Interface
Financial Planning Ltd.

PUTTING LIFE FIRST, MONEY SECOND

FINANCIAL GUIDE

Pensions and Inheritance Tax

What changes in April 2027, and what it means if your pensions are spread across several providers

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Interface Financial Planning

This guide is for information only and is not personal advice. Tax treatment depends on your individual circumstances and may change. Please speak to Interface Financial Planning before acting on anything in it.

Contents

Introduction

On 6 April 2027, pensions stop being the one part of your wealth that inheritance tax cannot reach. For most families this will change nothing at all. For a sizeable minority it will change a great deal, and for anyone whose pension savings sit with several different providers it creates a practical problem that has had very little attention.

This guide sets out what is changing, who it affects, how the tax is worked out, and what can be done about it. It also explains, in some detail, why having pensions scattered across old employers and forgotten providers may increase the administrative burden on the executors and beneficiaries you leave behind.

KEY POINT

The change in one paragraph

From 6 April 2027, most unused pension funds and pension death benefits will count as part of your estate for inheritance tax. Your executors, not your pension providers, have to find every pension you hold, value it, report it and pay the tax, within six months of your death. If you have seven pensions, that is seven separate processes running against a single deadline that does not move.

6 April 2027
The rules apply to deaths on or after this date

40%
Inheritance tax rate on anything above your allowances

6 months
Your executors have this long to find every pension and pay the tax

£31.1bn
Sitting in 3.3 million lost UK pension pots

Who this guide is for

We have written this for anyone with pension savings who wants to understand the change and what it might mean for their family. It will be most useful to you if any of the following apply.

Your estate may be taxable

Your total wealth, once your pensions are counted, is likely to exceed £325,000, or £650,000 if you are married, widowed or in a civil partnership.

Your pensions are scattered

You have savings with more than one provider, particularly old workplace schemes left behind when you changed jobs.

You planned to pass the pension on

You intended to leave your pension to children or grandchildren rather than spend it in retirement.

You will be over 75

Age 75 is the point at which a second tax applies to pension death benefits, on top of inheritance tax.

You are an executor

Someone has asked you to act for them, or you are deciding who should act for you.

A trust is named on a pension

Bypass trusts and other discretionary trusts were often set up when pensions sat outside inheritance tax. That logic has now reversed.

This guide is general information and is not advice on your own circumstances. Its purpose is to make sure that when we sit down together, you already know what the conversation is about.

1. What is changing, and when

1.1 Where we are today

Pensions have been an unusually good way to pass wealth on, for two reasons.

They sit outside your estate. When you die, your pension is not normally yours to give away. It belongs to the scheme, and the trustees or scheme administrator decide who receives it, usually guided by the nomination form you completed. Because you do not control where it goes, the money is not treated as part of your estate and inheritance tax does not touch it.

If you die before 75, it is normally free of income tax as well. Your beneficiaries receive it without a tax charge, provided it falls within the lump sum and death benefit allowance.

Which is why a great many people have been advised to spend their ISAs, their savings and their rental income first, and leave the pension alone for as long as possible. From April 2027, for a lot of people, it could now be the wrong way round.

1.2 What happens on 6 April 2027

The value of most unused pension funds and most pension death benefits will be added to your estate when inheritance tax is calculated. The legislation calls this **notional pension property**. You are not treated as owning the pension assets, but their value is counted as though you did.

The fact that the scheme administrator exercises discretion no longer keeps the money out. That is the whole of the change.

> NOTE
>
> **This is settled law, not a proposal**
>
> It was announced at the Autumn Budget on 30 October 2024, consulted on through 2025, amended in response to that consultation, and enacted in the Finance Act 2026, which received Royal Assent on 15 April 2026. Some detail still sits in regulations and HMRC guidance due to be finalised in spring 2027, but the principle and the start date are fixed.

1.3 The date that matters is the date of death

The new rules apply where the pension scheme member **dies on or after 6 April 2027**. Someone who dies on 5 April 2027 is taxed under the old rules even if the benefits are not paid out until 2029. Someone who dies on 6 April 2027 is taxed under the new rules in full.

There is no transitional period, no protection for pensions set up before the announcement, and no grandfathering.

1.4 How many people does this actually affect?

The government's own figures are worth setting out plainly, because a lot of the coverage has been alarmist.

HM TREASURY IMPACT ESTIMATE FOR THE 2027/28 TAX YEAR

	Estates
Estates containing inherited pension wealth	around 213,000
Of those, estates paying inheritance tax for the first time	10,500
Estates paying more inheritance tax than before	38,500
Average increase in the inheritance tax bill	around £34,000
Share of **all** UK estates affected	around 8%

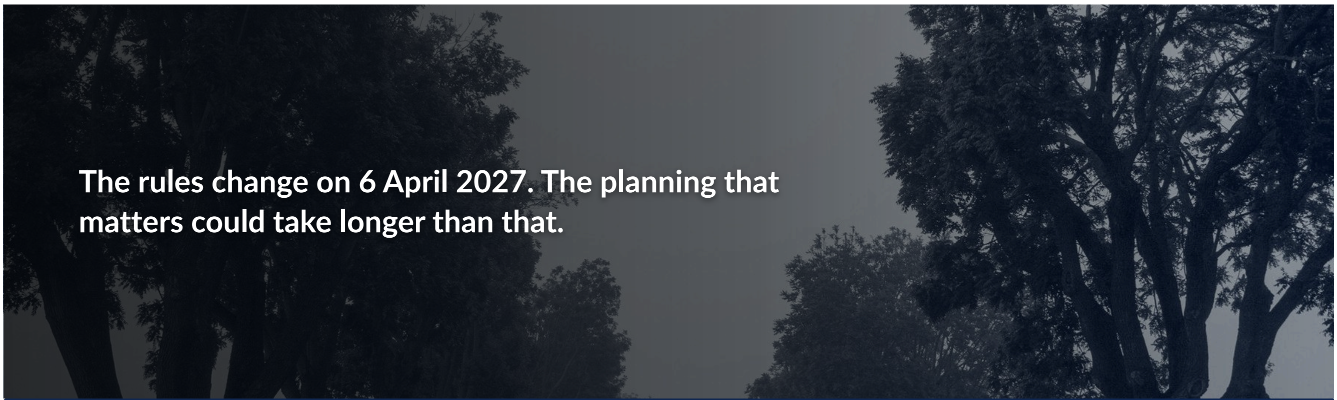
So around **three quarters of estates containing pension wealth will still pay no inheritance tax**. If your total estate including your pensions sits comfortably inside your allowances, this change will cost you nothing.

