

## Finance Act 2026 paves the way for pensions IHT changes



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### Introduction

The [Finance Act 2026](#) received Royal Assent on 18 March 2026, containing provisions to change the IHT treatment of unused pension funds and death benefits from 6 April 2027.

### Key points

- Most unused pension funds and death benefits payable from a pension scheme will fall within a person's estate for IHT purposes in respect of deaths on or after 6 April 2027. But all death in service benefits payable from registered pension schemes, dependants' scheme pensions and charity lump sum death benefits will be out of scope of IHT.
- The existing IHT principles providing an exemption for death benefits passing to a surviving spouse or civil partner will be maintained. Along with other exemptions and the nil-rate band, this means that most estates will not, ultimately, be subject to IHT. The Government estimates that the changes will affect around 8% of estates each year.
- Personal representatives ("PRs") will be primarily liable for reporting and paying any IHT due on unused pension funds and death benefits. However, the changes will impose significant new obligations on pension schemes, which will be subject to increased information requirements to facilitate the tax payment.
- The new Act also [updates](#) a pre-existing regulation-making power in connection with the abolition of the LTA, extending the deadline for using it from 5 April 2026 to 30 June 2026. This is intended to allow additional time to make [further technical amendments](#) to the legislation which abolished the LTA.

### Background to the IHT changes

When an individual dies, IHT is charged on their estate where its value (together with certain transfers of property made during the person's lifetime which are "chargeable transfers") exceeds a personal tax-free allowance. This is known as the "nil-rate band" and it is currently set at £325,000 until April 2030. In addition, a further allowance of up to £175,000 may apply if a main residence is left to direct descendants (ie children and grandchildren).

IHT is typically payable at 40%, though lower rates can apply to chargeable transfers. There are also various exemptions, including property passing between spouses and civil partners, as well as charitable donations.

Subject to certain exceptions, death benefits under registered pension schemes have generally not attracted IHT. But in October 2024 the Government [announced](#) plans to bring most unused pension funds and death benefits into scope of IHT from April 2027. The intention was to ensure that tax reliefs on pensions are being used for their intended purpose, ie to encourage saving for retirement and later life, by removing the opportunity for individuals to use pensions for IHT planning.

Following a [consultation](#) on the initial proposals, as well as a [consultation](#) on draft legislation over summer 2025, the provisions implementing these changes are now contained in the Finance Act 2026.

## Which schemes are affected?

The changes will apply to:

- registered pension schemes
- qualifying non-UK pension schemes, and
- section 615 schemes.

Some employers may have excepted group life schemes in place but, as these are not registered pension schemes, they are not in scope of the changes.

## Which benefits are in or out of scope?

### In scope for IHT purposes

Unused DC pots (including DC AVCs) and the value of any scheme assets that “may or must” be used to provide benefits on the death of the member (including a five-year guarantee lump sum or refund of contributions) will generally be subject to IHT. Any unauthorised payments made from a deceased member’s pension fund will likewise be in scope of IHT.

### Out of scope for IHT purposes

Benefits excluded from the scope of the IHT changes include:

- all death in service benefits payable from registered pension schemes, removing the current disparity of treatment between discretionary and non-discretionary arrangements
- a dependant’s scheme pension (eg a pension to a spouse or child)
- a trivial commutation lump sum death benefit, and
- a dependant’s or nominee’s annuity that was purchased together with a lifetime annuity payable to the member (commonly referred to as joint life annuities).

A death in service benefit is any amount payable:

- as a benefit in any form in respect of a member if the member is in employment (or other work of a particular description, such as partners or directors) immediately before their death, and

- would not be payable as a benefit (in any form) in respect of a member who is not in such employment or work.

### Exempt benefits

The existing IHT principles providing exemption for death benefits passing to a surviving spouse or civil partner, and registered charities, will be maintained.

## The reporting and payment process

The process for reporting and paying any IHT is broadly as set out in our [22 July 2025 Alert](#). Draft legislation on changes to the information sharing requirements needed to support the new IHT process will be published “in due course”.

PRs will be primarily liable for reporting and paying IHT due on unused pension funds and death benefits. PRs already report and pay IHT on the deceased’s estate, including for non-discretionary pension schemes. Pension beneficiaries will become jointly and severally liable for any IHT due on unused pension fund and death benefits to which they are entitled from the point they are confirmed as the beneficiary.

Depending on the individual circumstances, various options will be available for paying the IHT:

- **pay directly from free estate** – PRs can pay the IHT due on the entire estate, including any pensions element, directly from funds in the free estate
- **pension scheme pays the IHT** – beneficiaries can direct the pension scheme administrator for tax purposes (“PSA”) to pay the IHT on their behalf directly to HMRC or the PRs can direct PSAs to withhold some of the benefits for up to 15 pending any IHT payment (see “Withholding notice” below)
- **beneficiaries pay IHT** – alternatively, beneficiaries can take their pension benefits in full and pay IHT directly.

### Withholding notice

While a withholding notice is in effect, no benefits can be paid by the scheme to a person if either the:

- total amount of benefits previously paid to them on the deceased’s death exceeds 50% of their benefit entitlement, or
- payment would push the total amount of benefits paid to them under the scheme over the 50% threshold.

The PRs can then direct the PSA to pay any IHT due to HMRC from the benefits that have been withheld before releasing the rest of those benefits to the pension beneficiaries.

### Income tax

Income tax will not be due on the amount of relevant death benefits equal to any IHT due on that pension. HMRC plans to put a mechanism in place allowing pension beneficiaries to recover any overpayments of income tax.

## What's next?

HMRC is expected to provide further tools and guidance on the changes to support PRs, PSAs, and beneficiaries ahead of implementation in April 2027.

Now the Finance Act 2026 has received Royal Assent, trustees will need to ensure their scheme is ready for the IHT changes, including:

- liaising with their scheme administrators to understand how they are preparing for the changes
- checking scheme rules to understand which benefits are in scope and whether any amendments are needed, and
- informing members of the proposed changes, eg on the scheme website or in a member newsletter.

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