

# PENSIONS AND INHERITANCE TAX

Pension wealth exemption scrapped –  
your savings now count!



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# PENSIONS AND INHERITANCE TAX

## Pension wealth exemption scrapped – your savings now count!

For generations, pensions have formed the backbone of the British retirement landscape. Savers across the UK have long viewed their pension pots not only as a foundation for their retirement income, but also as a reliable, efficient means to pass on wealth to loved ones across generations. Traditionally, pensions have benefited from a special status: under current tax rules, most UK pension pots fall outside the estate for Inheritance Tax (IHT) purposes. This has allowed families to safeguard pension wealth from heavy taxation, preserving more of their hard-earned money for their beneficiaries.

**H**owever, this long-standing approach is poised for an upheaval. In a move that marks one of the most significant shifts in estate planning in recent years, the government has announced that, from 6 April 2027, the exemption that keeps unspent pension wealth outside IHT calculations will be abolished. This means pension funds left unused at death will, for the first time, be counted as part of your estate and could be subject to substantial IHT charges.

### FUNDAMENTAL OVERHAUL OF WEALTH TRANSFER

This policy change is more than a minor adjustment; it represents a fundamental

overhaul of the system by which wealth is transferred between generations. The government's stated aim is to create a "fairer" tax framework and to address what it describes as growing wealth inequality. While intended to ensure higher-value estates contribute more in tax, it comes as a shock for many households that had structured their retirement and inheritance plans around current rules.

For many individuals and families, this means that funds accumulated over decades of hard work and careful saving may, unexpectedly, be caught in the tax net upon their passing. This could diminish the legacy left to loved ones and alter the financial landscape for future generations.

### UNDERSTANDING WHAT CHANGES IN 2027

Yet public understanding of these reforms is worryingly low. Many British adults are unaware of the forthcoming change to how pensions are treated for IHT. This lack of awareness could leave many families caught off guard. After 6 April 2027, on death, any remaining pension funds, whether in defined contribution or defined benefit pots, will form part of the total estate value for IHT purposes.

This combined value includes not only pensions but also assets such as property, cash savings and other investments. When this sum exceeds the nil-rate band (set at £325,000 for the 2026/27 tax year, with an additional



£175,000 residence nil-rate band for passing on a main residence to direct descendants), the excess is typically taxed at 40%. The result? Even modest-sized pension pots could push families over the tax threshold, creating substantial and sometimes unexpected tax bills at a time of bereavement.

### IMPLICATIONS FOR ESTATES AND THRESHOLDS

Consider a family scenario: a primary residence passed to children, some cash in savings, and a retirement pension pot that has grown through years of contributions and investment growth. With property values and pension savings rising, it is easy to see how the aggregate value could exceed current thresholds, despite no conspicuous lifestyle, making prudent planning all the more essential.

At present, many families use the nil-rate band and residence nil-rate band alongside spousal exemptions to maximise the inheritance passed on to the next generation with minimal tax. From 2027, those carefully constructed strategies may need to be urgently revisited.

### RETHINKING TRADITIONAL WEALTH STRATEGIES

Historically, the conventional approach to drawdown in retirement has been

to spend taxable assets first—such as ISAs, savings accounts or shares whilst leaving pension funds untouched for as long as possible. This tactic has been effective because pensions, sheltered from IHT, have served as an effective tool for passing on wealth to heirs while other assets were gradually depleted to fund retirement living.

With the pension exemption soon to disappear, we are advising clients, where appropriate, to take a fresh approach to retirement planning. It may now be more effective for some to access pension funds earlier in retirement, or to use them as a primary source of income, depending on the nature and tax treatment of other assets in the estate.

### REORDERING ASSET DRAWDOWN

This shift compels a re-examination of which funds to draw on first. Retirees who previously left pensions intact while drawing on other investments may now find it more tax-efficient to do the opposite, using their pension to support their lifestyle in early retirement. This can offer flexibility if planned carefully, as leaving untouched assets subject to lower or no IHT (such as family businesses qualifying for Business Relief or AIM shares qualifying for tax

relief) might help families manage their overall liability.

The new rules bring to the fore the importance of tailored financial planning; a one-size-fits-all approach will not suit this evolving legislative context.

### NAVIGATING THE MORE COMPLEX LANDSCAPE

Estate planning has always required a careful balancing act, but these legislative changes make the landscape even more complex. Individuals and families must now take a holistic view of their total wealth, including all likely sources of retirement income, property, business interests, and long-term investments. Each element of the “estate jigsaw” requires scrutiny, as a single change can have wide-ranging tax knock-on effects.

Moreover, given the government’s goals of raising revenue and reducing what appears to be an unequal wealth distribution, further tweaks or iterations to the tax regime could emerge in the coming years. Keeping abreast of developments and acting promptly could be crucial.