Look at the second row again, though. Ten and a half thousand estates a year will pay inheritance tax purely because of this change: families who, under today's rules, would have paid nothing. And every one of those estates faces the administration described in section 6, whatever the final bill turns out to be.

IMPORTANT

Frozen allowances make this worse every year

The nil rate band has been £325,000 since 2009 and is now frozen until 5 April 2031. The residence nil rate band has been £175,000 since 2020 and is frozen on the same timetable. Pension funds, meanwhile, keep growing. Every year that passes, more estates cross the line without anyone becoming better off in real terms. The 8% figure is a starting point, not a settled number.



2. What is caught, and what is not

Not everything a pension pays out on death is affected, and the distinction is not intuitive. Broadly, funds and lump sums are caught. Ongoing pension income for a survivor is not.

2.1 Caught by inheritance tax

Type of pension	What is included
Defined contribution: personal pensions, SIPPs, most modern workplace schemes	Unused (uncrystallised) funds, drawdown and flexi-access drawdown funds, annuity protection lump sums (value protection), remaining guaranteed instalments
Beneficiary arrangements	Nominee's, successor's and dependant's drawdown funds, plus annuities and short-term annuities bought after the member's death
Defined benefit: final salary and career average schemes	Lump sum death benefits, and remaining guaranteed minimum payments where a pension in payment had a guarantee period
Trusts	Lump sums paid to a bypass trust or any other discretionary trust. See section 5, example 7, because these are now treated harshly
Small pots	Trivial commutation lump sum death benefits

2.2 Outside inheritance tax

Excluded	Notes
Death in service benefits from a registered pension scheme	Excluded outright, whether or not paid at the trustees' discretion. This was changed in response to the consultation. Earlier drafts would have caught them
Dependant's scheme pension from a defined benefit or collective money purchase scheme	An income stream for a survivor, not a fund, so it is not caught
Joint life and dependants' annuities bought at retirement	Where you bought the survivor's benefit yourself before you died, it stays outside the charge
Charity lump sum death benefits	Free of inheritance tax, and free of income tax even where you die after 75
Anything passing to your spouse or civil partner	Exempt. See 2.3
Benefits to registered charities, community amateur sports clubs, political parties, housing associations and national heritage bodies	The standard inheritance tax exemptions continue to apply

2.3 Your spouse or civil partner

The spouse exemption survives intact. Pension death benefits paid to a surviving spouse or civil partner are free of inheritance tax, and that holds even where the trustees reach that outcome by exercising their discretion rather than because you directed it.

This is the single biggest reason most married couples will see no immediate change. But it is a deferral rather than an escape. The tax lands on the **second death**, when the money passes to the children, and by then the fund may have grown.

IMPORTANT

If your spouse is not a long-term UK resident

Since 6 April 2025, inheritance tax turns on long-term residence rather than domicile. Where you are a long-term UK resident and your spouse or civil partner is not, the exemption for transfers to them is capped at £325,000. That cap is cumulative across lifetime gifts and everything passing on death, and it does not refresh after seven years. It applies to pension death benefits in the same way as to anything else. A non-long-term-resident spouse can elect to be treated as one to get the unlimited exemption, but that election brings their worldwide assets into UK inheritance tax. It needs specialist advice.

2.4 Charitable giving becomes more attractive

Two points are worth knowing. Charity lump sum death benefits from a pension remain free of both inheritance tax and income tax, even where you die after 75, which makes a pension one of the most efficient assets from which to leave a charitable legacy. And leaving 10% or more of your net estate to charity reduces the inheritance tax rate on the rest of your estate from 40% to 36%.

3. How the tax is worked out

3.1 The allowances

Everyone has a **nil rate band**, the amount that passes free of inheritance tax. There is also a **residence nil rate band** which can apply where a home passes to children, grandchildren or other direct descendants. Both can be transferred between spouses and civil partners, so a widow or widower often has double.

INHERITANCE TAX ALLOWANCES, FROZEN UNTIL 5 APRIL 2031

	Per person	Married or widowed (maximum)
Nil rate band	£325,000	£650,000
Residence nil rate band	£175,000	£350,000
Maximum combined	**£500,000**	**£1,000,000**
Rate above the allowances	40%	40%
Reduced rate where 10% or more of the net estate goes to charity	36%	36%

The residence nil rate band is capped at the value of the home passing to direct descendants, so a £200,000 house cannot generate £350,000 of relief. It also tapers away, which is where pensions could do real damage. See 3.3.

3.2 How the nil rate band is shared between your estate and your pensions

Once a pension counts towards your estate, someone has to work out how much of the tax the pension bears and how much the rest of the estate bears. The nil rate band is apportioned in proportion to value across the non-exempt parts of each.

In practice that means your executors cannot finalise the tax on any one pension until they know the value of every pension and the value of the rest of the estate. A single outstanding scheme holds up the whole calculation. This is the most important reason why scattered pensions cause trouble.

NOTE

One point of detail still being finalised

HMRC's full guidance on apportionment is not due until spring 2027. The proportionate method used in this guide reflects the technical note and current industry understanding. We will confirm the position as it applies to you at the time.

3.3 The residence nil rate band taper

The residence nil rate band is withdrawn once an estate exceeds **£2 million**, at £1 of relief for every £2 above the threshold. At £2.35 million a single person's £175,000 has gone. At £2.7 million a couple's £350,000 has gone.

Here is the problem: the £2 million test now includes your pension. An estate sitting comfortably below the threshold on 5 April 2027 can be over it on 6 April 2027 without a single asset changing hands. Nothing has happened except that pensions are now counted.

