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2027 pension tax changes and your legacy

Protect the wealth you've built and help secure your loved ones' financial future

After decades of saving for retirement, your pension can provide financial security, support your desired lifestyle and help you leave a legacy for loved ones. However, changes to Inheritance Tax (IHT) from 6 April 2027 could affect how unused pension savings are treated upon passing them on to beneficiaries.

Understanding these changes and reviewing your financial plans can help you make informed decisions on retirement income and wealth preservation.

UNDERSTANDING THE CHANGES AHEAD

From 6 April 2027, most unused pension funds and certain pension death benefits will generally form part of an estate's value for IHT purposes. This could increase the tax liability for families whose pension savings sit alongside property, investments and other assets.

IHT is charged at 40% on the taxable value of an estate that exceeds the available allowances. The standard nil rate band is £325,000, with an additional residence nil rate band of up to £175,000 potentially available if qualifying conditions are met. These thresholds are frozen until 5 April 2031.

Transfers to a spouse or registered civil partner are generally exempt, and unused allowances may be transferable in certain circumstances. However, eligibility depends on individual circumstances, and some pension benefits may remain outside the scope of the new rules.

RETHINKING YOUR RETIREMENT INCOME

The changes may prompt you to reconsider which assets to use to fund retirement. Previously, some savers prioritised spending cash savings and Individual Savings Accounts (ISAs), leaving pension funds untouched for passing on to beneficiaries.

From 6 April 2027, this approach may not be suitable for everyone. Taking pension withdrawals earlier could reduce the value of your estate, but such withdrawals may incur Income Tax, while money transferred into other assets could remain liable to IHT.

Any decision should balance potential tax savings against investment performance, inflation, life expectancy and the need for sustainable retirement income. Investments can fall as well as rise, so you may receive less than you invest.

REVIEW YOUR ESTATE PLANNING

Review your pension beneficiary nominations regularly to ensure they reflect your wishes. Although nominations do not necessarily determine IHT treatment, they help pension providers understand your intentions.

It is also worth reviewing your Will, property ownership, investments and potential lifetime gifts. Gifting can support estate planning, but tax rules and time limits may apply. Consider your future care costs, unexpected expenses and long-term financial security before gifting assets.

PLAN AHEAD WITH CONFIDENCE

Reviewing your pension and estate arrangements now can help you understand the potential impact of the changes. Professional financial advice can help you explore strategies that balance your retirement needs with your legacy goals. ■

TIME TO TAKE THE NEXT STEP TOWARDS PROTECTING YOUR FAMILY'S FUTURE?

With the 2027 pension Inheritance Tax changes approaching, now is the time to protect your legacy. Contact us to understand how the new rules could affect your pension, estate and the wealth you hope to pass on, and to create a tailored plan for greater peace of mind and your family's future.

Please get in touch today to arrange a review and take a proactive step to safeguard your financial future and your family's inheritance. We look forward to hearing from you.

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