**Registered Office** | Unit 5, The Grain Store, Manor Farm, Coate, Devizes, Wiltshire SN10 3LP
+44 (0)1672 569 111 | www.aisagroup.org | www.aisagroup.org

# Pensions and Inheritance: Are your retirement savings still safe?

The diary marker of 6th April 2027 is fast approaching us and with new political policies being thrown around increasingly it's time for us to sit with a hot beverage and really analyse what is changing and understand the impact on our finances, both present and future.

One major change is how unused pensions are no longer exempt from Inheritance Tax (IHT). With draft policy legislation now being released we can and SHOULD dive deeper into what this means for us and our loved ones.

If you have a significant pension pot and plan to leave it to beneficiaries like adult children or grandchildren, this change could cost your family up to 40% of your remaining pension wealth.

We should first remind our readers that this 40% IHT liability is only on the estate that exceeds £325,000 which is the current nil-rate-band (NRB).

But there's another catch because from 2027, only the proportion of IHT attributable to the pension itself can be paid from the pension pot. If the rest of your estate is illiquid your beneficiaries could be left scrambling to find funds to pay the tax bill.

## What's Actually Changing?

Up until now, pensions have sat in a unique tax-advantaged bubble. While income tax and annual allowance rules applied during your lifetime, anything left over, the untouched portion of your pension, could be passed on entirely free of Inheritance Tax, regardless of value, so long as it was properly nominated.

From 6th April 2027, that bubble bursts.

Unused pension funds (yes, even those in SIPPs, employer schemes, and certain overseas pensions like QROPS or QNUPS) will now form part of your estate for IHT purposes, assuming you are UK-domiciled or deemed domiciled at the time of death. If that pushes your estate over the £325,000 nil-rate band, then 40% tax becomes payable on the excess.

Yes, 40%. On this money you've already earned, saved, invested and potentially not yet accessed.

And here's something new: your Personal Representatives (PRs), often your executors, will now need to report the value of any unused pension to HMRC as part of the estate. Reportable even where pension providers still retain discretion over who receives the money, PRs will be responsible for declaring the value and ensuring the correct tax is paid. That means more complexity, paperwork, and pressure on loved ones left to deal with your estate.

## What's In and What's Still Out?

**Let's get specific. The following will now count towards your estate:**

- Unused Defined Contribution pensions (like your SIPP)
- Defined Benefit lump sum death benefits
- Pensions paid via discretionary trusts
- Qualifying Overseas Pension (if UK-domiciled)

**Still excluded for now are:**

- Death-in-service benefits (as long as you were employed at the time of death and the benefit is paid from a registered scheme via a discretionary trust.)
- Funds left to a spouse, civil partner, or a registered charity

## Dying After 75? You Could Face Two Taxes

Here's the harsh truth: if you die after age 75, your unused pension could now face both Inheritance Tax and Income Tax. From 6 April 2027, IHT will apply to the value of the pension and then your beneficiaries will still be taxed again when they withdraw funds, as they already are today.
HMRC confirmed this double hit in July 2025, stating that refunds may be available for overlapping tax but that's after the fact and adds complexity.

**Registered Office** | Unit 5, The Grain Store, Manor Farm, Coate, Devizes, Wiltshire SN10 3LP
+44 (0)1672 569 111 | www.aisagroup.org | www.aisagroup.org

# Let's explore this – "Qualifying Overseas Pensions"

We've had several questions from clients abroad or planning to relocate, asking whether their pensions remain protected from Inheritance Tax (IHT) once offshore. The short answer? It depends . . . especially on how long you've been gone.

The upcoming IHT changes from 6 April 2027 affect not just UK pensions but also have implications for Qualifying Recognised Overseas Pension Schemes (QROPS) and Qualifying Non-UK Pension Schemes (QNUPS) if you're UK-domiciled or still within HMRC's definition of "long-term UK resident."

**Let's explore two real-world scenarios to see how this plays out:**

## Scenario 1:

### A couple planning to leave the UK permanently for Spain

This couple is still living in the UK but planning to relocate to Spain within the next 6–12 months. Naturally, they're also considering transferring their pensions into a QROPS to take advantage of greater flexibility and potential tax efficiency overseas.

However, HMRC doesn't forget you overnight. Even after they move, they will continue to be classed as 'formerly domiciled long-term residents' for 10 full tax years.

**During this time:**

- Any overseas pensions, even if correctly transferred to a QROPS, will still be included in their estate for UK IHT.
- That means, if one of them were to pass away within 10 years of leaving the UK, their entire pension fund (above their nil-rate band) could face a 40% inheritance tax hit.

**Key message?**

**They should consider estate planning strategies now, not later especially if pensions are a core part of their intended legacy.**

## Scenario 2:

### A couple who moved to Spain 9 years ago

Now let's look at another couple. They moved to Spain in 2016 (9 years ago) and have been non-UK residents ever since.

You might assume they're clear of any UK tax exposure but unfortunately, they're still within the 10-year tail HMRC applies to long-term residents.

**Here's how it affects them:**

- Even though they've lived abroad for nearly a decade, they're still within HMRC's 10-year rule and so may still be treated as deemed UK domiciled.
- As a result, their QROPS or QNUPS (if UK-originating) will still fall within their estate for IHT until after April 2026.
- If either were to pass away now or before that 10-year window closes, the unused portion of their pension could be taxed at 40%, depending on the size of their estate and beneficiary status.

**Key message?**

**They're nearly through the "danger zone," but still exposed to UK IHT until they fully cross that 10-year threshold.**

## "Time Really is Money"

**Practical steps we can help with:**

- Already abroad? Track your timeline carefully
- Planning to leave? Structure your pensions intentionally
- Draw down from your pension strategically
- Explore protection options (to cover tax liabilities)
- Unsure where you stand? We can help

For years, pensions quietly played a key role in estate planning, helping to shield assets from Inheritance Tax and pass on wealth efficiently. But with proposed changes on the horizon, that protection is no longer guaranteed.

There's no need to panic. The rules are still in draft and may change. But it is the right time to get informed, stay ahead, and take action.

If you're unsure how this might affect you, your beneficiaries, or someone you represent, we strongly recommend a review. Early planning could save tens of thousands in tax and months of administrative burden.

## Planning today may reduce surprises for your loved ones tomorrow