That produces a marginal rate of **60%** on the slice of estate value between £2 million and the point where the residence nil rate band runs out. It is one of the less widely understood features of the new regime, and it can affect people who do not necessarily think of themselves as wealthy. A house in the South East, two reasonable pensions and some ISAs could be enough to reach it.

3.4 Reliefs that do not apply to pensions

Because you are not treated as owning the pension assets, several things that normally soften an inheritance tax bill are simply unavailable.

- **No business property relief**, even where the pension holds qualifying trading company shares
- **No agricultural property relief**
- **No loss on sale relief**
- **No option to pay by instalments.** Land, businesses and certain shares can be paid over ten years. Tax on a pension is due in full at six months

That last point deserves emphasis. A family business or a farm can spread the bill. A pension cannot. If your SIPP holds a commercial property, your executors face a bill in six months on an asset that may take considerably longer than six months to sell.

4. Two taxes on one pot: the age 75 question

4.1 The cliff edge

Alongside inheritance tax there is a separate, long-standing income tax rule that turns on how old you are when you die.

Age at death	Income tax on death benefits
Under 75	Generally none for the beneficiary, within the lump sum and death benefit allowance of £1,073,100
75 or over	Taxed at the **beneficiary's** marginal rate, as though it were their income in the year they take it

Note that it is the beneficiary's rate, not yours. A basic rate son and an additional rate daughter inheriting equal shares will end up with very different amounts.

From April 2027, where you die at 75 or over, both taxes touch the same pension pot. That is what the press has been calling the double death tax.

4.2 The relief that most coverage misses

You will have seen headline figures of 80%, 87%, even 90% and above. **Those figures are wrong.** It is worth understanding why, because the real position is bad enough without the exaggeration.

Those numbers assume inheritance tax is taken at 40%, and then income tax is charged on the whole of what remains as well as on the part already taken as inheritance tax. The legislation does not work that way. HMRC's technical note is explicit.

> *If Inheritance Tax is paid in relation to death benefits, the portion of the benefits corresponding to the Inheritance Tax (and interest) paid does not count towards the beneficiary's taxable income.*
>
> HMRC, Technical note: Inheritance Tax on pensions

In other words, the slice of the fund that goes to HMRC as inheritance tax is stripped out before income tax is applied. The same pounds are not taxed twice. Where the inheritance tax has been paid from elsewhere in the estate, HMRC will operate a mechanism for the beneficiary to reclaim income tax overpaid on that slice.

4.3 The real effective rates

Take a £100,000 pension where the member died at 75 or over, the beneficiary is not a spouse, and the whole amount sits above the available nil rate band.

EFFECTIVE TAX RATE ON A £100,000 PENSION, DEATH AT 75 OR OVER

Beneficiary's income tax position	Inheritance tax	Income tax	Total tax	Effective rate	They receive
Non-taxpayer, within the personal allowance	£40,000	£0	£40,000	40.0%	**£60,000**
Basic rate, 20%	£40,000	£12,000	£52,000	52.0%	**£48,000**
Higher rate, 40%	£40,000	£24,000	£64,000	64.0%	**£36,000**
Additional rate, 45%	£40,000	£27,000	£67,000	67.0%	**£33,000**
Scottish top rate, 48%	£40,000	£28,800	£68,800	68.8%	**£31,200**

If you die **before** 75, only inheritance tax applies. That is a flat 40%, and the beneficiary receives £60,000 of the £100,000 whatever their own tax position.

KEY POINT

The number to remember is 67%, not 90%

67% is the realistic ceiling for a UK taxpayer outside Scotland, and 68.8% at the Scottish top rate. That is still the highest effective rate in the UK tax system on ordinary savings, and it applies to money you have already paid tax to accumulate. But it is not 90%, and anyone telling you otherwise is working from a misreading of the rules.

4.4 Band drag, the risk nobody talks about

The table above assumes the beneficiary's tax rate stays where it is. In practice a large pension lump sum is added to their income for the year and drags them up through the bands.

Worse, income between £100,000 and £125,140 removes the personal allowance at £1 for every £2, an effective marginal rate of **60%** on that slice. Someone earning £45,000 who inherits a £180,000 lump sum passes straight through it.

This is why **how** the money is taken usually matters more than any clever structuring. Example 6 puts numbers on it: the same £300,000 pension can leave a family with £98,000 or £180,000, depending entirely on who receives it and over how many tax years.

HOW WE HELP

One of the most valuable things we look at

A beneficiary who inherits into **drawdown** rather than as a single lump sum can draw the money over many tax years and control their own rate. A beneficiary who takes a lump sum cannot undo it. Not every older scheme offers beneficiary drawdown, and some will only pay a lump sum. Checking which of your schemes allow it is part of the review we carry out.

5. Worked examples

All figures use the allowances and tax rates applying in 2026/27, which are frozen until April 2031. They are illustrations only, and your own position will differ.

EXAMPLE 1

Nothing changes at all

David is 70, a widower, and dies in 2028. He leaves everything to his daughter.

Home	**£280,000**
Savings and ISAs	**£55,000**
Pensions, three pots	**£165,000**
Total estate	**£500,000**

David inherited his late wife's unused allowances, giving him a nil rate band of £650,000 and a residence nil rate band of £350,000, though that second figure is capped at the £280,000 value of his home. His available allowances come to **£930,000**.

Under the old rules his taxable estate was £335,000. Under the new rules it is £500,000. Both sit well inside £930,000.

> KEY POINT
>
> **Inheritance tax: £0 before, £0 after**
>
> David died before 75, so his daughter also receives the pension free of income tax. The change costs this family nothing. This is the position for roughly three quarters of estates that contain pension wealth, and it shows how much difference transferred allowances make.

EXAMPLE 2

The tipping point

Susan is 74, divorced, and dies in 2028. She leaves everything to her two children.

