

CIOT urges ministers to focus on administration of pension IHT reforms

Inheritance Tax and trusts

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Ahead of the Budget, the CIOT called on the government to make a series of targeted legislative changes to the inheritance tax regime for pensions to ensure the rules are workable in practice when they take effect in April 2027.

The CIOT's Budget representation concentrates on how personal representatives will manage their duty to administer the deceased's estate under the new regime. It comes following a letter to the Finance Secretary to the Treasury in July this year on the same topic (see [Letter to Financial Secretary – IHT on pensions](#)). The Institute is concerned that time is now running out to fix what it sees as avoidable administrative hurdles and inconsistencies in how inheritance tax (IHT) is applied to pension assets compared to other estate assets.

A central concern is the treatment of pension assets that come to light after the personal representatives have finished administering an estate. This is expected to be an increasingly common occurrence as paper records reduce and individuals move jobs more often (and therefore accumulate more pensions) throughout their lives. The current position requires the estate allowances to be reapportioned across the newly discovered pension and all other assets, increasing the tax due on those other assets and creating more work for HMRC and advisers. The CIOT suggests a simpler approach of applying a fixed estate rate without requiring the rest of the estate to be recalculated.

The representation also calls for increased consistency by extending the tax reliefs available to the estate to pension assets. As it stands, when pension assets are brought into the scope of IHT they will not be eligible for loss relief or the ability to pay tax on illiquid assets by instalments. The CIOT argues that the reasons for these estate reliefs apply equally to pension assets. Loss relief prevents taxpayers from overpaying IHT on volatile quoted shares and land/property (which can be difficult to value) by taking into account the actual sale price. The ability to pay IHT by way of annual instalments recognises that some assets like land, buildings and business assets, which are often held in private pensions, are difficult to sell immediately.

The Institute is also seeking changes to allow the reduced 36% IHT rate, available where at least 10% of the estate is left to charity, to operate as most people would expect. The issue is that the new rules require 10% of the combined estate and pension assets to go to charity. However, pensions do not generally form part of the estate and are not passed on through the will. Therefore, a simple gift in the will of 10% of the estate to charity could fail to qualify for the reduced IHT rate.

Following restrictions to agricultural property relief and business property relief, many businesses will face difficulty funding IHT liabilities on the death of a shareholder. Although there is an existing provision in the statute for a company to buy back the deceased's shares to settle the IHT, it is only available if the personal representative can prove that any other means of payment would create 'undue hardship'. We believe this requirement makes planning for an IHT liability more difficult and call for it to be removed as an unnecessary complexity.

At first glance, charging IHT on pensions may not appear to be particularly complex. The duty of a personal representative is to collect all of the estate assets, settle any tax due and then pass the assets to the beneficiaries, and that is not changing.

However, since pensions are not part of the estate and cannot be collected or controlled by the personal representatives, there needs to be much more communication between the personal representatives and pension scheme administrators to establish valuations, pension beneficiaries, tax exemptions, who will pay the tax, and so on.

Our representation highlights that these challenges mean the historic six-month payment deadline is no longer justified, especially when combined with the recent changes to agricultural property relief and business property relief, and the increase in late payment interest charges. The 12-month filing deadline and the well-established 'executor's year' better reflect the time it takes to administer an estate. We believe this would make a more appropriate payment deadline, even if only temporarily, to allow processes to be fine-tuned and become more efficient.

The CIOT's Budget representation can be found on our website at:
www.tax.org.uk/ref1796.

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