

## FINANCE BILL 2025-26 CLAUSES 63-68 INHERITANCE TAX: PENSION INTERESTS

Issued 8 January 2026

### BRIEFING FOR MPS ON THE FINANCE BILL BY ICAEW TAX FACULTY

It is for the government to decide what assets inheritance tax (IHT) should be charged on. However, if IHT is charged on unused pension pots from 6 April 2027, we do have suggestions for how the policy implementation could be improved.

ICAEW believes that an extension should be made to the deadline for paying IHT in cases where the estate includes multiple pension funds, or that payments by instalment should be allowed. The policy intention is to raise additional IHT and should not be an exercise that also generates significant late payment interest for HMRC.

We also believe that the legislation should provide for a “fall in value relief” where the underlying assets of a pension have to be sold at a lower value to fund the payment of IHT. The situs of a pension fund for IHT purposes also needs to be clear in legislation.

Details of the draft secondary legislation that will underpin the information sharing process between personal representatives (PRs) and pension scheme administrators (PSAs) must be published as a matter of urgency so that PRs and PSAs understand their obligations

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## BACKGROUND

Please see Appendix 2

## THE FINANCE BILL MEASURES

1. The Finance Bill will amend the Inheritance Tax Act 1984 (IHTA 1984) to make the value of unused pension funds and death benefits liable to IHT where the death occurs on or after 6 April 2027.
2. However, death in service benefits, which are typically linked to an employer's pension scheme and pay out a multiple of salary if an individual passes away while an active employee, will be treated as 'excluded benefits' and will not be liable to IHT (new s150A(5)(d)).
3. Clause 64(2) of the Finance Bill makes the PRs primarily liable for paying all of the IHT due, including the IHT due from pension funds (revised s210(3) IHTA). To ensure that the IHT is borne fairly by pension beneficiaries, clause 65 allows the PRs to give notice to the PSAs requiring the PSAs to withhold up to 50% of the death benefits from the pension beneficiaries for up to 15 months from the month of death (the new s226A). PRs or pension beneficiaries can separately give the PSAs a notice to pay a specified amount of IHT (which must be at least £1,000) to HMRC within 35 days (the new s226B).

## OUR CONCERNS AND OUR RECOMMENDATIONS

### Meeting the payment deadline

4. Where the PSAs are required to pay their share of the IHT on a pension fund (s226B, IHTA 1984), paying the IHT on time will be a problem – particularly if the fund mainly holds illiquid assets, such as commercial property. If a pension fund is forced to sell illiquid assets quickly (a 'fire sale') it may realise less than its full market value. ICAEW recommends:
  - That the current six-month payment deadline (s226(1), IHTA 1984) is extended for estates that include a pension fund to a minimum of nine to 12 months from the end of the month of death; or
  - That PRs or pension beneficiaries should be allowed to pay the IHT due on a pension fund by instalments (by amending s227, IHTA 1984 or by creating a new section (eg, s228A)); and
  - As a wider issue, given that the introduction of IHT on pensions coincides with the start date for digital reporting of IHT, the government should consider a temporary extension of the IHT reporting and payment deadlines between April 2027 and March 2028.

### Introducing a fall in value relief for pension assets

5. Where shares or land owned directly by the deceased are sold by their PRs following their death for a price that is less than the date of death valuation, relief can be claimed under Chapters III and IV respectively of Part VI, IHTA 1984. The reliefs allow the actual disposal proceeds to be used in the IHT computations, instead of the date of death value, resulting in a reduction in the IHT payable. The Finance Bill does not introduce an equivalent relief where the underlying assets in a pension fund have to be sold to pay the IHT due on the pension and the sales proceeds were less than the value of the assets at the date of death. ICAEW recommends that such a relief is introduced.