Home	**£400,000**
ISAs and savings	**£150,000**
SIPP	**£320,000**
Total estate	**£870,000**

As a single person Susan has one nil rate band of £325,000 and a residence nil rate band of £175,000, giving £500,000 in total. She has no spouse's allowances to inherit.

	Old rules	From April 2027
Estate for inheritance tax	£550,000	£870,000
Allowances	£500,000	£500,000
Taxable	£50,000	£370,000
Inheritance tax	**£20,000**	**£148,000**

The bill rises by **£128,000**. The nil rate band is then apportioned, £205,460 against the rest of the estate and £119,540 against the pension, so the pension bears £80,184 of the total and the children receive £239,816 from it.

NOTE

One piece of good fortune

Susan died at 74. Because she was under 75 there is no income tax on the pension on top. Had she died eighteen months later at 76, her children would have paid income tax at their marginal rates on the £239,816 as well.

EXAMPLE 3

Two taxes on one pot

Robert is 79 and dies in 2029. His estate has already used all of his allowances. He leaves a **£400,000 pension** to his son, a higher rate taxpayer, so every pound of it sits above the nil rate band.

	Old rules	From April 2027
Pension fund	£400,000	£400,000
Inheritance tax at 40%	£0	£160,000
Income tax at 40% on the balance	£160,000	£96,000
Son receives	**£240,000**	**£144,000**
Effective tax rate	40%	**64%**

The change costs Robert's son **£96,000**. Notice that the income tax charge actually falls, from £160,000 to £96,000, because the inheritance tax slice is stripped out first. The £160,000 of inheritance tax more than wipes out that benefit.

IMPORTANT

And it may well be worse than shown

This assumes Robert's son stays a higher rate taxpayer. A £240,000 addition to his income in one year would in practice push him into the additional rate and strip out his personal allowance entirely. See example 6.

EXAMPLE 4

The residence nil rate band taper in practice

Angela is 80, a widow, and dies in 2029. She leaves everything to her two children.

Home	**£900,000**
Investments	**£600,000**
Pensions, five pots	**£700,000**
Total estate	**£2,200,000**

	Old rules	From April 2027
Estate for inheritance tax	£1,500,000	£2,200,000
Nil rate band, transferred	£650,000	£650,000
Residence nil rate band	£350,000	**£250,000**
Taxable	£500,000	£1,300,000
Inheritance tax	**£200,000**	**£520,000**

The bill rises by **£320,000**. Of that, £280,000 is the pension itself being taxed at 40%. The remaining **£40,000 is additional tax attributable to the loss of residence nil rate band**: adding the pension took the estate £200,000 over the £2 million threshold, which reduced the available residence nil rate band by £100,000.

The pension bears £197,273 of the inheritance tax, leaving £502,727. Angela died at 80, so her children then pay income tax on that. At 40% that is a further £201,091, leaving **£301,636** of the original £700,000.

> KEY POINT
>
> **Total tax on Angela's £700,000 pension: £398,364, or 56.9%**
>
> Lower than the 64% headline rate, because part of the pension is sheltered by its apportioned share of the nil rate band. Real effective rates are almost always lower than the headline. But the £40,000 lost to the taper is difficult to recover through planning once the estate is over £2 million.

EXAMPLE 5

Who actually pays: a spouse and children split

Margaret is 82 and dies in 2028. Her free estate is £900,000 and her pension is £600,000. She leaves half her estate to her husband and half to her children. The pension trustees pay £200,000 to her husband and £400,000 to the children.

	To husband (exempt)	To children (taxable)
Free estate	£450,000	£450,000
Pension	£200,000	£400,000
Total	**£650,000**	**£850,000**

Only the £850,000 going to the children is chargeable. Margaret's £325,000 nil rate band is apportioned across it in proportion to value.

	Free estate	Pension	Total
Chargeable value	£450,000	£400,000	£850,000
Share of nil rate band	£172,059	£152,941	£325,000
Inheritance tax at 40%	**£111,176**	**£98,824**	**£210,000**

The children receive £301,176 from the pension before income tax, which they then pay at their own marginal rates because Margaret was over 75.

HOW WE HELP

The point of this example

The executors could not calculate the £98,824 due from the pension until they knew the value of the free estate, the value of the pension, and how the trustees had split it between exempt and non-exempt beneficiaries. Three unknowns, three separate parties, one six-month deadline.

EXAMPLE 6

The same pension, four very different outcomes

A **£300,000 pension**, death at 75 or over, the whole amount above the nil rate band. Inheritance tax of £120,000 is due in every case. What changes is who receives the remaining £180,000, and over how long.

How the money is taken	Income tax	Total tax	Effective rate	Family receives
One child earning £45,000 takes it all as a lump sum	£81,596	£201,596	67.2%	**£98,404**
Split between three children on £45,000, as lump sums	£71,838	£191,838	63.9%	**£108,162**
One child on £45,000, drawn down over six years	£65,676	£185,676	61.9%	**£114,324**
A grandchild with no other income, drawn down over fifteen years	£0	£120,000	40.0%	**£180,000**

The gap between the best and worst outcome is **£81,596**, on an identical pot, with an identical inheritance tax bill, from decisions that cost nothing to make.

Notice that the first row exceeds the 67% ceiling quoted earlier. That is the personal allowance taper at work: the lump sum pushes the child through the £100,000 to £125,140 band where the effective rate is 60%.

HOW WE HELP

Two things we check for you

Whether each of your schemes offers beneficiary drawdown, because some older ones will only pay a lump sum and that removes the third and fourth options entirely. And whether your nominations spread the money sensibly across beneficiaries and generations. Both are straightforward to fix while you are alive and impossible to fix afterwards.

EXAMPLE 7

Where a bypass trust may now work against you

A £200,000 lump sum is paid to a bypass trust, the member having died at 78. Bypass trusts were widely used when pensions sat outside inheritance tax. That logic has now inverted.

Lump sum death benefit	**£200,000**
Less inheritance tax at 40%	**less £80,000**
Less special lump sum death benefit charge at 45%	**less £54,000**
Trustees actually receive	**£66,000**

That is **67% lost to tax before the trust has done anything at all**.

