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REFORMS TO INHERITANCE TAX ON PENSIONS AND PROPERTY RELIEFS – HOUSE OF LORDS CALL FOR EVIDENCE

Response by Association of Taxation Technicians

1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the House of Lords Finance Bill Sub-Committee Call for Evidence ('the Call') issued on 17 September 2025.¹
- 1.2 The ATT has significant concerns about the practical operation of both of the proposed changes.
- 1.3 As the pension proposals currently stand, they substantially increase the financial risk taken on by Personal Representatives (PRs). We are already receiving reports that professionals are refusing to accept appointments as PRs as a consequence of the proposed changes. Much of the policy is predicated on the assumption that the pension beneficiaries will co-operate with the PRs throughout the process and, ideally, settle their share of IHT via the Pension Scheme Administrator (PSA) via a new direct payment scheme. Sadly this cannot be assumed, and we consider the current rights of recovery created for PRs are inadequate should pension beneficiaries be uncooperative.
- 1.4 We think that the new £1 million allowance for 100% Agricultural Property Relief (APR) and Business Property Relief (BPR) should be transferable between spouses, in common with the existing Nil Rate Band (NRB) and Residential Nil Rate Band (RNRB). Without this change, many small business owners and farmers will be forced unnecessarily into more complex planning involving trusts to ensure allowances are not wasted.
- 1.5 We have answered questions 1 to 8 on unused pension funds in section 2, and questions 9 to 14 on APR and BPR in section 3. Our comments in response to question 15 on the consultation process are in section 4. Contact details can be found in section 5.

2 Reforming inheritance tax: unused pension funds and death benefits

Identifying inheritance tax due

Q1. How challenging will it be for personal representatives to identify and report inheritance tax due on unused pension funds and death benefits?

¹ <https://committees.parliament.uk/call-for-evidence/3750>

- 2.1 Identifying pension assets is already challenging in life. Research from October 2024 suggests that there are in the region of 3.3 million ‘lost’ pensions containing £31.1 billion of unclaimed assets.² There is no reason to presume that identifying all pension assets will be any easier for PRs on death.
- 2.2 A major risk for PRs is that if pension assets are identified after the estate has been wound up, they could still be personally liable for Inheritance Tax (IHT) of up to 40% of the value of any pensions which are subsequently identified. Although there are recovery provisions, discussed below, we consider these are inadequate. It leaves PRs heavily reliant on the cooperation of the pension beneficiaries.
- 2.3 We are not aware of any specific guidance addressing the amount of work that PRs will be expected to carry out to demonstrate that they have identified all possible pension assets. Provided such guidance is produced, and PRs have followed it, we think they need to be granted protections from additional liability on late-identified pension assets, with the liability attaching to the pension beneficiaries.
- 2.4 Some of the risks for PRs around locating pension assets could be mitigated if they were granted access to the long-awaited pensions dashboard. However, we understand this is only going to show details of pensions which have not been accessed, so this will only be helpful where an individual has died before reaching pension age. PRs would also need access prior to the grant of probate, which may create verification issues when deciding who can access the account post death.
- 2.5 **Q2. What is your view of the Government’s proposals to ensure personal representatives can obtain the information they need from pension providers? How practicable is it?**
- 2.6 Members report to us that communication with some PSAs can be challenging, with poor response times. They have expressed fears that the probate process will now end up running at the speed of the slowest PSA and lack confidence that all PSAs will have the ability to respond within four weeks of receiving the member’s death notification as proposed by the draft legislation. This will increase the risk of missing payment deadlines and interest accruing.
- 2.7 In fairness to the PSAs there will also be times where it will be very difficult for them to tell the PRs the IHT value of pension assets within four weeks. There will be practical challenges for valuing esoteric investments, e.g. illiquid funds, commercial property, funds held in external custody and unquoted shares.
- 2.8 **Liquidity challenges**
- Q3. How significant will liquidity challenges be for personal representatives paying inheritance tax due on unused pension funds and death benefits?**
- 2.9 According to the summary of responses published in July 2025, “HMRC estimates that, of the taxpaying estates affected by these reforms in tax year 2027 to 2028, the pension component makes up less than 5% of the net value of the estate in more than half of cases, and less than 60% of the estate in almost all cases.”³ This has been used in meetings to suggest to us that asking the free estate to cover any extra IHT will not be an issue. However, it should not be assumed that just because the free estate predominates, it will guarantee the availability of sufficient liquid assets to meet the additional IHT liabilities.
- 2.10 Where the beneficiaries of the free estate are not the same as those of the pension assets, the free estate beneficiaries may be uncomfortable with their share of assets being used to pay the additional IHT liability and

² <https://www.pensionsuk.org.uk/News/Article/Brits-missing-31-1bn-in-unclaimed-pension-pots>

³ <https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/outcome/inheritance-tax-on-pensions-liability-reporting-and-payment-summary-of-responses>

having to wait for the estate to be reimbursed from pension assets. This will be particularly concerning if pension beneficiaries are overseas or uncooperative.

