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Update: IHT on Unused Pension Funds



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Update: IHT on Unused Pension Funds

Here is an insight into the negotiations between HMRC and Pension Scheme Administrators (PSA).

It appears that three important decisions have been made including how the tax can be paid.

Read the article produced by Fidelity Investments to find out more:



As widely reported, the chancellor made an announcement relating to pensions and Inheritance Tax (IHT) in her Budget Statement on 30 October 2024. As such, unused pension funds will be subject to IHT for deaths on and after **6 April 2027**. At the same time, the Government launched a consultation on the liability, reporting and payment of the tax, which closed on 22 January 2025. On 21 July 2025, HMRC issued their response along with some draft legislation.

Before highlighting the main changes announced in the response document, it is worth reminding ourselves of a couple of proposals laid out in the original consultation.



Firstly, it was proposed that the Pension Scheme Administrator (PSA) would be liable for the reporting and payment of any inheritance tax due on the pension component of an estate.

Secondly, it was stated that death in service arrangements written under a registered pension scheme would be subject to IHT from 2027.

Respondents to the consultation made it clear that making the PSA liable for reporting and payment of any inheritance tax due would have major practical difficulties, including timescales for payment, potential liquidity issues (eg where the pension's assets include property) and that the PSA would have no wider knowledge of the estate. Respondents also proposed alternatives to IHT, such as a death tax on pensions.



In their response document, HMRC have confirmed that they are proceeding with the proposal to make unused pension funds subject to IHT on death with some amendments and concessions.

The main amendments are as follows:

- **Death in Service Schemes will not be subject to IHT**
- **HMRC are not pursuing the PSA-led-process - instead, this will be a personal representative-led process**
- **Pension beneficiaries will become jointly and severally liable for any IHT due on unused pension funds and death benefits to which they are entitled from the point at which they are appointed.**

HMRC have said that there will be three ways to pay the inheritance tax due:

1. **The personal representative can pay the IHT from the free estate (and reclaim it if necessary)**
2. **The beneficiary can pay the IHT directly**

3. The IHT can be funded from the pension (where this is the case, this will be before any income tax is applied)

At this stage, HMRC have only issued draft legislation.

Best Regards

Ray

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