CASTLE WEALTH
Independent Financial Advice

Guide to

the 2027 Pension Tax Changes

Protecting your wealth and securing your family's future

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Guide to the 2027 Pension Tax Changes

Protecting your wealth and securing your family's future

For many people, building wealth is about more than simply accumulating money. It means creating financial security, enjoying a comfortable retirement and leaving something meaningful for the next generation.

Whether you have spent decades contributing to a pension, building savings or investing in property, the decisions you make today can have a lasting impact on your family's financial wellbeing.

However, changes to the Inheritance Tax (IHT) rules, due to take effect on 6 April 2027, could affect how much of that wealth ultimately reaches your loved ones. Pensions have traditionally played an important role in intergenerational wealth planning, providing a tax-efficient way to save for retirement and potentially preserving assets for beneficiaries.

Unused pension funds within the scope of Inheritance Tax

Bringing most unused pension funds within the scope of Inheritance Tax means savers may need to reconsider how their retirement savings fit into their wider estate plan. Understanding these changes now can help you make informed decisions, protect your financial independence and plan for the future.

You'll often hear politicians and commentators argue that Inheritance Tax affects only a small proportion of the population. However, the landscape could change significantly when the new rules, which bring most unused pension funds and certain pension death benefits within the scope of Inheritance Tax, take effect on 6 April 2027.

More families could find themselves liable for IHT

By including pension wealth in estate valuations, more families could be liable for IHT, particularly those who have spent decades building up retirement savings alongside property and other assets.

With tax thresholds frozen and asset values continuing to rise, families who might never previously have expected to pay an Inheritance Tax bill may need to reconsider their financial and estate planning to understand how much of their wealth could ultimately pass to the next generation.

Understanding the new rules

From 6 April 2027, most unused pension funds and certain pension death benefits are expected to form part of an individual's estate for IHT purposes. This marks a significant change, as qualifying unused pension funds have generally been excluded from Inheritance Tax calculations under the previous framework.

Pension savings may therefore need to be considered alongside property, cash savings, investments and other assets when assessing an estate's value. For those with substantial pension pots, this could increase their potential tax liability, particularly if their estate already exceeds the available allowances.

The impact will depend on individual circumstances, the type of pension held, the value of other assets and the beneficiaries. Reviewing your pension arrangements is an important first step towards understanding your potential exposure.

How Inheritance Tax works

Inheritance Tax is generally charged at 40% on the taxable value of an estate above the available thresholds. For the 2026/27 tax year, the standard

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nil rate band is £325,000. An additional residence nil rate band of up to £175,000 may be available if qualifying conditions are met, including where an eligible home passes to direct descendants, such as children or grandchildren. This additional allowance tapers for estates valued at more than £2 million.

The main IHT thresholds are frozen until 5 April 2031. For married couples and registered civil partners, unused allowances may be transferred to the surviving partner, potentially enabling a combined estate to benefit from up to £1 million in tax-free allowances, provided the relevant conditions are met. Transfers between spouses and civil partners are generally exempt from Inheritance Tax.

As property values, investments and pension savings rise, more families may be exposed to IHT, even if they would not traditionally have considered themselves wealthy. Assessing the combined value of your assets is therefore essential when reviewing your estate plan.

Why your pension matters to your legacy

Many savers have traditionally aimed to fund retirement with cash savings and investments first, leaving their pension untouched for as long as possible. Under the incoming rules, that strategy may need to be reconsidered.

Most unused defined contribution pension funds, including those in drawdown or not yet accessed, could form part of the estate's IHT calculation when the member dies on or after 6 April 2027.

Not all pension arrangements will be treated the same way. Defined benefit pensions typically provide an income for life rather than an inheritable investment pot. The pension income itself is generally outside the scope of the new rules, although certain lump-sum death benefits may be affected. Registered pension



Consider a hypothetical example of an unused pension worth £400,000, with the entire amount assumed to be liable to Inheritance Tax at 40%. The resulting IHT liability would be £160,000, leaving £240,000 before any applicable Income Tax on withdrawals.
If the beneficiary then withdraws the remaining funds, the amount they receive will depend on their Income Tax position and the method of withdrawal.

The outcome will also depend on the wider estate, available allowances and exemptions, pension rules and the beneficiary's circumstances.

This example illustrates why it is important to consider both potential Inheritance Tax liability and the tax consequences for the pension recipient. It is illustrative rather than a prediction of the tax payable in any particular case.



scheme death-in-service benefits are also excluded under the relevant provisions.

The precise treatment depends on the benefit and the circumstances surrounding its payment. By reviewing your pension documentation and speaking with us, we can help clarify which benefits may be affected and what may ultimately be available to your beneficiaries.

Potential impact on your beneficiaries

The changes could introduce an additional tax consideration for those inheriting unused pension funds. Depending on the circumstances, pension benefits may form part of the estate for IHT purposes, and withdrawals by beneficiaries may also be subject to Income Tax.

This is particularly relevant when the original pension holder dies aged 75 or over, as inherited pension withdrawals are generally taxed at the beneficiary's applicable Income Tax rate.

Reviewing your retirement strategy

One of the most important steps you can take is to review how you plan to fund your retirement. If you have traditionally planned to draw on cash savings and investments first, leaving your pension untouched, it may be worth reconsidering whether that approach is still suitable.

