

August 2025 – Budget – Update



Pensions and inheritance tax – what does it mean and what can I do?

This is a question we've been asked frequently this year, after Chancellor Rachel Reeves surprised us all in her October 2024 budget by announcing plans to include unused pension pots in a person's estate to be assessed for inheritance tax (IHT).

You may recall we wrote to you in November 2024 with our initial update, but with an overriding message to sit tight for now and wait until full details were known.

Well, we now know more details, and they remain largely as set out in the budget. Here are the key points for you, as well as our answers to the most common questions we're being asked right now.

- Unused pension funds will be included in a person's estate for IHT from 6th April 2027. This includes those that have been designated to a Flexi Access Drawdown Account (often referred to as 'FAD' or 'Drawdown')
- On death, all assets passed to your spouse, civil partner or charity remain exempt from IHT.
- Whilst it always depends upon your personal circumstances particularly around property ownership, total estate value and whether property is left to children, as a rough rule of thumb a couple with a joint estate over £1 million are likely to be leaving their beneficiaries with an IHT bill. On most assets over the threshold, IHT is levied at 40%.
- Up until April 2027, pension funds are NOT included in the value of an individual's estate but from April 2027, the full value of unused pensions will be included when valuing your estate.

- We expect to see a number of Gemini clients who currently have no IHT liability, to have one from April 2027.
- It will be the responsibility of the executors of your estate to settle any IHT liability and not the pension company. This was a change to the original proposal following the recent technical consultation.

What are my options?

The good news is that there are lots of different ways to reduce or even remove an IHT liability. The right strategy depends entirely on your personal circumstances and objectives.

The first question is whether you are happy for your beneficiaries to pay IHT or not. If you are and you are happy that you are fully appraised of your situation and IHT liability, then you need do nothing.

However, if you would prefer to take some action to remove or mitigate the IHT burden on your beneficiaries then the good news is that you have time and several options to do this.

Does this mean pensions are no longer useful?

Certainly not, as a tax efficient way to provide for your retirement in a structured, long term, disciplined way then pensions still very much tick the boxes.

However, as a method to shelter family assets from inheritance tax, they will be much less effective from April 2027.

What can I do instead of pensions to protect my estate from inheritance tax?

Again, this will very much depend on your situation, preferences and needs, but some examples of solutions which may be suitable are as follows. Your Gemini adviser will be happy to talk these through with you and come up with a bespoke plan for your situation.

- **Gifting and enjoying your money** – only estates above the threshold will be taxed, so for many it will make sense to enjoy their assets whilst still alive and to take advantage of the many allowances the Government allows you to utilise for making gifts to loved ones. Often when we talk to clients about this option, they are keen but naturally concerned about any adverse impact on their future needs. This is where good financial planning and cashflow forecasting can really help put your mind at rest as we can visually map out your financial future to show you what's possible and how.
- **Life assurance** – it may be possible to take out a joint life assurance policy to pay out on second death the amount of inheritance tax you wish to cover.
- **Investment Bonds** – certain investment vehicles will likely become more IHT efficient once the pension rules change. Investment Bonds, when combined with **Trust planning** can be highly effective at mitigating IHT.

- **Specialist Investments** – whilst the Government will be removing the IHT exemption on unspent pensions, there are still other investment vehicles which when used will be liable for IHT at a lower rate or will be exempt completely up to £1 million. In considering any schemes of this nature, it's important to take regulated financial advice to make sure you fully understand the nature of, and risks associated with, the underlying investments you are making.
- **Legacy planning** – thinking carefully about who you leave your Estate to and in what proportions will become more important than ever. There's a variety of methods available to you using Will and Trust planning to reduce or remove an IHT liability.

What next?

Please remember that nothing will change until April 2027, so there's no need to do anything in a rush. However, we would recommend that you discuss your options with your Gemini adviser at your next scheduled review meeting. If you feel it's more urgent feel free to reach out sooner.

A good place to start would be for us to give you an idea of what your IHT liability would be - both before April 2027 and after - then to run through the options to deal with this position and finally implement the best plan to suit your needs.

At Gemini our experienced team are well versed in the changes as well as all the alternative IHT planning tools and opportunities, we are here to guide you through these changing times with a bespoke plan for you based on your own situation.

Mark Thomas
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