Pensions & Inheritance Tax 6th April 2027

From 6th April 2027 over £1 tn... of pension funds will come 'in scope' of IHT in the UK.

That is One Trillion Pounds

Two of the most common Examples:

Both examples assume a married couple, the second death, the home left to the children and all allowances unused.

Example 1 Mr and Mrs £1m estate	
Current estate EXCLUDING pension	£1,000,000
Combined DC pensions Mr & Mrs	£500,000
IHT Prior to April 2027	£0
IHT post April 2027	**£200,000**

THIS IS THE CRITICAL PART…

The pension does not pay / cover the £200,000

IT IS ONLY CHARGED ITS SHARE based on the whole estate.

The pension is 1/3 of the whole estate so is only charged 1/3 of the IHT bill: **£66,667**

The remaining **£133,333** comes from the NON-PENSION ASSETS and if that is the house then the house may have to be sold.

Example 2 Mr and Mrs £2m estate	
Current estate EXCLUDING pension	£2,000,000
Combined DC pensions Mr & Mrs	£700,000
IHT Prior to April 2027	£400,000
IHT post April 2027	**£820,000**

And the total loss of the Residence Nil Rate Band (RNRB)

THIS IS THE CRITICAL PART…

The pension does not pay / cover the £420,000 it is responsible for

IT IS ONLY CHARGED ITS SHARE based on the whole estate.

The pension is 25.93% of the whole estate so is only charged 25.93% of the IHT bill: **£212,593**

The remaining **£607,407** comes from the NON-PENSION ASSETS. That is £207,407 more than the £400,000 before.

Worst case. If:

1. The parent who dies last is 75 or over
2. Daughter draws the pension as income, about £24,000 a year
3. Daughter already earns £100,000, so every £1 drawn is taxed at 60%
4. The estate is over £2 million, as in Example 2

This can result in MORE TAX than the pension was worth!

Example 2: £420,000 of extra IHT, plus about £292,000 of income tax over 20 years, is about £712,000 of tax on a £700,000 pension (no growth, today's tax rates).

The tool box:

1. **Whole of Life Assurance (WOL)** ~ life cover that pays out on death, whenever death happens. Written in trust, the payout goes to the trust for the heirs and is normally outside the estate.
2. **Nominees' Annuity** ~ an annuity bought with pension money in the member's lifetime that carries on being paid to a named person (the nominee) after death. The pension fund used leaves the estate, but buying one may count as a lifetime gift with a 7-year clock. Providers currently need the nominee to be 40 or over. Normal Expenditure out of Income (NEOI gifting surplus income) can also be used.
3. **Impaired Life Annuity** ~ also takes funds out of the estate immediately and again Normal Expenditure out of Income (NEOI gifting surplus income) can also be used. Either as gifts as cash or into a trust
4. **Normal Expenditure out of Income (NEOI)** ~ genuine regular gifts from surplus income are outside the estate immediately, with no 7-year clock.
5. **Main property into trust** ~ using an Interest in Possession Trust, part of the property value put into trust can be out of the estate after seven years, when set up correctly.
6. **Purchased Life Annuity** ~ for those in good health where own funds are used to buy an annuity which again takes assets immediately out of the estate with no 7-year clock.
7. **Home Income Plan** ~ a loan secured on the main residence is used to buy an income for life. The loan is a debt, which can reduce the value of the estate.
8. **BPR and APR** ~ using a business or agricultural property to secure assets up to £2.5 million where two years can apply and not seven.
9. **Pure gifting** ~ gifts above the allowances carry a 7-year clock
10. **Business owners** ~ life cover can be arranged through the business: relevant life cover, key person cover and registered group life (death in service) cover. Registered group life benefits stay outside IHT after April 2027.