- 2.11 **Q4. How straightforward will it be for personal representatives to recover amounts in respect of inheritance tax from pension beneficiaries?**
- 2.12 We do not consider that it will be straightforward to recover amounts from pension beneficiaries. The policy requires a high degree of cooperation and engagement by pension beneficiaries which cannot be assumed. The fall-back position is that the PRs can sue the beneficiaries for their share of the IHT, but that is an expensive and stressful process and the costs of that will likely be borne by the free estate.
- 2.13 We consider that the current provisions for PRs to recover IHT on pension assets from pension beneficiaries are inadequate. We have seen the Chartered Institute of Taxation's suggestions for a number of improvements to the right of recovery for PRs, including ensuring pension beneficiaries are liable jointly with the PRs, and giving PRs a specific power to raise tax from any assets of the pension beneficiary, not just their share of the pension fund. We support these suggestions as a way of helping PRs to mitigate some (but not all) of the extra risk brought by the policy.
- 2.14 There are also some practical issues with the route in which the pension beneficiaries give notice to the PSA asking them to make payment of tax direct to HMRC. The draft legislation says that PSAs will be obliged to carry out the instruction to make payment of tax direct to HMRC if the amount is £4,000 or more, and by discretion if amounts are under £4,000. For very small pensions, or small amounts of IHT, this route could be denied to pension beneficiaries, which creates additional complexity. Where PSAs exercise discretion not to make payment of tax direct to HMRC, the pension beneficiaries would be required to reimburse the PRs and, if they have paid income tax on pension benefits, recover that amount separately from HMRC.
- 2.15 The limit is unhelpful in the event of an amendment or late payment, where additional tax or interest becomes payable. For example, say the initial IHT liability on pension assets is calculated as £10,000. The beneficiary instructs the PSA to pay this amount direct to HMRC. A few months later, the total IHT liability for the estate is amended following identification of a previously unknown asset, and the IHT liability attributable to the pension is subsequently found to be £12,000. The PSA would be required to pay the first amount as it is over the £4,000 limit, but we are unclear if the additional £2,000 is only at the PSA's discretion, or if the PSA would still be required to pay it (assuming they still hold funds) because the overall liability exceeds £4,000. For administrative simplicity, the PSA should be required to pay both amounts.
- 2.16 Similarly, if the PSA is paying IHT after the six month deadline, they can be instructed to pay both their share of accrued interest to date and any IHT. However, as there will inevitably be a gap between the pension beneficiary sending their instruction and the PSA making payment, during which time further interest will accrue. Assuming that the £4,000 test applies to each payment (not the cumulative requested payments) we would expect many PSAs to refuse to make payment for small balancing interest charges. This then leaves either the estate having to fund the costs, or attempt recovery of small sums from pension beneficiaries.
- 2.17 **Q5. What are your views on the Government's suggestions as to how personal representatives can manage any liquidity challenges? How else could the Government support personal representatives who face liquidity challenges?**
- 2.18 If the Government wishes to continue with the current IHT approach, one alternative could be for any liability on a pension scheme to attach to the beneficiaries of those assets, rather than either PRs or PSAs. In order to prevent applications for probate being held up, PRs should still be able to apply for probate once IHT on non-pension assets has been paid to HMRC.

- 2.19 We understand the idea of attaching liabilities to individual pension beneficiaries has been suggested but rejected by HMRC on the grounds they would prefer to deal with PRs and not many individual pension beneficiaries. However, it's not the job of the PRs to simplify the administration for HMRC at direct personal risk to themselves.
- 2.20 Pensions which hold commercial property (and similar assets) will experience significant liquidity challenges, as it may be difficult to sell the assets or raise funds in a short period of time. We think that if pensions are to be added into the IHT estate then, similar to other assets in the IHT estate, PSAs need the ability to pay in instalments where assets are illiquid and the ability to claim relief from IHT if pension assets fall dramatically within a (set) period of death and prior to benefits being taken. Currently if an estate holds land and property or shares directly there are provisions for relief if these assets fall in value after death - but no equivalent provision if these assets are within a pension wrapper.