Using pension funds to support retirement could reduce the amount remaining in your estate. However, the tax implications of withdrawals and the treatment of funds once withdrawn must also be considered.

Taking money out of a pension solely to avoid IHT is not necessarily beneficial. Withdrawals may trigger Income Tax, reduce



funds available in later life and leave you holding cash or investments that remain part of your estate. Large withdrawals could also push you into a higher Income Tax band or affect certain income-related entitlements.

Your pension is intended first and foremost to provide financial security throughout retirement. Any changes to your withdrawal strategy should balance your current needs, future living costs, life expectancy and attitude to risk with the legacy you hope to leave.

Making gifts during your lifetime

Gifting can help you support family members while potentially reducing the value of your taxable estate. Whether you want to help a child with a house deposit, contribute towards a grandchild's education or provide financial assistance when it is most needed, giving money during your lifetime allows you to see the difference it makes.

Certain gifts are immediately exempt from IHT, including qualifying gifts within the annual exemption, currently £3,000 per tax year, and certain small gifts. Larger gifts may fall outside your estate if you survive seven years after making them, subject to the applicable rules.

Regular gifts from surplus income may qualify for a separate exemption if they form part of your normal expenditure, are made from income and do not affect your usual standard of living.

Keeping clear records of gifts, their dates and the source of the funds can help when your estate is assessed. Before making substantial gifts, ensure you retain sufficient assets to meet your future needs, including potential care costs and unexpected expenses.

Considering pensions, annuities and other assets together

An annuity may suit retirees who value a guaranteed income. Depending on the product, exchanging pension savings for an annuity can affect the wealth remaining in an estate, although certain death benefits may still have IHT implications. Some annuities provide benefits to a surviving spouse or another beneficiary, while others offer limited or no continuing payments after the policyholder's death.

The decision should reflect your income needs, health, family circumstances and appetite for investment risk rather than tax considerations alone. It is also important to review your savings, investments, property and other assets alongside your pension.

The most suitable approach may combine retirement income planning, lifetime gifting and investment management. For example, someone with substantial property wealth but limited accessible savings may have different priorities from someone whose wealth is held mainly in cash and pension investments.

Each option has different implications for access to funds, potential returns, taxation and

the amount ultimately available to beneficiaries. A joined-up review can help identify opportunities without creating unintended financial consequences.

Planning for an Inheritance Tax bill

Even with careful planning, some estates may still incur an IHT liability. Considering how that bill could be funded can help prevent beneficiaries from having to sell property or investments at an inconvenient time.

A property-rich estate, for example, may have substantial value yet little cash to settle a tax bill. Planning ahead can help families understand where the money would come from and whether assets might need to be sold.

Whole-of-life insurance may be an option, as it can provide a payout on the policyholder's death. If written into an appropriate trust, the proceeds may be payable outside the estate for IHT purposes, depending on the arrangements. Insurance does not remove the underlying tax liability, and premiums, policy terms, affordability and eligibility must be carefully considered.

The policy must remain in force for the intended cover to be available. For some families, setting aside accessible funds or reviewing how assets are held may be more suitable. The aim is to prepare in advance rather than leave loved ones to resolve a potentially complex financial situation at bereavement.

Keeping your estate plan up to date

An effective legacy plan involves more than calculating a potential tax bill. Your Will should reflect your wishes, your pension beneficiary nominations should be up to date and your family should know where to find relevant financial information.

Although pension scheme trustees or administrators may have a role in determining who receives benefits, keeping nominations up to date helps to communicate your intentions.

Review your plans after major life events, such as marriage, divorce, the birth of a child, retirement or a significant change in wealth. Keeping an up-to-date record of pension providers, bank accounts, investments, insurance policies and other assets can also help executors and loved ones understand your arrangements.

As Inheritance Tax legislation and pension rules can change, regularly reviewing your estate plan can help ensure it continues to reflect your priorities and provide your family with greater clarity.

Taking the next step towards protecting your legacy

The changes taking effect on 6 April 2027 are a timely reminder that retirement and estate planning should be considered together. For some people, the impact may be limited; for others, particularly those with substantial pension savings and property wealth,





reviewing their arrangements could make a meaningful difference to the amount ultimately passed on to their family.

The right approach will depend on your circumstances, retirement income needs and the people you wish to benefit. Reviewing your pension arrangements, understanding the available IHT allowances and considering options such as gifting or life insurance can help you make informed decisions.

Rather than rushing into pension withdrawals or asset transfers, take time to review your financial position and seek professional advice where appropriate. Speak to us to assess your potential Inheritance Tax exposure and to develop a plan that balances your financial security today with the legacy you wish to leave tomorrow. ■

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Would you like more information about the 2027 pension tax changes and how they could affect your estate?

A conversation will help you understand your options, identify potential concerns and establish a practical plan for the years ahead. Taking action now can help you protect the wealth you have worked hard to build, provide your loved ones with greater financial clarity and support the future you want them to enjoy.

To arrange a review of your pension, retirement strategy and inheritance plans, please contact us. Don't leave it to chance.

How could the 2027 pension tax changes affect your estate?

A review will help you explore your options, protect your wealth and plan with confidence. Contact us to review your pension, retirement and inheritance plans.

Take steps today to help safeguard your family's financial future.

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