Pensions & Inheritance Tax: A Guide to the April 2027 Changes

What's changing, who it affects, and what you can do about it



From 6 April 2027, unused pensions will count towards Inheritance Tax. Around 10,500 estates a year are expected to pay it for the first time as a result, according to HMRC.

Date Published: 31st August, 2026

About Edge Legacy Planning

Edge Legacy Planning is a will-writing and estate-planning firm. We are not solicitors and we are not regulated by the Solicitors Regulation Authority. This guide is general information based on the law in England and Wales as at August 2026. It is not legal, tax or financial advice, and your circumstances may differ.

Safe to do Business With Code Compliant

THE STARTING POINT

A quiet advantage is coming to an end

For years, pensions have enjoyed a quiet advantage. When someone died with money still in their pension, it usually passed to their loved ones outside of their estate, which meant that it usually escaped Inheritance Tax altogether.

However, from 6 April 2027, most unused pension funds and pension death benefits will be counted as part of your estate when IHT is calculated. This was announced at the Autumn Budget in 2024, consulted on, and is now law under the Finance Act 2026.

The rules apply to anyone who dies on or after 6 April 2027. If someone dies before that date, the current rules apply, even if the pension is paid out afterwards.

Does that mean everyone will pay?

No, most estates in the UK don't pay IHT, and that will remain true after the change. What the new rules do is bring a minority of families into scope who wouldn't have paid before, and increase the bill for some who already would.

The pages that follow explain what is changing, what is staying the same, who is likely to be affected, and the practical steps you can think about now to prepare successfully.

THE CHANGES

Your pension will join the rest of your estate

At the moment, most pension savings sit outside your estate for Inheritance Tax. From 6 April 2027, they'll be added to your home, savings and other assets, and the total will be measured against your tax-free allowances in the usual way.

Key Figures: Everyone has a tax-free allowance of £325,000, plus up to £175,000 more if you leave your home to children or grandchildren.

There is no separate allowance for pensions

Your pension doesn't get a tax-free band of its own. It simply shares the same allowances as everything else you own. For a married couple or civil partners, unused allowances still pass to the survivor, which means up to £1 million can often be left tax-free between them. However, a pension worth a few hundred thousand pounds can now use up a large part of that.

Which pensions are included

The new rules cover most modern arrangements: unused pension pots, funds held in drawdown, and certain lump sum death benefits from workplace schemes, whether or not the scheme's trustees have discretion over who receives them.

Why the government is doing this

Pensions were designed to fund retirement, not to act as a way of passing on wealth free of tax. The change is intended to close that route. Whatever your view, the practical question for most families is simply what it means for them.

WHAT REMAINS THE SAME

The exemptions that still protect your family

The most important exemption in IHT isn't changing at all. Anything you leave to your husband, wife or civil partner is normally free of tax, however much it is worth, and from 2027 this applies to your pension too. The exemption assumes your spouse or civil partner is a long-term UK resident, so different rules can apply if they live permanently abroad.

Key Figures: Where IHT is due, the rate is 40% on the part of the estate above the allowances, reduced to 36% if at least 10% of the net estate is left to charity.

Benefits exempt from the tax

Death-in-service benefits, the lump sums many workplace schemes pay if you die while still employed, remain outside the charge. Dependants' pensions paid from final salary schemes, and joint-life annuities bought alongside your own also stay exempt. Anything left to a registered charity is also free of the tax, as gifts to charity are exempt.

Income tax rules continue alongside

Inherited pensions can also attract income tax, and that hasn't changed. Broadly, if the person died before 75 the benefits are usually free of income tax, and if they died at 75 or over, the beneficiary pays income tax on what they draw. The new rules include measures to soften the overlap where both taxes apply, but the combined position can be complicated, so it's one to check for your own circumstances.

WHO IT AFFECTS

Putting the change in proportion

The government's own estimates are the best guide to who will actually be affected. This isn't a tax on every pension, but for the families it does reach, the sums involved are significant.

Key Figures: HMRC expects that, of around 213,000 estates with inheritable pension wealth in 2027-2028, about 10,500 will pay IHT for the first time, and around 38,500 will pay more than before. The average bill is expected to rise by around £34,000.

Who is most likely to be affected?

The estates newly brought into the tax are typically those where a larger pension passes to someone other than a spouse or civil partner: children, unmarried partners, or other family members. Unmarried couples deserve a particular mention here, because they don't benefit from the spouse exemption at all, however long they've been together.

Why the numbers grow over time

The tax-free allowances have been frozen for years and will stay frozen until April 2031. As house prices, savings and pension values rise, more families are drawn in each year without any change in the rules themselves. An estate that's comfortably under the threshold today may not be by the end of the decade.

Key Figures: Private pensions make up 35% of all household wealth in Great Britain, second only to property at 40%, according to the Office for National Statistics. For many families, the pension is one of the largest assets they'll ever pass on.

If your pension is one of your larger assets, or your estate already sits close to the allowance, this change is worth taking seriously. If not, the right response may simply be to check your position and carry on as you are. Either way, knowing and preparing for the eventuality is better.