2.21 *Impact*

Q6. Has the Government sufficiently taken into account the impact of the measure on personal representatives and pension schemes administrators?

- 2.22 No. The Government has not currently given sufficient consideration to the risks placed on PRs.
- 2.23 The goal of the policy is to ensure that pension schemes are not used as a vehicle to transfer wealth IHT-free down the generations. We think this could also be achieved by applying additional tax measures on pensions which is decoupled from the wider IHT position. The pension ecosystem is already complex and bringing unused pension funds and death benefits within the individual's estate for IHT purposes means that many families will need to seek advice from a range of different experts, who all need to work together.
- 2.24 The new policy approach will increase the risk for both lay and professional PRs. PRs may not feel comfortable accepting appointments where the individual has pensions and/or any form of complexity in their estate beyond leaving assets equally between descendants. This simple division may not be appropriate for blended families, individuals with children from multiple relationships, or those where one family member is inheriting specific assets such as an interest in a business. We have already heard that some professional firms have stopped accepting appointments as PRs due to the increased risk this policy brings. This will particularly affect those with complex estates, those looking to appoint professionals and those without family.

2.25 *Implementation and transition*

Q7. How aware of the proposals are those who may be affected by the proposed change? What more should the Government do to raise awareness ahead of April 2027?

- 2.26 Individuals who are already receiving IHT or financial advice are likely to be aware of the issues. We are concerned that those who will come into the IHT regime for the first time as a result of including their pensions may not be aware of the potential risks. They may previously have been told that IHT is not an issue for them. Unadvised individuals in particular are unlikely to appreciate the potential impact on their RNRB. Lay personal representatives will be unaware of the risks of accepting an appointment until they have intermeddled in the estate and it is too late for them to step down.
- 2.27 HMRC could help raise awareness by providing additional guidance which can be shared by employers and pension scheme administrators. Clear guidance for PRs on the importance of identifying all potential pension pots will also be important.

2.28 **Q8. What are your views on the proposed timetable for the introduction of this measure? Do you think there should be any transitional provisions?**

2.29 We have concerns about the timetable in terms of implementation given the amount of administrative infrastructure that both HMRC and PSAs will need to build. The Government is aiming to introduce a new IHT digitalisation programme from April 2027 and we understand there are currently two separate teams – one working on pension digitalisation and one on all other IHT aspects. It must be challenging for the teams to progress matters in the absence of final legislation and we hope that HMRC is already in correspondence with PSAs to establish their timescales for connecting to any new HMRC system.

3 Reforms to agricultural property relief and business property relief

Identifying and funding inheritance tax due

Q9. How easy will it be for those affected to report and make arrangements for funding the inheritance tax due, within the statutory six-month period?

3.1 Given the substantial increase in IHT liabilities for some families we anticipate that it will be challenging for PRs to make arrangements to find the necessary funds within six months. We anticipate an increased use of instalments and requests for grants on credit.

3.2 **Q10. What issues, if any, might arise in relation to obtaining (and agreeing) valuations of qualifying business and agricultural property for inheritance tax purposes?**

3.3 We anticipate that there will be significant additional work for advisers in establishing valuations for probate purposes as the measures increase the number of occasions and the range of assets that will need formal valuation. This will increase administration costs and time for settlors, estates and trusts. It will also increase costs and time for HMRC in checking those values once submitted.

3.4 We would expect PRs to routinely instruct valuation experts where land, property or shares are involved, but where the actual value of the assets has no impact on the tax position because 100% BPR applies, it is not uncommon for either 'book values' (the value in the accounts) or estimates to be used. Book values may be used when valuing the assets and liabilities of a sole trader's business, or an individual's interest in a trading partnership. The value of assets such as machinery or stock in the accounts will not necessarily reflect the market value of these assets at the date of the transaction. In farm accounts, the value of animals held under the herd basis could be significantly understated compared to the market value.

3.5 Significant additional valuation work will now be required to establish market values to confirm if the £1 million allowance has been breached. In the early years of the proposed policy, we anticipate that there may not be sufficient suitably qualified individuals to meet demand.

3.6 *Impact*

Q11. What are your views on the Government's assessment of the impact of the changes, in terms of the number and type of estates which are affected? For example, do you think that smaller farms will be affected by the changes?

3.7 The Government's assessment of the number of farms affected seems very low. The figures do not take account of the valuation issues raised above, meaning figures reported may not always reflect the actual market value. We also find it unhelpful to think of changes in terms of the number affected per year as IHT is not an annual tax and cumulatively many families will be affected.

