Pensions and IHT - more technical guidance from HMRC

Synopsis: Pensions and IHT. HMRC's policy paper expanding on the legislation and providing more information on the pensions and IHT rules taking effect on 6 April 2027.

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Finance Act 2026 received Royal Assent on 18 March 2026. This brings most pension death benefits into scope for inheritance tax (IHT) for deaths on or after 6 April 2027.

Further secondary legislation will follow later this year, mainly covering information sharing requirements between personal representatives and pension schemes.

HMRC state that guidance and supporting material will be published for April 2027. This will include interactive tools to support personal representatives.

In the meantime, HMRC have issued a technical note expanding on the legislation and providing more supporting information. Whilst the note does not contain a great deal of new information, it does provide some more technical detail and a good summary of the position. It also outlines the next steps and when more guidance will follow.

Liability to IHT

Most registered pension schemes operate on a discretionary basis where the scheme decides who should receive death benefits. Although the discretion will no longer determine whether pension assets fall within the scope of IHT, it remains relevant to the process and timing of entitlement. Until the trustees have made their decision, no beneficiary has an actual entitlement to the death benefits.

For IHT purposes, the pension property is treated as being vested in a beneficiary at the point the trustees make their decision, and so the beneficiary becomes entitled to the benefits. It does not matter when the benefits are actually paid to the beneficiary.

For non-discretionary schemes, the pension property is treated as being vested in a beneficiary once they have been identified in accordance with the scheme rules.

Personal representatives will be responsible for reporting, and are liable for paying, any IHT due on the pension property. However, from the point pension property is treated as vested in a beneficiary they become jointly and severally liable, with the personal representatives, for their share.

Excluded benefits

The paper outlines what is classed as an excluded benefit for IHT purposes.

These are…

- **Dependants scheme pensions** – payable from any type of pension arrangement.
- **Joint life annuities**. The annuity must have been purchased together with a related member's lifetime annuity. There is no requirement for a beneficiary to be a dependant of the member.
- **Death in service benefits**. Where payments are payable as a benefit (in any form) in respect of a member of the scheme if the member is in employment immediately before their death.
- **Trivial commutation payments**. A trivial commutation lump sum death benefit is excluded where it extinguishes a beneficiary's entitlement to a dependants' scheme pension.

Exempt beneficiaries

Payments of death benefits to spouses or civil partners, who are long-term UK resident, are exempt. Pension scheme administrators will need to know whether any beneficiaries are exempt from IHT to provide the split in value between exempt and non-exempt beneficiaries.

Pension scheme administrators will need to work with the personal representative and any potential beneficiaries to establish if a particular payment is going to exempt beneficiaries.

Residency

For long-term UK residents, IHT arises on any UK registered pension schemes, qualifying non-UK pension schemes, or section 615(3) schemes, regardless of where the scheme is situated or established.

For non-long-term UK residents, IHT arises on any UK registered pension scheme, qualifying non-UK pension scheme, or section 615(3) scheme that is established in the UK, subject to any exemptions or reliefs. Non-long-term UK residents will not be charged IHT on pension schemes which are established outside the UK.

Information sharing

Following the death of a member, the personal representative will need to contact each of the deceased's pension schemes to request both…

- the value of the pension property; and
- the split between exempt and non-exempt beneficiaries.

Schemes should provide the valuation within 28 days of receiving the request. The split between exempt and non-exempt beneficiaries must be provided by the later of 28 days from the request or 14 days after beneficiaries are determined. Where the valuation is not possible in the timeframe, e.g. for pensions holding property, estimates may be provided. The personal representative needs to know how much of pension will be going to non-exempt beneficiaries to determine if an IHT account needs to be filed.

Where an IHT account is required, the personal representative will need details of the non-exempt beneficiaries to complete the account.

Withholding notices

A withholding notice allows a personal representative (or, where there is no will, a prospective personal representative) to instruct a pension scheme to withhold up to 50% of an individual's benefit entitlement under the scheme.

The legislation only allows the use of a withholding notice where the personal representative knows, or has reason to believe, that IHT may be due on the pension.

Payments of excluded benefits, and payments made to exempt beneficiaries, are not subject to withholding.

A withholding notice aims to protect personal representatives and other estate beneficiaries from having to use non-pension assets to meet the IHT liability due on the pension.

A notice can be given at any time between date of death and 15 months after the end of the month in which the deceased died, but it only has effect within that period.

Personal representatives should withdraw the notice as soon as the IHT is paid or if it is clear that no IHT is due.

Paying IHT direct from the scheme

The legislation introduces a new Pensions Direct Payment Scheme. This allows personal representatives and pension beneficiaries (including trustees) to issue a payment notice to the scheme that requires it to pay the IHT and interest due on the pension property held within the scheme, directly to HMRC.

Where a valid payment notice is received, the pension scheme administrator must pay the amount specified within 35 days.

Paying IHT through a payment notice will reduce the benefits payable to the beneficiary and so, where income tax is due, it will only be on the net amount.

There are no time restrictions on when a taxpayer can give a payment notice. However, if there are insufficient funds left, it will not be valid. Personal representatives can give payment notices beyond the 15-month period during which withholding notices have effect.

To be valid, the notice must be for at least £1,000 and for an exact amount. The amount must not exceed the amount of tax and interest for which the taxpayer is liable in respect of the pension property of the deceased in the scheme. This means this option cannot be used to pay IHT due on other parts of the estate.

Where there are illiquid assets in the pension then the IHT due can be paid by other methods. For example, it can be paid from other assets in the estate.

Income tax on pension death benefits

Where the member dies at age 75 or over, all death benefits are taxable.

If IHT is paid in relation to death benefits, the legislation ensures the portion of the benefits corresponding to the IHT (and interest) paid does not count towards the beneficiary's taxable income.

This will apply whether the taxpayer uses a payment notice, or the beneficiary pays the IHT themselves.

As described above, where the payment is made directly from the scheme any income tax will be charged on the pension benefits net of IHT.

Alternatively, if beneficiaries choose to withdraw their benefits and pay income tax on the full amount, the legislation allows them to reduce their taxable pension income by the amount of IHT due.

The same will apply where the 45% special lump sum death benefit tax charge is paid, e.g. when death benefits are paid into trust.

HMRC state that further guidance on how the reclaim process will work will be published in due course.

Next steps

HMRC also outlined their indicative timetable for the next steps in the process...

- spring 2026: publish draft regulations on information sharing requirements for technical consultation alongside draft templates for withholding and payment notices and draft guidance on evidence of personal representative identity;
- spring/summer 2026: make and lay the regulations on information sharing requirements with a commencement date of 6 April 2027;

- spring/summer/autumn 2026: continue process design and develop guidance and other support tools;
- autumn/winter 2026/2027: share draft guidance with industry stakeholders;
- winter/spring 2026/2027: communications activity to publicise upcoming changes to impacted groups;
- spring 2027: publish guidance and other supporting materials.

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