CIOT warns Government that pensions and IHT rules will create unfairness, disputes and delays

Synopsis: The pensions and IHT rules that take effect from 6 April 2027. The Chartered Institute of taxation (CIOT) has put forward five proposals to improve these new rules.

Date posted: 14.8.26

The Chartered Institute of taxation (CIOT) has written the Treasury to outline five proposals to make the new pensions and inheritance tax (IHT) rules fairer and easier to administer when they take affect from 6 April 2027.

The CIOT believes that, without the changes, the new rules new could lead to unfair tax bills, delays in settling estates and disputes between families, pension providers and executors.

Their proposals are...

1. Simplifying the process for taxing pensions found after an estate has been wound-up.

Under the new rules, the nil rate band will need to be apportioned pro-rata between the estate and each pension fund. Where a pension is discovered after an estate has been wound up, the nil rate band would need to be reapportioned across the entire estate and all other pensions. This means that beneficiaries could find themselves with unexpected tax bills many years later. The CIOT has proposed this should be simplified so that any pensions found after the estate has been wound up benefit from any remaining nil rate band and are then taxed at a flat 40%.

2. **Make loss relief available to pension funds included as part of an estate.**

Loss relief can reduce IHT where assets such as land or listed shares are sold by the estate for less than their value on death. This relief does not apply where the assets are held within a pension. The CIOT has said pension funds should be treated the same and recommends the relief should be made available where pension assets are sold within 12 months of death.

3. **Extend payments by instalment to cover pensions.**

For certain assets, IHT can be paid by instalments. However, this option is not being made available to cover pension funds. This means any IHT due would need to be paid in full within six months. The CIOT says the instalment option should apply to ensure pensions are treated fairly alongside other forms of wealth.

4. **Separate pension assets from other assets when calculating entitlement to the reduced rate of IHT.**

Where at least 10% of an estate is left to charity, a reduced rate of 36% IHT can apply. When pension assets are included in the estate after death, some charitable gifts may no longer meet the 10% test. The CIOT recommends separating out pension assets from the rest of the estate, so the reduced charitable rate works as intended.

5. **Reconsider the six-month deadline for settling IHT liabilities.**

The CIOT warns that the six-month deadline is impractical because those dealing with an estate will have limited time to identify pension schemes, obtain valuations and calculate exemptions and reliefs. It has called on the Government to reconsider the deadline, at least temporarily, while processes for managing pension scheme information are put in place.

The final point is perhaps the key issue that will affect the most estates. Currently, pension schemes are used to working to the ‘two year’ rule – whereby pension death benefits must be settled within two years of death to ensure they are paid tax free where the member dies under age 75. This much shorter deadline will be very difficult to meet, especially where it is not clear who should benefit. Both the House of Lords and pension providers have, of course, already made this point during earlier consultations. However, the Government has chosen not to extend the deadline to date.

020 7183 3931
www.riskassured.co.uk