The 45% charge may be reclaimable as a tax credit when the trustees later distribute to a beneficiary. The £80,000 of inheritance tax is not. It has gone.

IMPORTANT

Worth checking your nomination forms

If a trust is named on any pension nomination form, it should be reviewed. Many were set up years ago for good reasons that no longer apply. There may still be sound non-tax reasons to keep one, such as protecting a vulnerable beneficiary, controlling money for young children, or guarding against divorce or bankruptcy in the next generation. But the tax logic that once justified it has reversed, and it should now be a deliberate decision rather than an inherited one.

6. The scattered pension problem

Everything so far applies whether you have one pension or ten. This section is about what happens when you have several, which, if you have worked for more than one employer, you almost certainly do.

6.1 How we all ended up with so many pensions

Automatic enrolment, introduced from 2012, was a considerable public policy success. It was also built around an assumption that no longer holds: that people stay with one employer for a long time. In practice the average worker changes jobs around nine times in a career, and estimates for younger generations run to fifteen. Each move tends to leave a pension pot behind.

3.3m	£31.1bn	£9,500	8 to 10
Lost pension pots in the UK	Total value sitting in them	Average value of a lost pot	Typical number of pots after a full career

Those are pots that are genuinely lost, where the provider has lost touch with the member. The number of people who simply have several pensions and are only vaguely aware of most of them is very much larger.

> IMPORTANT
>
> **The timing is unfortunate**
>
> The government's small pots consolidation regime, designed to sweep tiny pots together automatically, is targeted to go live in 2030. This tax change starts in 2027. There is a three year window in which the problem exists and the official solution does not.

6.2 Why several pensions is so much harder than one

Under the old rules, the number of pensions you had was an inconvenience and nothing more. Your executors did not need to know about them for inheritance tax at all. The pensions sat outside the estate and the providers dealt with beneficiaries directly.

From April 2027 your executors must find every pension, value every pension and account for every pension. Here is why that is difficult.

1. **You cannot ask a provider you do not know exists.** HMRC expects executors to take reasonable steps to identify all pension savings. A provider's clock only starts when the request is made, so a pension discovered in month five means 28 days of process beginning in month five.
2. **Every pot is a separate workflow.** Separate identity verification for the executors, separate valuation request, separate beneficiary determination, separate withholding notice, separate payment notice. Seven pensions means seven of everything.
3. **The six month deadline does not move.** The government was asked to extend it during the consultation and expressly declined, on the basis that it plays an important part in ensuring the tax is collected quickly and efficiently.
4. **Trustee discretion could take longer than six months.** Consultation responses confirmed this is reasonably common. That process sits on the critical path and executors cannot speed it up.
5. **Delays may occur where information from one arrangement is outstanding.** Because the nil rate band is apportioned by value, no scheme's share of the tax can be finalised until every scheme has reported.
6. **Interest accrues regardless.** Late payment interest starts at month six whether or not a provider has replied.
7. **Some consultation respondents expected providers to act defensively.** Consultation responses indicated administrators would likely pay 40% of the fund straight to HMRC rather than risk interest, forcing amended returns and repayment claims later, and delaying beneficiaries further.

8. **Illiquid schemes cannot pay quickly.** A SIPP or SSAS holding commercial property or unquoted shares cannot raise cash on demand, and there is no instalment option.
9. **Old nomination forms cause delay.** A form signed in 1998 may name an ex-partner, someone who has died, or nobody at all. Trustees are not bound by it, but a stale or missing form lengthens the discretionary process, which is exactly what executors cannot afford.
10. **A pension found after probate means starting again.** A corrective account must be filed and the tax recalculated across every scheme, because the apportionment changes.

6.3 The clock your executors are running against

These deadlines run in parallel, not in sequence.

STATUTORY DEADLINES FOLLOWING A DEATH

What has to happen	Deadline
Pension provider gives a valuation after the executors ask	**28 days** from the request, or an estimate with the basis explained
Provider gives final figures after an estimate	14 days from obtaining them
Provider gives beneficiary details	Later of 28 days from request, or 14 days after beneficiaries are determined
Provider acknowledges a withholding notice	14 days
Provider complies with a payment notice	**35 days** from receipt
Inheritance tax due and payable	**End of the sixth month after the month of death.** Interest runs from then
Inheritance tax account (IHT400) filed	12 months from the end of the month of death
HMRC told if the lump sum and death benefit allowance is exceeded	Later of 13 months after death, or 30 days after becoming aware
Withholding notice window closes	**15 months** after the end of the month of death

EXAMPLE 8

What this looks like in practice

Peter dies on 12 May 2028, aged 77. Over a forty year career he accumulated seven pensions: two old defined benefit schemes, three workplace pots from job moves, a SIPP he consolidated some but not all of his savings into, and a stakeholder plan from the 1990s that nobody in the family knows about.

Inheritance tax due and payable	**30 November 2028**
Inheritance tax account due	**31 May 2029**
Deadline to notify HMRC of allowance excess	**12 June 2029**
Withholding notice window closes	**31 August 2029**

His executors, his daughter and his brother, have from 12 May to 30 November to find all seven schemes, obtain seven valuations, wait for seven sets of trustees to determine beneficiaries, work out the apportionment of the nil rate band across all of them, file the account and pay the tax.

The stakeholder plan surfaces in October, when a dividend statement arrives at the house. That is 28 days of valuation process starting six weeks before the payment deadline, and it changes the apportionment for all six other schemes.

KEY POINT

Had Peter consolidated to two pensions, this would be a different story

Two valuation requests instead of seven. Two sets of trustees instead of seven. One or two payment notices instead of seven. Exactly the same tax bill, but potentially with fewer administrative steps and a lower risk of delays.

6.4 Withholding notices, or half the inheritance on hold

Where executors reasonably believe inheritance tax will be due, they can serve a **withholding notice** on a pension provider. The provider must then not pay a beneficiary more than **50%** of their entitlement.

The notice can stay in force until 15 months after the end of the month of death. It cannot apply to exempt beneficiaries such as a spouse, or to excluded benefits such as death in service, and executors must lift it as soon as the tax is paid or shown not to be due.

