

Pensions & Inheritance Tax - Getting ready for April 2027

February 2026

What is changing?

From 6 April 2027, most unused pension funds and lump sum death benefits will be included in the value of the deceased member's estate for Inheritance Tax (IHT) purposes, regardless of whether benefits are paid under trustee discretion.

Personal representatives (PRs) will assume the primary duty to report and pay any IHT due on such pension assets. The policy objective is to reduce perceived distortions where pensions are used as wealth transfer vehicles rather than retirement funding.

Scope & examples

In scope (unless paid to an exempt beneficiary):

- **Unused DC pots**, including AVC funds and unpaid drawdown balances.
- **DB lump sum death benefits**, including guarantee period lump sums (e.g. 5 year guarantee).
- **Other lump sums** not classed as death in service (e.g. refund of contributions).

Out of Scope

- **Death in service lump sums** from registered schemes.
- **Dependents' scheme pensions** (DB) and joint life annuities.
- **Spouse/civil partner** and **charity** IHT exemptions are maintained.

Who does what? Process overview

HMRC has scoped out a broad process for those involved with paying (Trustees/administrators), receiving (beneficiaries) or accounting for (PRs) the lump sum payments and tax charges.

Personal Representatives (PRs)

- **Request pension valuations** – required from schemes for all pension benefits held at death; administrators are expected to provide values within 30 days of a request.
- **Calculate estate IHT** – incorporating pension values and any benefits payable to exempt recipients.
- **Report and pay IHT** – coordinate with schemes where payment is to be settled directly or from benefits via the new mechanism (see below).

Scheme Administrators / Trustees

- **Provide timely valuations and information** – including the identity/status of recipients to establish any exemption. Expect increased data flows and potential exposure where discretionary decisions are contested.
- **Operate the Pension Inheritance Tax Payments Scheme (PITPS)** – a new facility enabling IHT to be remitted directly to HMRC from death benefits on instruction from PRs/beneficiaries, and to withhold part of the benefit pending IHT clearance (see below).
- **Governance impact** – while primary reporting shifts to PRs under the current proposals, schemes still shoulder material operational duties on data sharing, payment processing and temporary withholding of assets — requiring updated procedures, SLAs and communications.

New areas to understand

Withholding power

PRs may instruct scheme administrators/managers to withhold up to 50% of taxable death benefits for up to 15 months after the end of the month in which the member died, to allow IHT computation and potential payment.

Directing IHT payments

PRs/beneficiaries can direct schemes to pay IHT plus interest straight to HMRC from the death benefit if the liability on the pension benefits is at least £1,000. This may operate like the existing “Scheme Pays” mechanism for Annual Allowance excess charges. IHT must be paid by the scheme within 35 days of receiving a “payment notice”, else the scheme becomes jointly liable for the amount of IHT.

Multiple pots and multiple recipients

Fragmentation significantly complicates timelines: schemes must exercise discretion and confirm recipients (including exempt ones) before PRs can finalise IHT, which can extend administration, especially where many small pots exist.

Interaction with income tax and the Lump Sum and Death Benefit Allowance (LSDBA)

Existing income tax rules (with different provisions for deaths before and after age 75) remain. For deaths post-75, beneficiaries’ withdrawals are taxable at their marginal rates of income tax, after any IHT settlement.

In addition, some benefits will also need to be assessed against the LSDBA, and if the LSDBA is exceeded there will be further tax consequences. This will make cases complicated, and beneficiaries and PRs may look to administrators or Trustees for support.

Operational implications for schemes

We are reviewing and updating our processes to account for the changes required of us, briefly summarised below.

Data & evidence capture

Calculate and share valuations within 30 days, flagging exempt beneficiary status and providing recipient details to PRs when discretionary decisions have been made by the Trustees.

Payment mechanics

Allow withholding (up to 50% of the lump sum death benefit) and direct HMRC remittance, including reconciliation and audit trails.

Discretion decisions & timescales

Recognise that IHT timing will now hinge on how quickly Trustee/administrator discretion is exercised; set robust timescales and documentation standards to mitigate delays/complaints.

Member and PR communications

Refresh benefit guides, webpages and standard letters and forms to explain IHT scope, exemptions, information needed by PRs, timelines, and how withholding/direct payment may operate.

Areas for trustees to consider in the lead-up to April 2027

Policy & Rule review

Rules – identify in-scope benefits and confirm powers exist within the Rules to withhold benefits and pay IHT direct to HMRC.

Discretions – consider whether keeping broad discretion on lumpsum death benefits remains appropriate or if narrowing/removing discretion would reduce dispute risk under the new regime. It is highly likely that Trustees will want to retain the discretionary power for ease of payment. However, it may be appropriate to consider administrator guidelines where beneficiaries are clear, and this could be delegated to administrators to ensure deadlines are met.

Complex cases & guidance

Pre-agree handling for cases involving multiple pots, mixed DB/DC entitlements, blended families, overseas PRs/beneficiaries, and potential challenges to Trustee decisions arising from increased transparency; keep a watching brief on definitions and guidance.

Administrator readiness

Trustees will want reassurance that administrator processes are updated and able to manage death cases in line with the new rules.

Data protection & consent

Map lawful bases and data flows for sharing recipient decisions and beneficiary details with PRs; review privacy notices, and role based access controls ahead of statutory gateways coming into force.

Unequal treatment

The new rules will create unavoidable inconsistencies in how pension death benefits are treated, because payments to a spouse or civil partner are exempt from IHT, whereas payments to an unmarried partner, adult children or other beneficiaries are not. This means that, depending on a member's circumstances, the same pension benefit can have very different tax outcomes. As a result, trustees may find themselves in uncomfortable positions — particularly where beneficiaries expect broadly equal treatment, but the tax framework produces

materially different net outcomes. Trustees cannot necessarily correct these disparities through discretion and should be prepared for more complex conversations with families where IHT exposure falls unevenly across beneficiaries.

Trustee Knowledge and Understanding

Trustees should arrange for training and the opportunity to discuss these issues with relevant advisers.

DC valuation & market movement

For IHT, a DC pot is valued at the date of death, which may differ significantly from the amount eventually paid out once markets move. In similar tax situations reliefs exist, and it's hoped that comparable adjustments will be introduced for pensions. If not, trustees may need to consider how they manage a DC or AVC pot immediately after being notified of a death — including whether to switch promptly into cash to limit valuation mismatches.

Support for members

Trustees should look to support members, as far as possible, and ensure that they have awareness of the change and the potential actions for them. Trustees could encourage members to consider whether previous expression of wishes they've made align with their broader estate planning, and to seek advice on their current retirement income planning and legacy aims.

Broadstone comment

The changes to the treatment of benefits on death present a number of challenges for Trustees and administrators.

There are some areas of uncertainty regarding charity lump sums and the exact operation of some of the new steps. We will keep a close eye on those developments.

We should also note that the changes are being discussed in Parliament, and while it is unlikely the policy aim will change, there are proposals to greatly simplify the procedures – we shall have to see if these are adopted.

Find out more

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