

Finance Act Royal Assent Confirms IHT on Pensions

June 2026

Introduction

The recent Finance Act has now received Royal Assent, confirming the UK Government's plan for most pension death benefits to fall within the scope of Inheritance Tax (IHT) from 6 April 2027. This represents one of the most significant changes to pensions taxation since the introduction of pension freedoms in 2015.

As confirmed in the latest draft legislation and HMRC insight materials, the new regime introduces the concept that, broadly, the value of pension benefits payable on death will now be considered when assessing a deceased member's estate for IHT purposes.

HMRC has also confirmed that detailed guidance will follow ahead of the effective date. Trustees should expect considerable administrative change and interaction with Legal Personal Representatives (LPRs).

As of May 2026 HMRC has published a technical note and a consultation on information regulations setting out how the new IHT regime is expected to operate in practice. Key points include:

- Further detail on how pension benefits are identified, valued and allocated as "notional pension property"
- Confirmation that personal representatives remain responsible for reporting and paying IHT, supported by schemes
- Additional clarity on information-sharing requirements between schemes and personal representatives (with regulations still to follow)
- More detail on the operation of withholding notices and scheme-paid tax via the direct payment regime
- Confirmation that templates and HMRC tools are expected by April 2027

This document is intended for professional trustees, scheme sponsors and advisers and is not directed at retail clients.

High Level Overview of the New Process

From 6 April 2027, pension death benefits will need to be considered as part of the overall Inheritance Tax (IHT) process. While the principle is simple, the way this works in practice is quite different from today.

At a high level, the process will look like this:

1. Valuing pension benefits

The scheme must identify and place a value on the pension benefits due at death. These are treated as “notional pension property” — effectively the value used for IHT, even before a final decision on beneficiaries is made.

2. Working with personal representatives (PRs)

PRs will contact the scheme (often before probate is granted) to request information. Schemes will need to provide valuations and updates within set timescales.

3. Calculating tax

The PR is responsible for calculating any IHT due, taking account of the pension alongside the rest of the estate. The outcome will depend on who ultimately receives the benefits (for example, spouse vs non spouse).

4. Controlling payments

PRs can issue a withholding notice, requiring the scheme to restrict how much is paid out while the IHT position is settled (typically up to 50%).

They (or beneficiaries) can also issue a payment notice, asking the scheme to pay the IHT directly to HMRC.

5. Paying benefits

Once the tax position is resolved, the scheme pays benefits to beneficiaries. Where tax has been paid by the scheme, benefits will be adjusted accordingly.

6. Final reporting

The scheme must provide final figures and confirmations to the PR to allow the estate to be completed.

Key Actions for Trustees – Start Preparing Now

Although the regime comes into force in April 2027, trustees should begin preparation during 2026. Early readiness will be essential to avoid delays, disputes, and risk of scheme-level tax exposure.

1. Identify Benefits in Scope

Trustees should work with administrators to map:

- Lump sum death benefits (DB and DC) – including guarantee period continuation payments
- Money purchase pots that could be used to provide lump sums
- Any excluded benefits (e.g. death-in-service provisions)

This will allow schemes to understand what benefits in-scope for IHT may be.

2. Understand the Scheme's Role in the New Process

Trustees and administrators will have new statutory responsibilities, including:

- Providing valuations of “notional pension property” value to LPRs
- Responding to withholding notices
- Ensuring no more than 50% of benefits are paid during notice periods
- Receiving and processing payment notices
- Paying IHT via the Managing Pension Schemes Service where required
- Adjusting benefits post-IHT payment
- Maintaining evidence trails for HMRC and LPR interactions

Schemes must also ensure they can act quickly, as LPR-issued notices take effect immediately upon receipt.

HMRC's recent technical note confirms that detailed information-sharing requirements will underpin the regime, with further regulations expected. Trustees should assume that data quality, audit trails and response times will be subject to increased scrutiny.

3. Review and Update Processes and Scheme Documentation

- Confirm administrators can identify and value in-scope benefits
- Establish workflows for withholding notices and payment notices
- Ensure death benefit processing is robust enough to handle time-critical requirements
- Communicate with employers (particularly for death-in-service arrangements)
- Prepare for scheme rule overrides required by legislation.

4. Member and Employer Communications

Although member-facing changes will likely be minimal at this stage, trustees should plan communications—particularly for members who may be impacted by IHT on non-spouse/non-charity beneficiaries.

5. Discretionary Death Benefits – Increased Complexity and Trustee Exposure

A further issue trustees should recognise is that the new IHT framework interacts uncomfortably with the discretionary powers that most trust-based schemes use when determining lump sum death benefits.

Under the new framework trustees' discretionary decisions may—often unintentionally—determine whether benefits fall within the deceased's estate (and therefore potentially trigger IHT for non-exempt beneficiaries) or are paid directly to an individual outside the estate. This creates a materially heightened risk of disputes, complaints and Ombudsman referrals, particularly where beneficiaries perceive the trustees' choice has affected the tax outcome. In light of this, trustees may wish to consider whether their current level of discretion remains appropriate in the new environment. Options could include introducing binding nominations, or providing that absent a binding nomination, benefits default to the legal spouse or estate. These approaches would reduce ambiguity, limit the need for tax-sensitive discretionary decision-making and provide greater clarity and protection for trustees, although they must be weighed carefully, as the “right” answer will differ between schemes.

Broadstone Comment

The final legislation in the form of the Act confirms a fundamental shift in how pension death benefits are taxed. While 2027 may seem distant, trustees should not assume the transition will be straightforward. The new requirements introduce significant process risk, particularly where LPRs act slowly or where multiple beneficiaries are involved.

Trustees and administrators will need to be ready to:

- value benefits quickly,
- determine beneficiaries efficiently,
- pause payments when notices are served,
- process direct tax payments within short statutory deadlines, and
- ensure all internal controls prevent accidental overpayment.

Many schemes will need to restructure their death benefit administration processes, update documentation and review insurance arrangements. It is also clear from HMRC's commentary and industry feedback that not all practical issues have yet been resolved, so trustees should expect further guidance and be prepared to adapt workflows again in 2027.

Of course, as noted, the discretionary power itself warrants review in conjunction with your legal adviser.

Our clear message is start preparing now. Identifying in-scope benefits, mapping responsibilities, and training administrators ahead of time will materially reduce the risk of errors once the new rules apply.

HMRC has indicated that further regulations and full operational guidance will only be finalised during 2026 and early 2027, meaning schemes may need to refine processes again shortly before implementation.

Find out more

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