The purpose is sound. It stops money leaving the scheme before the tax is settled, and protects executors who would otherwise be personally liable for tax on money that has already gone. But the effect on a family is real. A beneficiary may wait more than a year for half of what they have been left, at exactly the point when they are least equipped to deal with it.

HOW WE HELP

Payment notices are the useful counterpart

Executors or beneficiaries can serve a payment notice requiring the provider to pay the inheritance tax attributable to that pension direct to HMRC. The minimum is £1,000 and the provider must pay within 35 days. This is the answer to the liquidity problem, because the tax comes out of the pension itself rather than the executors having to find the cash elsewhere and reclaim it later. Making sure whoever acts for you knows this exists is part of what we do.

6.5 Who is actually liable

Liability is shared, and it is worth being clear about who carries what.

Who	Position
Your executors (personal representatives)	Responsible for reporting and paying, and liable from the outset. This reversed the original 2024 proposal, which would have made the pension providers liable
Your beneficiaries	Jointly and severally liable alongside your executors once the benefit vests in them
Your pension providers	Not normally liable at all. They become jointly and severally liable only if they pay out in breach of a valid withholding notice, or fail to meet a valid payment notice within 35 days

IMPORTANT

What this means if you are choosing executors

Appointing an elderly sibling, a relative who lives abroad, or someone with no financial confidence used to be a manageable decision. From April 2027, an executor of an estate containing several pensions is taking on a real, time limited, personally liable administrative job. Whether the people you have named are still the right ones is worth revisiting.

7. What can be done about it

There is no single answer, and several of these options carry significant trade-offs or cannot be reversed. Which combination is right depends on your circumstances, your health, your family and what you want the money to do. This section is a survey of the levers, not a recommendation.

7.1 Getting the free things right first

Lever	Why it matters
Nomination and expression of wish forms	Directs benefits towards exempt or lower rate beneficiaries and shortens the trustees' discretionary process, which sits on the critical path for your executors. Costs nothing and is often the single most valuable thing to fix
Knowing where every pension is	Removes the discovery problem entirely. Provider, policy number, approximate value and where the paperwork sits
Tracing pensions that have been lost	Old schemes can be found and brought back into the picture
Checking whether schemes offer beneficiary drawdown	Where a scheme will only pay a lump sum, beneficiaries lose the ability to spread the income tax over several years. Example 6 shows what that is worth
Making sure your executors know what is involved	And confirming they are still the right people for it

7.2 Consolidation

For some individuals, consolidation may help reduce the administrative complexity described in section 6. Fewer providers can mean fewer parallel deadlines, one valuation instead of many, one payment notice instead of several, and a calculation your executors are more likely to be able to complete in time. It usually also means lower total charges, a single investment strategy rather than several that may be duplicating or contradicting each other, and one place to look.

> IMPORTANT
>
> **Consolidation is not automatically right, and some transfers cannot be undone**
>
> Everything below needs checking before anything moves.

- **Safeguarded benefits.** Guaranteed annuity rates on older policies can be worth far more than the fund value and are lost on transfer
- **Defined benefit schemes.** A guaranteed, inflation linked income for life. Transferring out is very rarely in a member's interest, and above £30,000 it requires specialist advice by law
- **Guaranteed minimum pensions** and other protected rights
- **Protected tax-free cash** above 25%, and **protected pension ages** below the normal minimum. Both are typically lost on transfer
- **Exit penalties** on older contracts
- **Employer contributions.** A scheme you are still being paid into usually cannot be transferred without losing them
- **Life cover attached to an old scheme**, which may not be replaceable at your current age or state of health

Consolidation done carelessly can erode more value than the tax it saves. Done properly, with every policy checked before it moves, it addresses one of the most significant practical risks in the new regime.

7.3 Reversing the order in which you spend

The conventional advice for many over the past fifteen years has been to spend other assets first and preserve the pension. For some individuals, preserving the pension may no longer be the most suitable approach. Drawing on the pension in your lifetime takes the money out of the inheritance tax net, at your own income tax rate rather than your children's, and at a time you control.

Against that, money left inside a pension keeps growing free of income tax and capital gains tax. Drawing it out and leaving it in a bank account simply moves it from one taxable estate to another. The point of drawing it is to spend it or give it away.

7.4 Gifting

Route	How it works	Watch out for
Normal expenditure out of income	Regular gifts made from genuine surplus income are immediately exempt, with no upper limit. Often the most powerful exemption available, and pension income can fund it	The gifts must be regular, made from income rather than capital, and must not reduce your own standard of living. HMRC expects a documented pattern over three to four years, so the record keeping matters. Your executors will need it on form IHT403
Outright gifts (potentially exempt transfers)	Completely outside your estate after seven years	You have to survive seven years. Taper relief only helps on gifts above the nil rate band. The money is gone, with no control, and exposed to the recipient's divorce or bankruptcy
Annual exemption	£3,000 a year, plus last year's if it was not used	Modest, but it accumulates
Gifts from tax-free cash	Taking your tax-free lump sum, up to £268,275, and gifting it starts the seven year clock sooner	Taking it and not gifting it simply moves it into your taxable estate
Small gifts and wedding gifts	£250 per person per year. £5,000 to a child on marriage, £2,500 to a grandchild	Limited, but free

