# UK's 2027 pension inheritance tax reform triggers concern over family burdens



The UK government’s decision to bring unused pension funds into inheritance tax (IHT) calculations from April 2027 is poised to significantly increase tax bills for many families, particularly those with moderately valued estates. Chancellor Rachel Reeves’s Autumn Budget announcement marks a departure from the longstanding exemption that allowed pension pots to pass on free of IHT, aligning pensions with property and investments for tax purposes. This shift could lead to families facing substantial liabilities; for instance, a report by Quilter highlights that a single homeowner in England with a modest property valued around £290,395 and a pension pot of £415,000 could incur an IHT bill exceeding £82,000. In London, where property values are higher, the bill could climb to nearly £192,254 for an average home combined with a similar pension pot.

Experts have expressed concern over the implications of this policy change. Jon Greer, head of retirement policy at Quilter, described the move as "optically terrible" for the government, especially as it taxes pensions that the deceased might never have accessed due to dying before reaching minimum pension age. He also highlighted the particular hardship for cohabiting couples who lack the spousal reliefs and tax allowances granted to married couples, potentially facing six-figure IHT bills amid bereavement. Greer urged policymakers to consider transitional reliefs or carve-outs, especially where young children are affected, warning that without such measures, families could face unnecessary financial distress without generating meaningful additional tax revenue.

The government defends the reforms by stating they intend to encourage pensions savings for their primary goal—funding retirement rather than enabling tax-efficient wealth transfer. A Treasury spokesperson emphasised that more than 90% of estates will remain unaffected by IHT under the current rules and upcoming changes, asserting the policy will close loopholes that have allowed pensions to be used as vehicles for passing on wealth tax-free.

Previously, most pension schemes operated under discretionary terms, causing unused pension funds to be excluded from the deceased’s estate for IHT calculations. This led to pensions being treated differently from other inherited assets such as property or investments. The new rules aim to standardise tax treatment across asset classes to build a fairer system and discourage tax planning strategies that exploit pensions as a means of wealth preservation beyond death.

There are, however, exemptions within the reform legislation. Death in service benefits, whether payable from discretionary or non-discretionary pension schemes, will remain exempt from IHT. Yet, all other unused pension funds and death benefits will be included in the estate, making personal representatives legally responsible for reporting and paying IHT on these amounts from 2027.

Financial advisers and estate planners are already urging individuals to review their arrangements in light of these upcoming changes. The expected tax charge—up to 40% above the nil-rate band—could substantially reduce the inheritance passed on to beneficiaries. Some suggest early planning and considering alternative inheritance strategies to mitigate the impact, although the details on enforcement and operational aspects of the new rules are still being finalised.

Overall, the reform signals a significant alteration in the UK inheritance tax landscape, with notable financial consequences for homeowners with pension savings. While it aims to curb perceived tax avoidance and create parity among asset classes, the policy has drawn criticism for potentially imposing burdensome taxes on grieving families, particularly those without formal marital status or spousal protections. The debate continues as stakeholders call for clarity and measures to cushion the most vulnerable from the unintended fallout of this policy shift.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.birminghammail.co.uk/news/cost-of-living/hmrc-punish-uk-households-homes-32351216), [[3]](https://www.moneysavingexpert.com/news/2024/10/pensions-liable-inheritance-tax-2027/), [[6]](https://www.royallondon.com/guides-tools/planning-ahead/estate-planning/changes-to-inheritance-tax-on-pensions-from-2027/)
* Paragraph 2 – [[1]](https://www.birminghammail.co.uk/news/cost-of-living/hmrc-punish-uk-households-homes-32351216), [[3]](https://www.moneysavingexpert.com/news/2024/10/pensions-liable-inheritance-tax-2027/), [[6]](https://www.royallondon.com/guides-tools/planning-ahead/estate-planning/changes-to-inheritance-tax-on-pensions-from-2027/)
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* Paragraph 4 – [[4]](https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment), [[5]](https://www.gov.uk/government/publications/reforming-inheritance-tax-unused-pension-funds-and-death-benefits/inheritance-tax-on-unused-pension-funds-and-death-benefits)
* Paragraph 5 – [[2]](https://www.womblebonddickinson.com/uk/insights/articles-and-briefings/major-inheritance-tax-changes-pensions-april-2027), [[5]](https://www.gov.uk/government/publications/reforming-inheritance-tax-unused-pension-funds-and-death-benefits/inheritance-tax-on-unused-pension-funds-and-death-benefits)
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* Paragraph 8 – [[1]](https://www.birminghammail.co.uk/news/cost-of-living/hmrc-punish-uk-households-homes-32351216), [[3]](https://www.moneysavingexpert.com/news/2024/10/pensions-liable-inheritance-tax-2027/), [[6]](https://www.royallondon.com/guides-tools/planning-ahead/estate-planning/changes-to-inheritance-tax-on-pensions-from-2027/)