3.8 Smaller farms will be affected by the measures because;

- (a) Full valuations of business assets such as stock and equipment are now needed. As noted above, valuations based on the accounts figures may not reflect the true value of the business assets.
- (b) Under current proposals, individuals who have already lost a spouse/civil partner will only have a single £1 million allowance, not the two allowances as typically used in Government examples which suggest that a farm of up to £3 million can be passed on without charge.⁴ This will not be the case where one party to the marriage/civil partnership has died, or where individuals do not have the mental capacity to change their will or rearrange their affairs to maximise the use of their allowances.

3.9 *Implementation and transition*

Q12. Are farmers and business owners prepared for these changes, and what help or support might they need?

3.10 For the last three decades, the standard advice to farmers and landowners has been to hold on to assets and pass them via death. While we can appreciate there are merits in amending the system to encourage farmers to pass on assets to the next generation earlier, for many older farmers there is now too little time to make gifts and survive seven years for the value to come out of their estate. Some individuals will be unable to amend their wills due to the cost of obtaining advice or lack of mental capacity and will not be able to take action to minimise the impact on their affairs. Additional transitional measures to avoid the cliff edge approach at 6 April 2026, extending relief where a spouse has died and making the allowance transferable may help to mitigate some of these challenges.

3.11 **Q13. How straightforward will it be for those eligible for the reliefs to identify how the proposed changes will impact their inheritance tax liability, in order that they can plan accordingly?**

3.12 The main challenge in understanding the impact will be in establishing fair valuations to use in calculating liabilities. To date, advice has focused on ensuring all the conditions for 100% APR/BPR are met to qualify for 100% relief. Planning has generally relied on ball park figures for land values or business assets (including shares) to assess whether or not RNRB is available.

3.13 To plan now, families will need more accurate valuations which will increase the costs of any planning exercise. Since valuations will also naturally change over time, planning will need to be reviewed frequently.

3.14 **Q14. What are your views on the proposed timetable for the introduction of these measures, and do you think there should be any transitional provisions?**

3.15 Transitional provisions could include:

- Protections for gifts made between 30 October 2024 and 5 April 2026. Currently these gifts will be subject to the £1 million allowance if the individual dies within seven years of making the gift.
- An additional allowance for individuals whose spouses die before 6 April 2026 to reflect the fact that they have lost the benefit of the allowance that would have been available to their spouse/civil partner. This would be similar to the approach taken on the introduction of the RNRB where bereaved spouses/civil partners were given some uplift on the basis of the entitlement they could have inherited, had their spouse/civil partner died after the new rules were introduced.

3.16 As noted above, a further helpful measure would be to make the £1 million allowance transferable between couples. Without this there will be a large number of £1 million discretionary will trusts created on the first

⁴ <https://www.gov.uk/government/news/what-are-the-changes-to-agricultural-property-relief>

death with surviving spouse and children as discretionary beneficiaries. This brings additional costs and complexity for families.

- 3.17 We are concerned that some farmers and landowners may consider taking their own lives prior to the 6 April 2026 to ensure tax-free succession.

4 *Consultation on both measures*

Q15. What are your views on the consultation process the Government has followed in relation to each of these measures?

- 4.1 The Government did not consult publicly on policy design for either of the changes. The consultation process started after the Budget announcements and has been limited to purely technical points of implementation. It is disappointing that consultation started at such a late stage as earlier engagement could have allowed stakeholders to raise concerns and make suggestions for alternative approaches to achieve the Government's aims more effectively. For example, the Government could have said that they wished to ensure pensions are not used as vehicles to transfer wealth IHT-free and asked stakeholders to consider pension-specific regimes.
- 4.2 Consultation on the pensions measures has been further complicated due to the range of professional advisers who need to input to get the full picture of the impact. This includes private client practitioners, probate specialists, financial advisers, PSAs and pension scheme trustees. During the earlier stages over December 2024 and into January 2025, consultation with PSAs and those with IHT knowledge was largely carried out separately. We think the process would have benefited from having all the different parties in the room much earlier, so each could understand the concerns of others. An experienced trusts and estate practitioner will not necessarily appreciate the issues or concerns faced by a pension trustee in exercising their discretion, but the outcome of a probate process is now dependant on both parties.
- 4.3 The range of different advisers that bereaved families must now consult strongly suggests that changes should have been made to pensions in isolation, rather than bringing the complications of pensions into the already complex IHT regime.

5 **Contact details**

- 5.1 We would be pleased to join in any discussion relating to this consultation. Should you wish to discuss any aspect of this response, please contact us at atttechnical@att.org.uk.

The Association of Taxation Technicians

6 **Note**

- 6.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.