jason Coppard**  
Chartered Financial Planning Manager at Lumin

## What's changing?

# Current rules on pensions and IHT

Up until now, Defined Contribution (DC) pensions – including SIPP – and Defined Benefit (DB) lump sums – have generally been considered out of scope for IHT. This has made them a valuable estate planning tool for those with large estates: many of whom have drawn on other assets first, allowing pension funds to remain invested and passed to the next generation largely free of the 40% tax that can apply to property, ISAs and cash.

## New rules from April 2027

Under the new regime, unused pension assets will fall into the estate and personal representatives will become responsible for reporting and paying any IHT due on them. This change creates not only a new liability, but also the risk of double taxation, with IHT potentially stacked on top of income tax.

### Types of pensions included in the estate

| Won't be included                              | Will be included                                                                      |
|------------------------------------------------|---------------------------------------------------------------------------------------|
| State pensions                                 | Self-Invested Personal Pensions (SIPPs)                                               |
| Final Salary pensions/Defined Benefit pensions | Workplace pensions                                                                    |
| Joint life annuities that have been purchased  | Other unused pensions with a fund value (e.g. funds in drawdown)                      |
| Death in service scheme payments               | Pensions with a monetary value or benefit that can be passed on to future generations |

Source: Gov UK 2026

## A double layer of taxation?

With pensions falling into the IHT net, there's a real risk of pension assets being taxed twice: once through IHT, and again through income tax when a beneficiary withdraws the funds. A child inheriting a pension after a parent dies post-75 could face IHT and income tax at a combined effective rate of up to 67%, though relief is available to reduce the taxable income attributable to IHT already paid, making holistic planning more important than ever.

**Example:** A £1,000,000 pension passing to a child on the death of the second spouse shows how much value could be lost without early planning (see table below).

### Double taxation of an inherited pension pot

Assumptions: Illustrative example; pension worth £1,000,000; left to spouse initially, passes on to additional rate taxpayer beneficiary at second death; no crossing of income tax bands; nil rate bands and residence nil rate bands used up.

|                                | Death before 75 | Death after 75  |
|--------------------------------|-----------------|-----------------|
| Pension value after 40% IHT    | £600,000        | £600,000        |
| Beneficiary income tax rate    | 0%              | 45%             |
| Income tax on beneficiary      | Nil             | £270,000        |
| Total tax rate                 | 40%             | 67%             |
| <b>Inherited pension value</b> | <b>£600,000</b> | <b>£330,000</b> |

*Illustrative only, not a prediction. Growth, tax rates and terms are not guaranteed.*

## What's changing?

# Who do the IHT changes impact?

Those with substantial pension pots will now have to be mindful of the additional liability their estate will potentially face upon death after April 2027, where the total value of the estate exceeds the available nil-rate bands and applicable reliefs.

**Tip:** Married couples/civil partners could benefit from a total IHT-exempt amount of up to £1,000,000, if they make full use of the nil-rate band threshold (£325,000 each), and the main residence nil-rate band of £175,000 per person (which applies where the main residence is left to direct descendants).

With pensions being added to the mix of taxable assets (on second death if married) – which already include ISAs, the family home (beyond available allowances), rental properties, and cash savings – the IHT liability for children could go from small to significant. There is also a risk that some savers will exceed the £2,000,000 threshold, at which point the residence nil-rate band of £175,000 starts to taper away (the allowance is reduced by £1 for every £2 above the £2,000,000 ceiling).

### Inheritance Tax (IHT) exposure: Current position vs April 2027

This table shows how changes to IHT rules from April 2027 could significantly increase the taxable estate and potential IHT liability, even if asset values remain unchanged.

|                                | Now             | From April 2027 |
|--------------------------------|-----------------|-----------------|
| Pension assets                 | £800,000        | £800,000        |
| ISAs                           | £500,000        | £500,000        |
| Other savings                  | £100,000        | £100,000        |
| Property                       | £1,000,000      | £1,000,000      |
| Estate for IHT purposes        | £1,600,000      | £2,400,000      |
| IHT allowance                  | £1,000,000      | £800,000        |
| <b>Potential IHT liability</b> | <b>£240,000</b> | <b>£640,000</b> |

Source: Lumin Wealth

*Illustrative only, not a prediction. Growth, tax rates and terms are not guaranteed.*

### Key questions to start asking yourself:

- How much could my pension and other assets increase my IHT liability?
- Will my estate remain within the available nil-rate bands and reliefs?
- Could my estate exceed the £2 million threshold, reducing the residence nil-rate band?
- Are my pension beneficiaries and wider estate-planning arrangements up to date?
- What action should I take before the proposed April 2027 changes come into effect?

## Planning

# Are you prepared?

Before you consider how your pension may be affected by the upcoming IHT changes, it's important to understand what you have, who you want to benefit, and how your pension fits into your wider estate.

### 1) Understand your pension type

First, confirm whether you hold a Defined Contribution (DC) or Defined Benefit (DB) pension. DC pensions usually have an investment fund and offer greater flexibility for death benefits. Under current rules, unused funds can generally pass to beneficiaries free of IHT if death occurs before April 2027. The options available depend on the scheme rules. DB pensions provide a regular income rather than a residual fund. Death benefits are typically a pre-agreed percentage of the pension and are often limited to spouses or non-adult/disabled children, subject to the scheme rules.