## Information sharing and availability of information

6. The IHT nil rate band will need to be pro-rated between the deceased's PRs and all of the pension funds of which the deceased was a member. To enable the IHT to be paid on time, the PRs will need to exchange information with the PSAs promptly following the member's death.
7. ICAEW is concerned about the level of information that will need to be exchanged between the PRs and PSAs, with the IHT still payable within six months from end of month of death. ICAEW recommends that the government publishes the draft amendments to the [2006 information sharing regulations](#) as a matter of urgency, as the information sharing process will be crucial if the IHT is to be paid on time. PSAs and those advising PRs need time to alter their systems and train staff.
8. PSAs advise that they have no way to identify when a member has passed away, or who the deceased's PRs are, if the PRs have not contacted the PSAs prior to probate being granted. PRs also have no way of tracking down pension funds that the deceased had forgotten about. Each time that a forgotten pension fund comes to light after the member's death, the nil rate band allocation has to be recalculated. ICAEW recommends that:
  - PRs are given access to the [pension dashboard](#); and
  - that PSAs can receive notification of a death and the details of the PRs from the gov.uk [Tell us once service](#).
9. Amendments to s239, IHTA 1984 (clause 64(5)), will only make the PRs liable for the IHT on pension funds that are known about up to the date that HMRC issues a certificate of discharge to the PRs, providing the PRs were not careless. In light of the lack of information that will be available to PRs about the deceased's pension funds, the legislation should be clear on what amounts to 'carelessness' by PRs for the purpose of the s239 certificate of discharge (as amended by cl 64(5)). What research are PRs expected to do, in order to be seen as having taken reasonable care when trying to ascertain if the deceased had any lost pension pots?
10. A notice under the new s226B(3)(b), IHTA 1984 (cl 65) that requires a pension scheme to pay an amount of IHT to HMRC has a minimum amount of IHT due of £1,000. Estate beneficiaries should not have to bear tax that should be borne by pension beneficiaries and it will be difficult for PRs to recover the IHT on a pension from the pension beneficiaries. The £1,000 minimum that is proposed will be a problem for PRs, particularly where there are multiple pension funds, potentially with multiple different beneficiaries, where the share of the IHT attributable to each pension is just below £1,000. For example, if a deceased had 10 pension funds whose share of the IHT is say £975 each, that is £9,750 that the PRs will need to fund from assets held outside of the pensions. ICAEW recommends that further provisions are considered for easing the burden on PRs and ultimately the tax that may be unfairly borne by estate beneficiaries, particularly where the deceased had multiple pension funds.

## Situs of the pension fund

11. The PRs of a deceased individual who was not a 'long-term resident' (which replaced the rules for non-domiciled individuals from 6 April 2025) at the date of their death (ss6-6C IHTA, 1984) only pay IHT on the deceased's UK assets (known as UK-situs assets). A provision needs to be added to the Finance Bill detailing when a pension fund is treated as a UK-situs or as a non-UK situs asset. Problem areas include, for example: when some or all of the pension's trustees are non-UK resident for income tax or capital gains tax purposes; where the pension fund holds some non-UK assets; and whether contributions to the pension fund have ever received UK tax relief.

## FURTHER INFORMATION

As part of ICAEW's Royal Charter, we have a duty to inform policy in the public interest.

## APPENDIX 1

### ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as [TAXGUIDE 4/99](#).

## APPENDIX 2 – BACKGROUND TO THE MEASURES

1. IHT on death is charged on a deceased's estate (which means all of their assets less liabilities) at a rate of 40%. Assets of the deceased that pass to spouses and civil partners, or to charities, are exempt from IHT.
2. Individuals benefit from two other main allowances on death:
  - a nil rate band (currently £325,000) and
  - a residence nil rate band. This can be up to £175,000 towards the value of their home which passes to descendants and which is tapered once their total estate is worth more than £2 million.
 If a deceased individual did not fully use these two nil rate bands on their death, the unused percentage can be added to the bands available on the later death of their surviving spouse or civil partner.
3. IHT is payable six months from the end of the month of death, unless it relates to an asset that qualifies for payment by 10 annual instalments. Interest on IHT that is paid late attracts interest, the rate from 9 January 2026 being 7.75%.
4. We have included a diagram in Appendix 4 to show the components of the deceased's estate for IHT purposes. The beneficiaries of a pension are normally the people who were nominated by the deceased member in the 'statement of wishes' that they gave to the pension trustees. The key point that we want to highlight is that the estate beneficiaries may not be the same as the pension beneficiaries, due to factors such as blended families and forgotten pension funds.
5. In 2024, it was estimated that there are around [3.3m lost pension pots](#) and over the course of an individual's working life, it will not be unusual to accumulate 10 or more pension funds with different employers. Even if the PRs review the deceased's bank accounts, the PRs will not know about any pension fund that was not paying out any income to the deceased.
6. PSAs must upload pension fund data to the [Pensions Dashboard Programme](#) by late 2026. This dashboard will feed into a [MoneyHelper Pensions Dashboard](#), that will allow individuals to see which pension funds they are a member of. ICAEW understands that there are no current plans to make either of these dashboards available to PRs.
7. 6 April 2027 is also the commencement date for the online reporting of IHT, as part of the government's IHT digitalisation programme that was announced at section 3.1 of the [HMRC transformation roadmap](#). Multiple parties will need to be given access to this system and with different levels of permissions and as with any new process, teething problems are to be expected.

## APPENDIX 3 – THE COMPONENTS OF A DECEASED'S ESTATE FOR INHERITANCE TAX

