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■ Pension & Estate IHT — Complete Guide

Everything you need to understand the April 2027 pension inheritance tax changes, calculate your exposure, and take action — in one document.

■ ACTION REQUIRED BEFORE 6 APRIL 2027

From this date, unused defined contribution pension pots become subject to Inheritance Tax for the first time. This is the biggest change to UK pension legislation in a decade. This guide covers what is changing, whether you are affected, what you can do about it, and a complete step-by-step action plan. Share it with your family today.

PART 1 — Understanding What Is Changing

1. What Is Changing — And When

Before 5 April 2027	From 6 April 2027
Unused DC pension pots sit OUTSIDE your estate for IHT.	Unused DC pension pots brought INTO your taxable estate.
Pension passes to nominated beneficiary free of IHT.	IHT at 40% applies to pension value above the nil rate band.
Beneficiaries pay income tax on withdrawals only.	Beneficiaries face income tax ON TOP of IHT already paid.
Strategy: spend other assets first, preserve pension pot.	Old strategy now counterproductive — urgent review needed.

2. The 67% Tax Trap — How It Works

In the worst case, a pension pot faces two separate taxes — IHT on the estate, then income tax when the beneficiary draws the funds. Here is what that looks like:

Stage	What Happens	On a £200,000 Pot
1. IHT Applied	40% inheritance tax on pension above nil rate band.	£80,000 to HMRC. £120,000 passes to beneficiary.
2. Income Tax on Withdrawal	Beneficiary pays income tax at their marginal rate.	Higher rate taxpayer: £48,000 in income tax.
3. What Remains	What the family actually receives.	**£72,000 out of £200,000. 64% gone.**

Note: Not every family faces the full impact. It depends on estate size, available thresholds, and the beneficiary's tax position. But the risk is now real for millions of ordinary households.

3. Are You In The Firing Line?

You are likely affected if ANY of the following apply:

- You own a property **and** have a pension pot — your combined estate may already exceed £325,000.
- You are over 60 and have kept your pension untouched specifically to pass on to family.
- You hold a SIPP with a significant balance.
- Your total estate — including property, savings, investments, **and now your pension** — exceeds £325,000.
- Your parents or grandparents are in any of the above categories.

Available Thresholds (2025/26)	Amount
Standard nil rate band (per person)	**£325,000**
Residence nil rate band (main home to direct descendants)	**£175,000**
Combined threshold (married couples / civil partners)	**Up to £1,000,000**
IHT rate above threshold	**40%**

4. The 5 Planning Strategies

These are the legitimate legal strategies available to reduce or manage your exposure. Always take specialist advice for your specific situation.

1. Draw on your pension now

Spend more of your pension during your lifetime — if the pot is empty, there is nothing to tax. Requires a conversation with a financial adviser about sustainable drawdown.

2. Use the 7-year gifting rules

Gifts survive IHT if you live 7 years after making them. Annual exempt amount: £3,000/year immediately exempt. Regular gifts from surplus income may also qualify.

3. Life insurance written in trust

A policy written in trust pays directly to beneficiaries outside your estate. Doesn't reduce the tax bill but funds it — so the family doesn't have to sell assets.

4. Maximise spousal / civil partner exemption

Assets passing between spouses are IHT-free. Unused nil rate bands transfer on death, potentially doubling the threshold. Always the starting point for married couples.

5. Get specialist advice before April 2027

Estate planning depends on your specific circumstances. A specialist solicitor or tax adviser can model your exposure and recommend the right combination of strategies for your family.

5. Key Terms Explained

Term	Plain English
Defined Contribution (DC) Pension	A pension where the pot value depends on contributions and investment returns — the most common type, including SIPPs, workplace pensions, and personal pensions.

Defined Benefit (DB) / Final Salary	A pension paying guaranteed income in retirement. Different IHT rules apply — seek specialist advice.
Nil Rate Band (NRB)	The threshold below which no IHT is payable. Currently £325,000 per person.
Residence Nil Rate Band (RNRB)	An additional threshold of up to £175,000 when a main home passes to direct descendants.
Expression of Wishes	A letter to your pension provider stating who you'd like to receive the pension on death. Not legally binding but highly influential with pension trustees.
Drawdown	Taking money directly from your pension pot rather than buying an annuity. The unused pot remains invested.
Marginal Rate	The rate of income tax on the next pound you earn. Basic = 20%. Higher = 40%. Additional = 45%.

PART 2 — Your Action Plan

6. Phase 1 — Understand Your Current Position

Complete this before anything else. Most of this information is available online or from your pension provider in 30–60 minutes.

- ■ Locate all pension pots you hold — workplace pensions, SIPPs, personal pensions.
  - ■ *Use the government's Pension Tracing Service at gov.uk/find-pension-contact-details if you have lost track of old pensions.*
- ■ Obtain the current fund value for each defined contribution pension.
  - ■ *Call your provider or log in online. Ask specifically for the 'current fund value'.*
- ■ Estimate the current value of your estate — property, savings, investments.
  - ■ *Use current market values. For property, a Zoopla or Rightmove estimate is fine at this stage.*
- ■ Add your pension pot value(s) to your estate estimate.
  - ■ *From April 2027 this combined figure is what HMRC will assess.*
- ■ Compare your total against the nil rate band thresholds available to you.
  - ■ *Single: up to £500,000 (standard NRB + RNRB). Married/civil partner: potentially up to £1,000,000 combined.*

Your figures:

Total DC pension pot value(s): ....