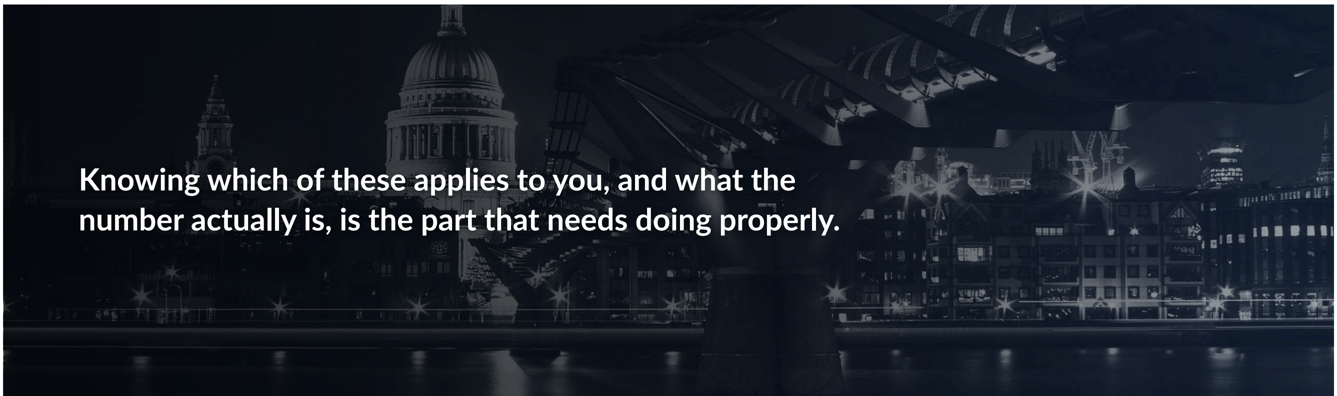
7.5 Insurance

A whole of life policy written in trust pays out on death, outside your estate, and can be sized to meet the expected inheritance tax bill. Because it sits in trust it pays quickly, often before probate, which deals with the liquidity problem this regime creates. The premiums can frequently be met from the normal expenditure out of income exemption, which makes them exempt too.

The constraints are cost, which rises steeply with age, and underwriting, which depends on your health. It has to be written in trust. A policy that is not simply adds to the estate it was meant to protect.

7.6 Structural options

Option	Effect
Annuity purchase	The purchase price leaves your estate immediately, and joint life or dependants' annuities bought at retirement stay outside the charge. Against that, it cannot be reversed, and it is poor value if you die early without value protection
Spreading across beneficiaries	Keeps each recipient out of the higher bands and out of the personal allowance taper. Worth real money, as example 6 shows
Skipping a generation	Leaving benefits to grandchildren may reduce the number of future inheritance tax events affecting the same wealth, although it raises separate considerations around control and beneficiary suitability
Charitable legacies	Exempt, and 10% or more of the net estate cuts the rate on the rest from 40% to 36%. Pensions are a particularly efficient source, being free of income tax as well
Reviewing legacy bypass trusts	These may now produce a worse outcome than leaving the benefits to individuals. See example 7. Non-tax reasons for keeping one may still hold good, but it should be a deliberate decision
Leaving everything to a spouse first	Defers the charge entirely, but defers rather than removes it. The bill lands on the second death, on a larger sum



8. How Interface Financial Planning can help

Reading a guide is not the same as knowing where you stand. The value is in working out which parts of this apply to you, what the number actually is, and what is worth doing about it in your particular circumstances.

We do that work for you. Here is what that looks like in practice.

What we do

We trace the pensions you hold

Including the ones you have lost track of, as far as the records allow. We chase old schemes, gather the paperwork and build a single picture, so nobody is discovering a forgotten stakeholder plan while a six month clock is running.

We work out your actual number

Not a rule of thumb. We value your estate with the pensions included, apply your allowances, check whether you cross the £2 million residence nil rate band threshold, and tell you what the bill would be if the worst happened tomorrow.

We review every nomination form

We check what each provider currently holds on file, whether it still reflects what you want, and whether the money is going to the right people in the right proportions.

We check what your schemes will actually allow

Whether each one offers beneficiary drawdown or will only pay a lump sum. As example 6 shows, that single question could be worth tens of thousands to your family.

We tell you whether consolidating is right

Policy by policy. We check for guaranteed annuity rates, protected tax-free cash, protected pension ages, exit penalties and safeguarded benefits before anything moves, and we say so plainly when a pension is better left where it is.

We model the options side by side

Spending versus preserving, gifting, annuity purchase, life cover in trust, charitable legacies. You see the numbers for each rather than a recommendation you have to take on trust.

We make sure your will and your pensions agree

Most wills were written when pensions sat outside the estate. The two need to work together now.

We prepare the people who will have to deal with it

Your executors need to know what they are taking on, where everything is, and that payment notices exist. That preparation takes little time and can save your executors months.

The questions we will answer for you

1. Based on my total wealth including pensions, will my estate pay inheritance tax, and how much?
2. Does adding my pensions push me over the £2 million residence nil rate band threshold?
3. How much difference does it make whether I die before or after 75?
4. Should I be spending my pension rather than preserving it?
5. Do my nomination forms send the money to the right people, in the right proportions?
6. Can my beneficiaries inherit into drawdown, or will they be forced to take a lump sum?
7. Does consolidating make sense, and is there anything in the old schemes I would lose?
8. Can I make regular gifts out of my income, and how do I evidence them properly?
9. Would life cover in trust be sensible, and what would it cost at my age?
10. Is there a trust named on any of my pensions, and does it still make sense?
11. How much cash would my executors actually need to find, and where would it come from?
12. Are the people I have named as executors the right ones for what this now involves?

Why the timing matters

April 2027 is the deadline for the rules, not for the planning. Several of the most effective options depend on actions being taken well in advance of death. Outright gifts take seven years to fall out of your estate. The pattern of regular gifts from income that HMRC looks for takes three to four years to establish. Life cover gets more expensive with every birthday and depends on your health at the point you apply.

The families who come through this most easily are likely to be the ones who started early. There is still time to do this properly, and that time is the thing that runs out first.

