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PROBATE & ESTATE ADMINISTRATION CHANGES TO INHERITANCE TAX ON PENSIONS

Under current Government plans, from April 2027 unused personal pension funds will be subject to Inheritance Tax ('IHT') and the estate's Legal Personal Representative ('LPR') – often referred to as the executor or administrator – will be liable for calculating, reporting and paying IHT on both the estate and the pension fund. The Government will introduce legislation in the Finance Bill 2025-26 to effect the below.

Proposed changes

- For deaths occurring on or after 6th April 2027 pensions will be added to a deceased person's other assets for the purposes of calculating IHT.
- IHT will be calculated proportionately across the pension funds and the 'free estate' (the assets that pass under the terms of the Will or intestacy).
- The Pension beneficiaries will become jointly and severally liable with the LPRs for any IHT due on unused pension funds to which they are entitled from the time at which they are appointed and, solely responsible for additional pensions discovered after any clearance certificate to IHT is received from HMRC.
- LPRs can instruct Pension Scheme Administrators to withhold 50% of the taxable benefits for up to 15 months after the end of the month in which death occurred.
- The LPRs or the beneficiaries can instruct Pension Scheme Administrators to pay inheritance tax direct to HMRC.

Proposals for Pension Scheme Administrator (PSA) duties

- The PSA will need to provide a valuation of in-scope funds within 4 weeks of death notification.
- Once notified, they will determine the benefit distribution and, if the scheme is discretionary, they will start their decision-making process.
- Once this process is complete they will inform the LPR how the pension benefits will be split between exempt and non-exempt beneficiaries.
- LPRs or Pension beneficiaries may issue a "payment notice" to PSAs to settle all or a part of the pension's portion of IHT. The PSA becomes liable for the specified amount and must pay it within 35 days.
- The PSA will need to work closely with the LPR to understand the IHT to be levied on the pension and its beneficiaries and how payment is best achieved.

Impact of proposals

- Increase in estates subject to IHT.
- Higher IHT bills.
- More complex IHT calculations and payment process.
- Fewer 'excepted estates,' meaning a full return to H M Revenue & Customs ('HMRC') will be required, even if there is no IHT to pay.
- Delays in estate administration where additional reporting to HMRC is required.

The new responsibilities of the LPR

The LPR will be responsible for managing the overall IHT position across all components of the estate, so appointing the right executor or seeking assistance from a professional who can handle the complexities is therefore key.

The LPR will be responsible for:

- Contacting the PSA to obtain values of funds and details of the pension beneficiaries.
- Calculating the IHT, taking into account the deceased's assets, liabilities, lifetime gifting and other aggregable funds and claiming all available reliefs and exemptions.
- Liaising with the PSA to achieve the best solution to meet the deadlines and make payments of IHT that may be due.
- Reporting the position to HMRC by completing an IHT account.
- Arranging payment of IHT in a timely fashion (interest starts to accrue from 6 months after death and penalties will be applied if the account has not been delivered to HMRC 12 months from death).
- Reporting changes to HMRC throughout the administration, for example where additional assets or liabilities are discovered, and then arranging to pay or obtain a refund for the associated IHT, apportioning that across the estate and the pension beneficiaries.

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How can the PSA help their clients?

The PSA can help at a time of bereavement by introducing them to a professional estate administration firm.

Preferably the PSA can introduce the person funding the pension scheme to a professional firm ahead of time to arrange a professional executor appointment in their Will or amendment by simple Codicil.

If a professional executor is appointed, the PSA can be sure that everything will be done correctly and in a timely manner allowing them to fulfil their duties more efficiently.

How can ZEDRA* help?

- LPRs can engage ZEDRA to manage the administration of the estate including the application for probate and the payment of inheritance tax when due. This service also encompasses all dealings with the PSAs, the pension beneficiaries and HMRC.
- In estates not subject to IHT where the executor only needs assistance with the application for Probate, ZEDRA can make the application for them, ensuring all relevant reliefs and exemptions are claimed.
- Helping clients consider estate planning and the appointment of an appropriate executor under the terms of their Will or Codicil – ZEDRA can be appointed as one of the Executors.

ZEDRA's Estate Administration Service

With over 55,000 Wills held in our safe storage, and ZEDRA's staff having an average industry experience of over 20 years, we are ideally placed to administer estates when the time comes.

ZEDRA's Will Writing Service

For those considering making changes to their Will or making a Will for the first time, ZEDRA has a team of experienced Will Drafters who can guide them through the process. We can store the Will for free.

ZEDRA's Free Codicil Service

For those who are content with the terms of their current Will but would now like the comfort of appointing a professional executor rather than burdening their family or friends, we offer a simple service for no charge where the existing executors are removed and ZEDRA is appointed. We will also store the Will and Codicil free of charge.

* References to ZEDRA refer to both Zedra Legal Services (UK) Limited, an SRA regulated law firm that provides will writing and estate administration services, and Zedra Trust Company (UK) Limited that provides the free codicil and professional executorship services. They are sister companies within the ZEDRA Group.

Contact Us

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