Estimated estate value (excl. pension): ....

Total estate including pension: ....

NRB threshold available: ....

Estimated IHT exposure: ....

7. Phase 2 — Review Your Pension Nominations

Who receives your pension is determined by your provider's records — not your will. Many people have outdated nominations. This is one of the most important things to fix.

- ■ Contact each pension provider and request a copy of your current nomination of beneficiary.
  - ■ *Ask for both the 'nomination of beneficiary' form and any 'expression of wishes' currently on file.*
- ■ Check the nomination reflects your current wishes — family circumstances may have changed.
  - ■ *Divorce, new children, death of a named beneficiary — all mean your nomination may be out of date.*
- ■ Update the nomination if needed — request the provider's current form.
  - ■ *A Pension Nomination Letter template is available at bettercallkal.co.uk — drafted to the standard providers expect.*
- ■ Write or update your expression of wishes to accompany the nomination.
  - ■ *Not legally binding but given significant weight by pension trustees. Be specific about your reasons.*
- ■ Consider splitting the nomination across multiple beneficiaries where appropriate.
  - ■ *Spreading across lower-rate taxpayers can reduce the overall income tax burden on withdrawal.*
- ■ File copies of all nomination forms in a safe place and tell your family where they are.

8. Phase 3 — Review Your Drawdown Strategy

The strategy of preserving your pension to pass on tax-free no longer works after April 2027. You may need to fundamentally rethink how and when you draw on your pension.

- ■ Speak to a financial adviser about your current drawdown plan and how April 2027 affects it.
  - ■ *Ask specifically: 'Should I be drawing down more of my pension before April 2027 given the IHT changes?'*
- ■ Understand your sustainable drawdown rate — how much you can take without running out.
  - ■ *A financial adviser can model this based on your age, life expectancy, and pot size.*
- ■ Consider whether taking larger drawdowns and gifting the surplus makes sense.
  - ■ *Money drawn and gifted (surviving 7 years) is outside the estate — but income tax on the withdrawal applies first.*
- ■ Review whether an annuity better suits your post-2027 position.
  - ■ *An annuity pays income for life with nothing left on death — no IHT on what has already been spent.*

9. Phase 4 — Consider Planning Strategies

Work through each strategy with your adviser to decide which apply to your situation.

- ■ Gifting — use your annual £3,000 exempt allowance every tax year.
  - ■ *Immediately outside the estate. Two years can be combined if last year's allowance was unused.*
- ■ Regular gifts from income — gifts made habitually from surplus income (not capital) are immediately exempt.
  - ■ *Must not affect your standard of living. Document every gift carefully.*
- ■ 7-year gifts — consider larger gifts where you can afford to and expect to survive 7 years.

  - *Taper relief reduces the IHT charge if you die between 3 and 7 years after the gift.*

- Life insurance written in trust — consider a policy to fund the IHT bill on death.
  - *Pays outside the estate. Covers the tax so the family doesn't have to sell assets.*
- Review wills — ensure they maximise spousal exemption and nil rate band transfer.
  - *If married or in a civil partnership, confirm wills are structured to transfer unused NRB on first death.*

10. Phase 5 — Get Professional Advice

- Book an appointment with a qualified financial adviser to discuss pension drawdown strategy.
  - *Bring your Phase 1 figures and your current pension nominations.*
- Book an appointment with a solicitor specialising in wills and estate planning.
  - *Ask specifically about pension IHT planning. Bring your estate estimate and asset list.*
- Review or make your will.
  - *Dying intestate removes all control over who gets what.*
- Set a review date — revisit this plan annually and whenever circumstances change.
  - *Marriage, divorce, birth, death, property purchase, significant financial change — all trigger a review.*

Need a specialist? Better Call Kal's lawyer referral scheme connects you with trusted, qualified solicitors and tax advisers who specialise in estate planning and inheritance tax. Visit **bettercallkal.co.uk** — it's free to use and takes two minutes.

PART 3 — Quick Reference

11. Key Dates & Deadlines

- **5 April 2027:** Last day pension pots sit outside the estate for IHT.
- **6 April 2027:** New rules take effect.
- **NOW:** Review pension nominations and expression of wishes.
- **ASAP:** If your estate exceeds the threshold, take specialist advice — planning takes time.
- **Each 6 April:** New tax year begins — use your annual gift allowance.

12. Common Mistakes to Avoid

- Assuming the old 'spend everything else, preserve the pension' strategy still works — it doesn't after April 2027.
- Not updating your pension nomination — if it's out of date, the pension may not go where you intended.
- Confusing DB and DC pensions — defined benefit pensions have different rules.
- Leaving planning until after April 2027 — some strategies (like the 7-year gift rule) need time to work.

■ Assuming this only affects the wealthy — a house plus a modest pension pot tips many ordinary families over the threshold.

■ Not making a will — or not reviewing it after a major life change.

13. Useful Links & Contacts

- **HMRC IHT guidance:** gov.uk/inheritance-tax
- **MoneyHelper (free pension guidance):** moneyhelper.org.uk
- **Pension Tracing Service:** gov.uk/find-pension-contact-details
- **Find a financial adviser:** unbiased.co.uk
- **Better Call Kal — specialist referral & templates:** bettercallkal.co.uk

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Disclaimer

*This guide is for **general education only**. It is **not financial or legal advice**. Tax laws change — always verify current rules and seek independent specialist advice before making decisions about your pension or estate.*