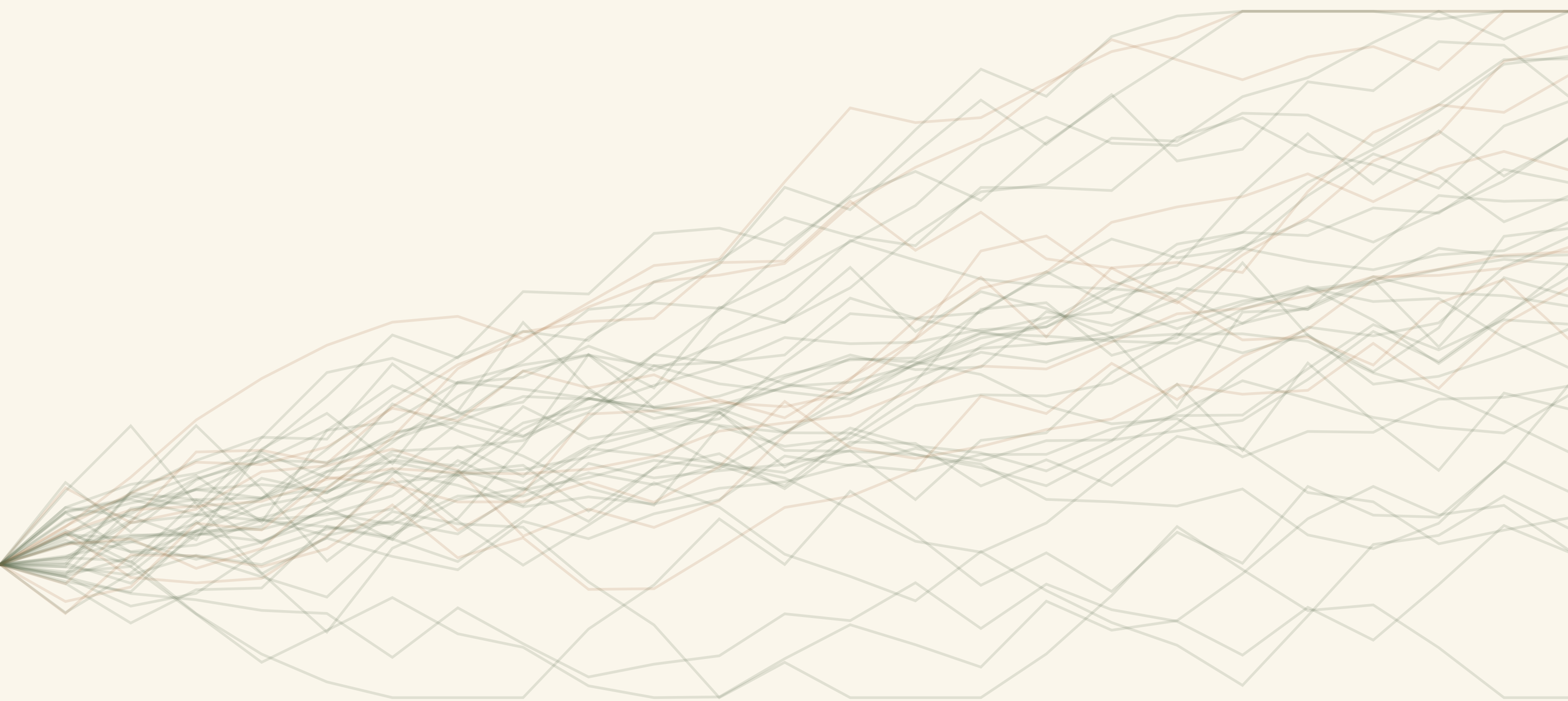
Your Future Compass

RETIREMENT GUIDE

Inheritance tax on pensions from April 2027: what's changing

From 6 April 2027 most unused pension funds will be included in your estate for inheritance tax. Combined with income tax on inherited pensions after age 75, unspent pension can face a high effective rate. Here's how it works and how to model it.



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UK TAX YEAR 2026/27

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The headline change

This is now **law**, not a proposal. Announced at the Autumn Budget 2024 and enacted in the **Finance Act 2026** (Royal Assent 18 March 2026), the change applies to deaths on or after **6 April 2027**. From that date, most **unused pension funds and death benefits** (SIPPs: self-invested personal pensions; personal and workplace defined-contribution pots: pot-based pensions; and flexi-access drawdown funds: a pot kept invested that you draw from) will be brought within your estate (everything you own when you die) for **inheritance tax (IHT)**, taxable at up to **40%** above your available allowances.

Today, most defined-contribution pension pots sit **outside** your estate, so they can usually pass to your beneficiaries (the people who inherit from you) free of inheritance tax. That’s what’s reversing.

Who’s affected, and what’s excluded

The government estimates around **10,500 estates** will become newly liable for IHT, and a further **38,500** will pay more, with an average extra bill of roughly **£34,000**. Some transfers stay outside the charge, notably anything passing to a **surviving spouse or civil partner** or to **charity**, registered-scheme **death-in-service** benefits (a lump sum paid if you die while still employed), and dependants’ scheme pensions from defined-benefit schemes (which promise a set income, like final-salary pensions).

The spouse exemption is why the bill on a first death is commonly nothing, and why the charge tends to land on the second. If you are planning as a couple, that’s only half the story: income can fall by half on the first death while spending falls by far less, which is the arithmetic in retirement planning as a couple.

Why it matters

Inheritance tax is charged at **40%** on the value of your estate above the available tax-free allowances (the **nil-rate band**, £325,000, and the **residence nil-rate band** (an extra allowance for leaving your home to direct descendants such as children or grandchildren), up to £175,000, which tapers away, shrinks then disappears, for estates over £2m).

Bringing pensions into the estate means a pot you had earmarked for your family could now be reduced by IHT before they receive it, where previously it often passed tax-free.

The part that’s easy to miss: a possible *double* hit

There’s a second, separate rule that already exists. If you die **after age 75**, your beneficiaries pay **income tax** at their own marginal rate (the highest rate of income tax they pay) when they draw from an inherited pension.

From April 2027, an unspent pension could therefore face **both**:

1. **Inheritance tax** at 40% on the way into the estate, **and then**
2. **Income tax** when your beneficiary withdraws what’s left.

Stacked together, the **effective rate on each £1 of unspent pension** can be high, which changes the maths on whether it's better to spend a pension down, draw it to fund gifts, or leave it.

What you can actually do about it

This is exactly the kind of trade-off worth *modelling* rather than guessing. The right answer is personal. It depends on your other assets, your spending, your age, and who you're leaving money to. Things people look at include the **order** they draw their pots (pension first vs ISAs first), **gifting** during their lifetime, and how much pension to **spend down** versus preserve.

Our free tool lets you see your **projected estate**, a clear **inheritance-tax waterfall**, and the **combined effective rate** on unspent pension under the post-2027 rules, for your own numbers.

In short

- From **6 April 2027**, most unused pensions are **in your estate** for inheritance tax.
- That can mean **40% IHT**, and, if you die after 75, **income tax for your beneficiaries** on top.
- The best response is personal; **model it** before making decisions, and take regulated advice on anything you intend to act on.

For the official rules see gov.uk inheritance tax, and for free guidance MoneyHelper. Inheritance-tax and pension planning can be complex and interact, so consider a qualified, regulated financial adviser (and, for wills and estates, a solicitor) before acting.

This guide is general information, not regulated financial, tax or legal advice. The rules change and depend on your circumstances, so take regulated advice before acting on anything here.

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