Budget 2025: inheritance tax changes – pensions and agricultural/business property relief

Inheritance Tax and trusts



06 January 2026

The CIOT and ATT are pleased to see that some of our concerns about restrictions to relief for farms and businesses, and the introduction of inheritance tax on pensions, have been addressed in the November Budget.

Ever since the changes to pensions and agricultural/business property relief (APR/BPR) were announced at the Budget in 2024, the CIOT and ATT have been busy – both behind the scenes and in public – trying to ensure that the new proposals are workable and to minimise unintended consequences for those affected. We are pleased to see that in Budget 2025, the government has taken some of our points onboard, although there remains much more work to do.

Transferable APR/BPR allowance

The government has decided the new £1 million allowance for 100% APR/BPR will be transferable between spouses and civil partners when it is introduced in April 2026. This brings the allowance in line with the nil rate band and residential nil rate band. Both bodies had made the case for this change in their representations to the government and the House of Lords Finance Bill subcommittee.

The lack of transferability in the draft proposals would have led to some harsh outcomes and favoured those able to afford professional advice during their lifetimes.

CIOT response

The CIOT made a number of further suggestions, including asking for individuals to be allowed to allocate their allowance to specific assets, rather than apportion it across all qualifying assets. This would have allowed individuals to favour specific gifts for relief, and use any available residential nil band more effectively. The government have not accepted this suggestion.

ATT response

The ATT had asked for the government to allow individuals gifting before 6 April 2026 to continue to benefit from unlimited reliefs if they die within seven years. Again, the government has decided not to change this, meaning there remains a ‘cliff edge’ effect for individuals from 6 April 2026.

Inheritance tax on pensions

The CIOT and ATT were pleased to see that changes have been made to the draft legislation bringing unused pension funds or death benefits into the scope of inheritance tax (IHT) on death.

As set out in October’s edition of *Tax Adviser* (see tinyurl.com/d66vkd4t), the CIOT and ATT had both raised concerns about the impracticalities of the new regime. Our comments highlighted the difficulties faced by personal representatives (PRs) in taking responsibility for IHT on pension funds over which they have no control.

CIOT comments

The CIOT made several suggestions for improvements to the legislation, including that pension scheme administrators (PSAs) retain 50% of the pension fund until the IHT position is clear. This would strike a balance between the needs of the pension beneficiaries for access to the funds, and the needs of the PRs to settle the IHT without having to try and recover amounts already distributed to pension beneficiaries.

The November Budget incorporated the CIOT's proposals in part: PRs will now be able to direct PSAs to withhold 50% of the pension for up to 15 months after the death in certain circumstances. Additionally, PRs will be discharged from liability for pensions discovered after the IHT calculations have been agreed with HMRC.

ATT comments

The ATT had largely supported CIOT's suggestions and we welcome the government's recognition of the risks for PRs involved with these new measures. The previous approach was predicated on the assumption that pension beneficiaries would co-operate with the PRs throughout the process and ideally settle their share of IHT directly from pension assets via a new direct payment scheme. Sadly, co-operation within families cannot be assumed.

At the time of writing, the legislation has yet to be published. However, we look forward to examining the detail of the announced new framework to allow PSAs and PRs to exchange information, the additional HMRC guidance, the IHT checker tool and the promised 'straightforward' IHT payment system. We expect this work to link up with the wider IHT digitalisation project on which the ATT and CIOT will continue to collaborate with HMRC.

Helen Thornley *hthornley@att.org.uk*
Ruth Sadlier *rsadlier@ciot.org.uk*