

Planning for the April 2027 tax changes: what they mean for your pension and inheritance tax

If you have been putting off pension and inheritance tax planning because the rules seem to shift every few years, you are not alone. The April 2027 tax changes are different, though. They touch on something most people rarely think about until it is too late: what happens to your pension pot when you die. For anyone with a defined contribution pension, this is the moment to take stock, because the old certainties about passing on your pension tax-free are being redrawn.

In this article, I will walk through the key adjustments coming into force from April 2027, explain how they affect beneficiaries, and offer practical steps you can take now, before the new rules bite. This is not about scaremongering. It is about making sure your estate planning reflects the world we are actually heading into, not the one we used to live in.

The big shift: pensions become part of your estate for inheritance tax

For years, one of the most attractive features of a pension was that it sat outside your estate for inheritance tax purposes. If you died before taking benefits, your pension pot could pass to your beneficiaries free from inheritance tax, though income tax might apply if you were over 75. That changes in April 2027. From that date, most unused pension funds will be brought into the value of your estate for inheritance tax calculations. The result is that a defined contribution pension, which many people have built up over decades with the help of tax relief, will suddenly be counted alongside your home, savings, and investments when HMRC works out what your estate owes.

This is a profound change. It means the pension you have carefully nurtured, often with the intention of leaving a legacy, could face a 40% inheritance tax charge if the total value of your estate exceeds the nil-rate band. For a couple, the combined nil-rate band can be larger, especially if one partner leaves everything to the other and the residence nil-rate band applies. But for single people or those with larger estates, the exposure is real. The [April 2027 tax changes](#) are not a minor tweak; they are a restructuring of how pensions are treated on death.

What stays the same? Income tax and the lump sum death benefit

It helps to separate the two taxes that can hit a pension on death. Inheritance tax is about the value of the pension pot in your estate. Income tax is about what your beneficiary actually receives when they take money out. The April 2027 tax changes mainly affect the inheritance tax side, but the income tax rules remain in place. If you die before age 75 and have not yet started pension drawdown, your beneficiaries can usually take the pension as a lump sum

death benefit completely free of income tax, provided the total stays within your lifetime allowance. If you die after 75, any lump sum or income they receive is subject to their marginal rate of income tax.



That distinction will still matter. A beneficiary who is a basic-rate taxpayer might pay 20% on a lump sum from a pension inherited from someone who died after 75. But the same lump sum, once the estate has already paid 40% inheritance tax on the pension value, can feel like a double hit. For higher-rate taxpayers, the combined effect could be punishing. This is why the interaction between inheritance tax and income tax is so important to model, and why a financial adviser can be worth their fee at a time like this.

How the April 2027 tax changes affect your planning

If you are still building your pension and have no immediate plans to touch it, the new rules might seem distant. But estate planning is not something you do once. It is a continuous process, and the April 2027 tax changes give you a clear deadline to review your arrangements. One of the first things to consider is whether you have nominated beneficiaries on your pension. The nomination form is not a legally binding will, but it tells the pension scheme who

you want to receive the death benefits. If you have not updated it since a divorce or a bereavement, now is the time.

Another area to examine is pension crystallisation. This is the process of moving money out of the accumulation phase into drawdown or buying an annuity. Once you crystallise a pension, you take tax-free cash (usually 25%) and the rest goes into a drawdown fund or an annuity. The timing of crystallisation can affect how the pension is valued for inheritance tax after 2027. An uncrystallised fund might be treated differently from one already in drawdown, and the rules are still being clarified. But the principle is clear: the more you can plan before April 2027, the more options you will have.

Trusts, pensions, and the protected pension age

One route people often explore is placing a pension into a trust. The idea is to remove the pension pot from your estate, so it does not count for inheritance tax. However, pensions have never been easy to put into trust, and the rules around pension transfer to a trust are restrictive. Most people cannot simply assign their pension rights to a trust. Instead, you might consider drawing benefits and then giving the excess income away, but that triggers income tax and might not be efficient. Trusts can still play a role, especially for other assets, but they are not a simple fix for pensions.