PRACTICAL IMPLICATIONS

Your executors will deal with the tax

The government originally planned for pension schemes to report and pay the tax themselves. After consultation, it changed course. From April 2027, the responsibility sits with the personal representatives of the estate, the executors named in your will, or the administrators if there isn't one. They're the same people who already handle everything else, which is all the more reason to choose them carefully.

Key Figures: Inheritance Tax is due by the end of the sixth month after the month of death, and interest is charged on anything paid late.

Additional Help

Executors won't be left to manage alone. Pension schemes must provide a valuation of the pension, or an estimate, within 28 days of being asked. Where tax may be due, an executor can ask a scheme to hold back part of a beneficiary's payment while the estate is being sorted out, and either the executor or the beneficiary can direct the scheme to pay the tax straight to HMRC on their behalf. HMRC is continuing to publish detailed guidance for schemes and families ahead of April 2027.

PLANNING AHEAD

There’s still time to get ready

The new rules don’t begin until April 2027, and none of the sensible responses to them need to be rushed. What matters is reviewing your pension while all the options are still available.

Review your will

If your pension is going to form part of your taxable estate, it changes the overall picture of what you are leaving and to whom. A will written some years ago may no longer reflect the best arrangement for your family, and it is sensible to check that your executors, gifts and trusts still make sense.

Check the nominations on every pension you hold

Every pension should have an up-to-date nomination, sometimes called an expression of wishes, telling the scheme who you would like to benefit. These forms sit outside your will and aren’t usually binding on the trustees, but they carry real weight, and from 2027 who you name can make a genuine difference to the tax position.

Understand the gifting rules

Gifts made during your lifetime can reduce the size of your estate. Most gifts fall out of account if you survive them by seven years, and there are useful exemptions too, including an annual allowance of £3,000 and an exemption for regular gifts made out of surplus income that don’t affect your standard of living.

NEXT STEPS

How Edge can help

1. A relaxed conversation. At home or over the phone, in plain English. We talk through what you own, who you'd like to benefit, and whether the 2027 changes are likely to affect your family at all.
2. Fixed, transparent pricing. Our fee is agreed before you commit to anything, with no surprises later on.
3. A will and estate plan that reflects the rules. We review your existing will, or write one for the first time, so that your executors, gifts and any trusts still make sense once your pension counts as part of your estate.

A will decides who inherits what you leave behind. From April 2027, the way your estate is arranged will also help decide how much of your pension actually reaches them. It is worth getting both right, to secure your family's future.

Get in touch: 01883 723310

Visit our website for more information: https://edgelp.co.uk

EDGE
LEGACY PLANNING

SWW Safe to do Business With Code Compliant

About Edge Legacy Planning

Edge Legacy Planning is a will-writing and estate-planning firm. We are not solicitors and we are not regulated by the Solicitors Regulation Authority. This guide is general information based on the law in England and Wales as at August 2026. It is not legal, tax or financial advice, and your circumstances may differ.

IMPORTANT INFORMATION

Sources

The rules and figures in this guide are drawn from the following official sources.

HM Revenue & Customs (2025a) *Inheritance Tax on pensions: liability, reporting and payment – summary of responses.* Available at: https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/outcome/inheritance-tax-on-pensions-liability-reporting-and-payment-summary-of-responses (Accessed: 31 August 2026).

HM Revenue & Customs (2025b) *Inheritance Tax — unused pension funds and death benefits.* Available at: https://www.gov.uk/government/publications/inheritance-tax-unused-pension-funds-and-death-benefits/inheritance-tax-unused-pension-funds-and-death-benefits (Accessed: 31 August 2026).

HM Revenue & Customs (2025c) *Inheritance Tax: thresholds.* Available at: https://www.gov.uk/government/publications/inheritance-tax-thresholds (Accessed: 31 August 2026).

HM Revenue & Customs (2026a) *Technical note: Inheritance Tax on pensions.* Available at: https://www.gov.uk/government/publications/inheritance-tax-on-pensions-technical-note/technical-note-inheritance-tax-on-pensions (Accessed: 31 August 2026).

HM Revenue & Customs (2026b) *Technical note 2: Further information on Inheritance Tax and Pensions.* Available at: https://www.gov.uk/government/publications/inheritance-tax-on-pensions-technical-note-2/technical-note-2-further-information-on-inheritance-tax-and-pensions (Accessed: 31 August 2026).

HM Revenue & Customs (no date) *How Inheritance Tax works: thresholds, rules and allowances.* Available at: https://www.gov.uk/inheritance-tax (Accessed: 31 August 2026).

MoneyHelper (no date) *Inheritance Tax rules on gifts.* Money and Pensions Service. Available at: https://www.moneyhelper.org.uk/en/family-and-care/death-and-bereavement/gifts-and-exemptions-from-inheritance-tax (Accessed: 31 August 2026).

Office for National Statistics (2025) *Household total wealth in Great Britain: April 2020 to March 2022.* Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2020tomarch2022 (Accessed: 31 August 2026).

IMPORTANT INFORMATION

Legislation

Finance Act 2026, c. 11, ss. 66–71. Available at: https://www.legislation.gov.uk/ukpga/2026/11 (Accessed: 31 August 2026).

Inheritance Tax Act 1984, c. 51. Available at: https://www.legislation.gov.uk/ukpga/1984/51 (Accessed: 31 August 2026).