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## Bibliography

1. <https://www.birminghammail.co.uk/news/cost-of-living/hmrc-punish-uk-households-homes-32351216> - Please view link - unable to able to access data
2. <https://www.womblebonddickinson.com/uk/insights/articles-and-briefings/major-inheritance-tax-changes-pensions-april-2027> - This article discusses the UK government's decision to include unused pension funds and death benefits within the estate for inheritance tax (IHT) purposes, effective from April 2027. It explains that previously, most pension schemes were discretionary, allowing unused funds to fall outside the estate for IHT. The change aims to align the tax treatment of pensions with other inherited assets and remove the incentive to use pensions as a tax-planning vehicle for wealth transfer after death. The article also highlights potential unintended consequences, such as higher tax bills and reduced inheritance for beneficiaries.
3. <https://www.moneysavingexpert.com/news/2024/10/pensions-liable-inheritance-tax-2027/> - This article outlines the upcoming changes to inheritance tax (IHT) on pensions in the UK, set to take effect from April 2027. It explains that, under current rules, pensions are generally not included in the estate for IHT purposes, allowing them to pass tax-free to beneficiaries. However, the new rules will bring unused pension funds into the estate, potentially subjecting them to IHT at a rate of 40% above the nil rate band. The article provides examples to illustrate how these changes could impact estates and advises readers to consider estate planning strategies to mitigate potential tax liabilities.
4. <https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment> - This government consultation document outlines the proposed changes to inheritance tax (IHT) on pensions, effective from April 2027. It details the government's plan to include unused pension funds and death benefits within the deceased's estate for IHT purposes, aligning their tax treatment with other types of inherited assets. The document also discusses the process for reporting and paying IHT on these pension assets, confirming that personal representatives will be liable to report and pay IHT on pensions from April 2027. It aims to build a fairer tax system by removing distortions that have led to pensions being used as a tax planning vehicle for wealth transfer after death.
5. <https://www.gov.uk/government/publications/reforming-inheritance-tax-unused-pension-funds-and-death-benefits/inheritance-tax-on-unused-pension-funds-and-death-benefits> - This government publication provides detailed information on the proposed reforms to inheritance tax (IHT) concerning unused pension funds and death benefits, effective from April 2027. It outlines the legislative changes that will include the value of unused pension funds and death benefits within the deceased's estate for IHT purposes, regardless of whether the pension scheme administrators have discretion over the payment of any death benefits. The publication also specifies exemptions, such as death in service benefits payable from both discretionary and non-discretionary registered pension schemes, which will be excluded from IHT. It aims to align the tax treatment of pensions with other inherited assets and remove the incentive to use pensions as a tax-planning vehicle for wealth transfer after death.
6. <https://www.royallondon.com/guides-tools/planning-ahead/estate-planning/changes-to-inheritance-tax-on-pensions-from-2027/> - This article from Royal London discusses the upcoming changes to inheritance tax (IHT) on pensions in the UK, set to take effect from April 2027. It explains that, under current rules, pensions are generally not included in the estate for IHT purposes, allowing them to pass tax-free to beneficiaries. However, the new rules will bring unused pension funds into the estate, potentially subjecting them to IHT at a rate of 40% above the nil rate band. The article provides examples to illustrate how these changes could impact estates and advises readers to consider estate planning strategies to mitigate potential tax liabilities.
7. <https://www.theguardian.com/money/2025/mar/22/what-new-uk-rules-on-pension-inheritance-may-mean-for-you> - This article from The Guardian discusses the UK's upcoming changes to pension inheritance rules, effective from April 2027. It explains that unused pension savings could be taxed as part of someone's estate if they exceed the inheritance tax (IHT) threshold. The article provides an example to illustrate how the new rules might work in practice and advises readers to consider the potential impact on their estates and plan accordingly. It also notes that the details of how these changes will work in practice have not been finalised yet.