There is also the protected pension age to consider. Some pensions have a protected pension age lower than the normal minimum, often 55 or 50, which was a feature of older schemes. If you have such a pension, you may be able to access it earlier than the current minimum pension age, which is rising. The April 2027 tax changes do not directly alter protected pension ages, but they do change the value of accessing your pension early versus leaving it untouched. If you die before taking benefits, the pension now sits in your estate. If you draw it down and spend it or give it away, it could reduce the inheritance tax bill. That trade-off is worth discussing with a financial adviser.

Practical steps to take before April 2027

You do not need to wait until the rules are fully finalised to start preparing. Here are five actions you can take now.



- Review your pension nomination forms and update them to reflect your current wishes.
- Get a full picture of your total estate, including your pension pot, property, and investments, and estimate the potential inheritance tax using the nil-rate band and residence nil-rate band.
- Consider whether drawing tax-free cash before April 2027 makes sense, especially if you are over 55 and have a protected pension age that allows early access.
- Think about gifting strategies. You can give away up to £3,000 a year free of inheritance tax, and larger gifts might be exempt if you live seven years after making them.
- Speak to a financial adviser who specialises in pension and inheritance tax planning. The rules are complex, and personalised advice is invaluable.

Each of these steps carries its own trade-offs. Taking tax-free cash early might reduce the amount in your pension that could grow tax-free, but it also reduces the value of your estate for inheritance tax if you spend it. Gifting money might mean you have less to live on in later life. There is no one-size-fits-all answer, which is why professional guidance matters.

What about annuities and drawdown?

Annuities have become less popular in recent years because they offer less flexibility than pension drawdown. But under the new inheritance tax rules, an annuity might look more

attractive. A lifetime annuity typically stops when you die, or it might pay a reduced income to a spouse for a set period. Because the annuity has no remaining fund value at death, it does not form part of your estate for inheritance tax. That could be a way to reduce the inheritance tax burden while securing an income for life. On the other hand, pension drawdown gives you control and can leave a larger pot for beneficiaries, but that pot is now exposed to inheritance tax.

The choice between an annuity and drawdown is not just about income. It is about what you want to leave behind. If your priority is to maximise the amount your children or grandchildren receive, an annuity might be counterproductive. If you are more concerned about running out of money in later life, the security of an annuity could outweigh the inheritance tax saving. The April 2027 tax changes do not make this decision easier, but they do make it more urgent. You need to weigh up your own life expectancy, your spending needs, and your desire to leave a legacy.

The role of the lifetime allowance and personal allowance

Although the lifetime allowance was abolished in April 2024, the concept still has an afterlife. The lump sum death benefit is subject to a lifetime allowance check, and any excess is taxed at the beneficiary's marginal rate. The April 2027 tax changes do not bring back the lifetime allowance, but they do interact with it. For example, if you have already used most of your lifetime allowance, and your pension grows further, the excess on death could be subject to income tax as well as inheritance tax. That double layer is something to watch.

The personal allowance, which is the amount you can earn before paying income tax, also matters for beneficiaries. If a beneficiary inherits a pension and takes a lump sum, that income is added to their other earnings. If it pushes them above the personal allowance, they will pay income tax on the excess. In some cases, receiving a large lump sum can even reduce their personal allowance if their total income exceeds £100,000. That is a hidden trap that many people do not anticipate. The April 2027 tax changes do not alter the personal allowance, but they make it more likely that a beneficiary will face both inheritance tax and income tax on the same money.

Why now is the time to act

The April 2027 tax changes are still a couple of years away, but planning for them cannot wait until the last minute. Pension transfers, trust arrangements, and gifting strategies all take time to implement. And the rules themselves are still being clarified by HMRC. There may be further announcements, transitional protections, or anti-avoidance measures that we do not yet know about. By starting now, you give yourself room to adapt.



If you have a defined contribution pension, the most important thing is to understand that it is no longer a tax-free inheritance vehicle. The days of assuming your pension can pass to your children without any inheritance tax are ending. That does not mean you should stop saving into a pension, because the tax relief on contributions and the tax-free growth remain valuable. But it does mean you should integrate your pension into your wider estate planning, rather than treating it as a separate, protected asset.

Talk to a financial adviser who can model different scenarios and help you decide whether to crystallise early, take tax-free cash, or restructure your savings. The cost of advice is often small compared to the potential inheritance tax bill. And remember, the rules are still evolving. What we know now is the direction of travel. The April 2027 tax changes are a reminder that the tax system is never static, and your plan should be flexible enough to move with it.