### 2) Review your beneficiary arrangements

Keep your nomination/expressions of wish form up to date. Pension funds are usually held in trust, with trustees responsible for deciding who receives the benefits. An up-to-date nomination helps ensure your wishes are considered and can reduce the risk of unintended tax consequences.

**Example:** Jennifer did not update her nomination form after remarrying. On her death, her pension defaulted to her ex-spouse, resulting in a legal dispute and unexpected tax complications later on.

### 3) Model your pensions IHT exposure

Consider how your pension could affect your overall estate, particularly following the April 2027 changes. A large unused pension pot could increase your IHT liability even if your other assets are below the threshold.

Model different scenarios, including death before or after age 75, leaving the pension to a spouse or child, investment growth and planned withdrawals. Financial planning tools or professional advice can help estimate potential IHT liabilities and maintain tax efficiency.

***"The earlier you plan, the more options you have to reduce Inheritance Tax and protect your family's future"***

**Sara Moore**  
Senior Financial Consultant at Lumin



## Planning

# Financial planning considerations

There are several options to consider, from making lifetime gifts to using insurance to help meet a future IHT liability. The right approach will depend on your circumstances, income needs and wider financial objectives, hence why careful financial planning is essential.

### 1) Consider pensions first

Pensions have traditionally been used to preserve wealth for beneficiaries while other assets are spent first. From April 2027, some individuals may benefit from drawing pensions earlier to reduce the amount exposed to IHT. However, withdrawal timing should be carefully planned to avoid unnecessary tax.

### 2) Post-75: Use tax-free cash

If you die before 75, unused pension funds can typically pass to beneficiaries income tax free. After 75, beneficiaries generally pay income tax on inherited pension funds, including amounts that could have been taken tax-free. Taking tax-free cash earlier can, for some, provide opportunities to gift funds or invest them tax-efficiently, such as through an ISA.

### 3) Lifetime gifting

Gifts from excess income (immediately IHT-free) and potentially exempt transfers (PETs) should be reviewed now, while clients are healthy and the 7-year clock can start ticking. Any gifting strategy should be carefully considered, and balanced against your own income needs during retirement.

### 4) Consider insurance

Where gifting isn't appropriate, a whole-of-life insurance policy held in trust can provide funds to settle the IHT bill. Pension assets can be a valuable source of wealth to help fund the premiums for this policy.



*"The right approach will depend on your circumstances, income needs and wider financial objectives, hence why careful financial planning is essential"*

**Ben Mitson**

Financial Consultant at Lumin

*Please note that this content is for informational purposes only and should not be considered financial advice. Suitability depends on your individual circumstances. As always, your capital is at risk when investing.*

## Next steps

# The importance of early financial planning

With changes to pension and IHT rules on the horizon, leaving planning until last minute could limit the options available to you to reduce your IHT exposure. Getting a handle on things now gives you the opportunity to understand how your pension, investments, property and other assets fit together, and to consider how they can support both your retirement and the legacy you leave behind. So why is early financial planning essential ahead of the April 2027 changes?

## 1) Gives yourself more options

Financial decisions are rarely isolated. Taking pension benefits, making gifts, investing, or changing how assets are owned can all have wider tax and estate planning consequences. Planning ahead of April 2027 allows you to consider different scenarios and choose an approach that works for your circumstances, rather than making ad hoc decisions – and potentially costly missteps – under pressure.

## 2) Protects your retirement income

Before gifting assets to loved ones or drawing on your pension, it's important to understand how much you may need to maintain your desired lifestyle throughout retirement. That's where cash flow modelling with a Financial Consultant can support you. By giving you a visual picture of how your finances could evolve over your lifetime, and by modelling different scenarios, you can make confident decisions about the future.

## 3) Makes your wishes clear

Reviewing pension nominations, wills and other arrangements early can help ensure that your assets are directed to the people you intend. Life changes too, such as marriage, divorce, children, grandchildren and changes in financial circumstances, can all mean that estate planning arrangements made several years ago are no longer appropriate in light of the latest tax developments.

## 4) Factors in the impact of tax changes

Understanding how pensions and other assets could interact with IHT gives you time to explore potential strategies outlined on page 5, rather than waiting until the rules have changed.

## The bottom line

The earlier you start rethinking your estate planning strategy, the more choices you are likely to have in light of the incoming changes to pensions and IHT. Financial planning is focussed on creating a tailored strategy that supports your needs today, protects your future income and helps protect your legacy you leave behind for loved ones.

## Book a complimentary meeting

If you have specific questions about your estate and how the upcoming changes will affect your situation, arrange a free, no-obligation meeting with a Lumin Financial Consultant. Call **03300 564 446**, contact [info@luminwealth.co.uk](mailto:info@luminwealth.co.uk) or scan the QR code to fill in our contact form.



## Facts and figures

### Lumin at a glance

- Chartered Independent Financial Planners
- Top 100 financial advice firm (FT Adviser and Citywire New Model Adviser rankings)
- Part of Switzerland's leading IFA VZ VermögensZentrum (VZ Group)
- Branch offices in St Albans, London, Reading, Bishop's Stortford, Beaconsfield and Poole.

4,000+

families trust Lumin  
with their wealth\*

£1.6bn+

client assets managed  
by Lumin\*

10,000+

pension policies  
researched annually\*

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**\*Stats correct as at 09/2026**