



ROTHESAY BENNETT
FINANCIAL PLANNING

Far-reaching consequences for retirement planning

A new era for pension funds following a significant shift in tax policy

Over the next few years, significant changes to pensions and Inheritance Tax (IHT) rules are anticipated to transform the UK's financial planning landscape. For individuals and families, proactively adapting to these changes is critical to protecting your wealth and ensuring your legacy benefits your loved ones.

This article breaks down the key elements of IHT, the changes set to take effect from April 2027, and practical strategies to help mitigate their impact. By planning ahead, you can safeguard your estate while navigating this shifting terrain.

Pensions and IHT reform: What you need to know

New rules will alter how pension funds are taxed

Significant reforms set to take effect will fundamentally change how pension funds and death benefits are treated for inheritance tax purposes. Historically, pensions have been a tax-efficient way to transfer wealth to future generations, with unused funds generally exempt from IHT.

From April 2027, however, any unused pension funds will be regarded as part of the deceased's estate for IHT purposes. This change has significant implications for estate

planning, especially for individuals with substantial pension savings, business assets, or agricultural properties.

Potential consequences of the reforms

Including pension funds in IHT calculations can raise the total estate value, potentially surpassing the IHT threshold. Anything above this threshold will be liable for a 40% tax, which might have significant financial consequences for your beneficiaries.

Additionally, the new rules cause delays in accessing pension funds. With HM Revenue & Customs (HMRC) involved in assessing these funds as part of the estate, beneficiaries may face months of waiting for the probate process to be completed. For complex estates, this period could last even longer.

Challenges posed by delayed pension fund access

Increased administrative demands on pension scheme administrators

Under the revised system, pension scheme administrators must determine the value of pension funds at the time of death and include these valuations in the IHT calculation. This process will make estate administration more complicated and could extend the settlement period, leaving beneficiaries in financial uncertainty.

Documentation must also be kept current. Beneficiary forms, Wills, and other estate planning documents need to accurately reflect the deceased's wishes to prevent complications and delays.





ROTHESAY BENNETT

FINANCIAL PLANNING

Potential cashflow issues for beneficiaries

The delays in accessing pension funds could prove particularly challenging for beneficiaries who rely on these funds for immediate expenses. Costs such as care fees, mortgage repayments, or living expenses may become difficult to manage.

Spouses and registered civil partners will continue to be exempt from IHT, but for couples, careful estate planning will still be necessary to minimise tax exposure and preserve wealth for future generations.

Key strategies to minimise the impact of IHT

Evaluate the total value of your assets
To effectively manage the potential implications of these changes, start by analysing the total value of your estate, including pensions, properties, and investments. Gaining a comprehensive understanding of your financial position will help you identify opportunities for tax-efficient planning.

Lifetime gifts are another highly effective way to manage IHT. Gifts made more than seven years before your death are typically exempt from IHT, as are regular gifts out of excess income if they do not reduce the overall capital of the estate.

Consider trusts as a planning tool

Trusts can offer considerable flexibility in estate planning by removing certain assets from the taxable estate. For example, creating a trust can help shield these assets from IHT, reducing the potential burden on your beneficiaries.

Business Relief investments, which qualify for 100% IHT relief after two years, can also form an integral part of a diversified financial plan. Including assets such as these in your portfolio can reduce liabilities and provide more wealth for future generations.

Why timely planning is essential

Ensure documentation is comprehensive and up-to-date

Given the complexities introduced by these reforms, ensuring clear and thorough documentation is a vital step. Wills, pension beneficiary forms, and Powers of Attorney should all reflect your current preferences to prevent delays and eliminate ambiguity.

Additionally, regular family discussions can promote transparency and reduce conflict in more complex family arrangements. These conversations are particularly important for families with multiple beneficiaries, blended households, or business interests.

Seek professional advice

Estate planning is inherently complex, and the forthcoming changes only add another layer of difficulty. A financial adviser or estate planner can provide personalised guidance tailored to your individual circumstances, helping you fine-tune your plan in light of these new rules.

Secure your legacy today

Protecting your wealth for future generations has never been more important. With significant changes to pension and IHT rules on the horizon, now is the time to take action. By reassessing and optimising your financial and estate plans, you can mitigate potential tax liabilities and ensure that your legacy endures.

If you'd like to discuss your specific requirements or learn more about how these reforms might impact your retirement and estate planning, don't hesitate to get in touch. Contact us today for professional advice designed to safeguard your financial future. ■

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE.

FOR GUIDANCE, SEEK PROFESSIONAL ADVICE. A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX PLANNING.