### IMMEDIATE PRACTICAL STEPS TO TAKE

Despite the changes not taking effect until April 2027, proactivity is

essential. Now is the time to calculate the projected value of your estate and assess your current pension arrangements. This includes reviewing pension scheme beneficiaries, checking that nominations are up to date, and understanding the pension rules if you have multiple pots or drawdown arrangements.

For some, gifting strategies may be appropriate. Lifetime gifting, using annual exemptions or the “seven-year rule”, can help reduce the value of your taxable estate. Others may benefit from exploring the use of trusts, though this can be a complex area requiring specialist, regulated advice to avoid unforeseen tax consequences and ensure benefits are retained.

### **EXPLORING OTHER MITIGATION OPTIONS**

An alternative consideration is using life insurance written in an appropriate trust to cover anticipated IHT bills. Policies written in trust can provide beneficiaries with funds to settle tax liabilities and avoid having to break up family homes or sell assets in haste. For business owners, reviewing existing reliefs, such as Business Relief and Agricultural Relief, remains vital, as these can often shield certain assets from IHT.

Another important tool is the pension death benefit nomination. Ensuring these are up to date and accurately reflect your wishes becomes increasingly important,

especially as separating these funds from your estate may no longer be possible under the forthcoming rules.

### **ROLE OF PROFESSIONAL ADVICE**

The intricacies of pensions and Inheritance Tax should not be underestimated. Each individual’s situation is unique, and off-the-shelf solutions rarely deliver optimum results. Factors such as family circumstances, asset mix, future needs, and the possibility of further legislative changes all influence the correct course of action.

At DG Financial Services, our role is to help clients navigate these complexities. We work with you to stay ahead of industry developments, scrutinising government guidance, amendments, consultations and legal commentary, so your plans are based on the most up-to-date information.

### **STAYING INFORMED AND ADAPTING TO CHANGE**

With pensions and tax policy often subject to further tweaks before new rules are finalised, it pays to stay informed. The value of professional support cannot be overstated; a well-informed strategy can seize opportunities, mitigate risk, and adapt as the technical details of the legislation are clarified.

Our commitment is to provide you with timely, practical guidance. We strive to

explain developments in clear terms so you can make informed decisions that safeguard your financial future and that of your loved ones.

### **FAMILIES FACE NEW CHALLENGES**

For many, the new rules will necessitate difficult conversations about inheritance, intentions for passing on wealth, and how to provide for spouses, children, or other dependants. Open dialogue and a willingness to revise existing plans are essential, as is collaboration and support in blending financial, legal, and tax expertise.

Reviewing Wills, trust arrangements, and powers of attorney in light of planned changes is highly recommended. Ensuring these documents are up to date, robust, and carefully drafted could help avoid uncertainty or costly disputes when the time comes.

The bigger picture: Societal impact and future trends

Beyond individual families, this policy shift has wider implications for wealth distribution, intergenerational transfers, and even future retirement behaviour. There is likely to be increased interest in gifting during lifetime, alternative savings vehicles, or greater demand for advice-driven financial planning.

The ripple effects could be felt across the housing market, the investment landscape, and the wider economy.



Pensions, once the “final frontier” of tax-efficient inheritance planning, now join the broader estate in being subject to review by HMRC.

### WHY COMPREHENSIVE PLANNING MATTERS MORE THAN EVER

Regardless of wealth, inheritance planning should be seen as an evolving process rather than a fixed event. Given forthcoming changes and the potential for future adjustments, staying flexible and seeking periodic reviews is crucial. The right advice today can save significant sums tomorrow for you and the generations who follow.

Holistic financial planning, integrating pensions, property, insurance, investments, wills, trusts, and tax, remains the cornerstone of protecting your legacy. By viewing your estate as a whole and planning accordingly, you give your family the best chance of maximising their inheritance and minimising unnecessary tax losses.

### TAKE ACTION TO SECURE YOUR FAMILY'S FUTURE

The removal of the pension IHT exemption is a game-changer for savers and families. The ramifications are far-reaching, but with early, informed action, even complex scenarios can be managed effectively. The next few years offer an opportunity to get ahead by reviewing existing strategies, exploring new options, and securing your family's future prosperity.

It is never too soon to begin this journey. If you wish to understand exactly how the April 2027 pension rules

could affect your estate, or simply to talk through your unique circumstances and receive a tailored review of your retirement strategy, we are here to help. ■

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### Ready to start the conversation now? Your legacy is too important to leave to chance

Contact DG Financial Services today to schedule your comprehensive retirement and inheritance planning review. Our team of experienced specialists is ready to provide you with personalised guidance to help you prepare for the future, navigate the changing tax landscape, and ensure your loved ones benefit from your lifetime of effort.



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