9. Common misunderstandings

What you may have heard	The position
Pensions will be taxed at 90%	**No.** The realistic ceiling is 67% for a UK taxpayer outside Scotland, and 68.8% at the Scottish top rate. The higher figures assume income tax is charged on the part already taken as inheritance tax, which the legislation specifically prevents
The same money is taxed twice	**Not quite.** Two taxes touch the same pot, but not the same pounds. The inheritance tax slice is removed before income tax is applied
My pension provider will deal with the tax	**No.** The original proposal worked that way and was abandoned. Your executors are responsible. Providers are only liable if they ignore a valid notice. A lot of 2024 and 2025 commentary still says otherwise
Death in service benefits will be caught	**No.** They were in the original proposal but are excluded from the final legislation
This affects everyone with a pension	**No.** Around 8% of estates. Roughly three quarters of estates containing pension wealth will still pay nothing
My spouse will have to pay it	**No.** Anything passing to a spouse or civil partner is exempt. But the charge is deferred to the second death, not cancelled
I have until April 2027 to sort this out	**Only partly.** Gifting needs seven years. Regular gifts out of income need an established pattern. Insurance gets more expensive with age. April 2027 is the deadline for the rules, not for the planning
It might be reversed before it starts	**It is already law.** Finance Act 2026, Royal Assent 15 April 2026. Planning on the basis that it will be repealed is not a strategy
Defined benefit pensions are caught too	**Partly.** Lump sum death benefits from a defined benefit scheme are caught. A dependant's scheme pension, the ongoing income for a surviving spouse, is not

Glossary

Term	What it means
Beneficiary drawdown	Where a beneficiary inherits a pension as an income fund they can draw from over time rather than as a single lump sum. Allows income tax to be spread across tax years
Bypass trust	A trust named to receive pension death benefits instead of an individual. Historically used to keep money out of a beneficiary's own estate
Crystallised and uncrystallised	Crystallised funds are those you have started to take benefits from. Uncrystallised funds are those you have not touched
Defined benefit (DB)	A pension promising a set income based on salary and service. A final salary or career average scheme
Defined contribution (DC)	A pension that builds a pot of money. Personal pensions, SIPPs and most modern workplace schemes
Estate	Everything you own at death, less what you owe. From April 2027 this includes most unused pension funds
Expression of wish	The nomination form telling your pension trustees who you would like to receive your benefits. Not legally binding on them, but usually followed
Long-term resident (LTR)	The residence test that replaced domicile for inheritance tax from 6 April 2025
LSDBA	Lump sum and death benefit allowance, £1,073,100. Death benefits above it are taxable as income even where death is before 75
Nil rate band (NRB)	The first £325,000 of an estate, taxed at 0%. Transferable between spouses
Notional pension property	The legislation's term for pension value counted in your estate without you being treated as owning the assets
Payment notice	A notice requiring a pension provider to pay inheritance tax direct to HMRC out of the pension. Minimum £1,000, and the provider must pay within 35 days
Personal representative (PR)	The person administering an estate. An executor where there is a will, an administrator where there is not
Potentially exempt transfer (PET)	An outright gift, free of inheritance tax if you survive seven years
Residence nil rate band (RNRB)	Up to £175,000 extra where a home passes to direct descendants. Withdrawn by £1 for every £2 an estate exceeds £2 million
Scheme administrator (PSA)	The party legally responsible for running a pension scheme and reporting to HMRC
Special lump sum death benefit charge	A 45% charge on lump sums paid to a non-individual, such as a trust, where death is at 75 or over

Term	What it means
Taper (RNRB)	The withdrawal of the residence nil rate band above £2 million, creating an effective 60% marginal rate
Withholding notice	A notice from executors requiring a pension provider to hold back up to 50% of a beneficiary's entitlement, for up to 15 months, pending settlement of the tax

Key dates

Date	What happened or happens
30 October 2024	Announced at the Autumn Budget
October 2024 to January 2025	First consultation
21 July 2025	Draft legislation published. Liability moved from providers to executors, and death in service benefits excluded
Autumn Budget 2025	Nil rate bands frozen for a further year, to 5 April 2031
15 April 2026	**Finance Act 2026 receives Royal Assent. The change becomes law**
Summer 2026	Information sharing regulations laid
Autumn and winter 2026	HMRC draft guidance expected
Spring 2027	Final HMRC guidance expected
6 April 2027	**New rules apply to deaths on or after this date**
5 April 2031	Nil rate band freeze ends. CPI indexation due to resume

Important information

This guide is not personal advice

This guide is provided for general information only. It does not constitute personal financial, tax or legal advice, and it does not take account of your own circumstances, objectives or needs. You should not take, or refrain from taking, any action on the basis of this guide alone. Please speak to Interface Financial Planning before making any decision.

Tax rules change

The information in this guide reflects our understanding of UK legislation, HMRC practice and announced government policy as at August 2026. Tax rules and rates change, and the treatment described depends on your individual circumstances. Certain aspects of these rules remain subject to secondary legislation and HMRC guidance that had not been finalised at the date of publication. Figures used are those applying for the 2026/27 tax year.

Investment risk

The value of investments, and the income from them, can fall as well as rise. You may get back less than you invested. Past performance is not a guide to future performance.

Pension risk

The value of a pension and the income it produces depends on investment performance, charges and the level of contributions, and is not guaranteed. Transferring a pension is not right for everyone, and you may give up valuable guarantees, protected benefits or employer contributions by doing so. Once transferred, a pension cannot normally be transferred back. You should take advice before transferring any pension. Transfers from defined benefit schemes valued above £30,000 require regulated advice by law.

Regulation

Interface Financial Planning Limited is authorised and regulated by the Financial Conduct Authority (https://register.fca.org.uk) Financial Services Register No: 424729 Registered Address: 122 Hamstead Hall Road, Handsworth Wood, Birmingham, B20 1JB Registered in UK, No. 2644317. Tax and estate planning, trusts, and will writing are not regulated by the Financial Conduct Authority.

Sources

This guide is based on HMRC's technical note *Inheritance Tax on pensions*, the policy paper *Inheritance Tax: unused pension funds and death benefits*, the government's summary of responses on liability, reporting and payment, the Finance Act 2026, HM Treasury and OBR impact assessments from the Autumn Budgets of 2024 and 2025, GOV.UK guidance on nil rate bands and long-term residence, and the Pensions Policy Institute's *Lost Pensions* research. Full source references are available on request.

Interface
Financial Planning Ltd.

Let's work out where you stand

The change takes effect on 6 April 2027, but the planning that matters could take longer than that. If you would like to know what this means for your family, in numbers rather than in general terms, we would be glad to hear from you.

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