



ASSOCIATION OF CONSULTING ACTUARIES

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HM Revenue & Customs

By email to ihtonpensions@hmrc.gov.uk

12 September 2025

Dear HMRC

Technical consultation – Inheritance Tax on pensions: draft legislation

I am writing on behalf of the Association of Consulting Actuaries (ACA) in response to the technical consultation¹ on the draft legislation to implement the Government's policy to bring unused pensions funds and death benefits within the scope of inheritance tax (IHT), published on 21 July 2025.

The ACA welcomes the opportunity to provide input. Members of the ACA are all qualified actuaries – mainly Fellows of the Institute and Faculty of Actuaries. All actuarial advice given by our members is subject to the Actuaries' Code. Members provide advice to thousands of private sector, local government and public sector employers. The associated pension schemes provide defined benefit (DB), defined contribution (DC), cash balance (CB) and collective defined contribution (CDC) rights, with total assets of DB private sector schemes alone exceeding £1 trillion. We are therefore responding in the capacity of a representative body for professional advisors who provide advice to a range of occupational pension schemes.

The ACA are pleased that HMRC listened to the feedback that the initial proposals for pension schemes to be responsible for paying IHT in respect of unused pension funds and death benefits were unworkable. The revised proposals still have some impact on pension schemes, with additional disclosure requirements and a new duty to pay IHT directly to HMRC at a beneficiary's request

¹ <https://www.gov.uk/government/publications/reforming-inheritance-tax-unused-pension-funds-and-death-benefits>

where certain conditions are met. However, overall pension schemes will welcome the new approach.

The ACA also welcomes the change to the initial proposals which will exempt more lump sum death in service benefits from IHT.

However, the responsibility for reporting and paying IHT now falls on personal representatives (PRs), who will be in the unenviable position of being responsible for paying IHT on assets they don't control. This could be a fraught situation where the PRs and/or beneficiaries of the "free" estate are in conflict with the trustees and/or beneficiaries of the pension scheme.

However, we have two key concerns:

- **Financial dependants:** We have serious concerns over the prospective worsening of provisions for financial dependants. Pension schemes have been designed not only to support members in retirement, but also their financial dependants following their death. We welcome confirmation that the "spousal exemption" will apply, but there needs to be wider exemptions for other financial dependants including for fairness aligning the treatment of DC/CB dependants with DB/CDC dependants.
- **Timescales:** The 4 weeks to value assets and 3 week deadline for payment of IHT are unrealistic and simply unworkable for some types of assets – including those required to encourage productive investment.

Our detailed comments are set out below. Part 1 deals with Financial dependants, Parts 2 to 5 aspects of the draft legislation and Part 6 information sharing. Please note that the acronyms used in our response are defined at the end in Part 7 Key definitions.

We would be happy to discuss this matter further. Please contact Kirsty Cotton on 01737 274496 or Kirsty.cotton@wtwco.com. For discussion of the issues for smaller schemes, please contact Nigel Sloam on 020 8209 1222 or nigel@nigelsloam.co.uk.

Yours sincerely

Kirsty Cotton FIA
Chair of the Pensions Taxation Committee

On behalf of the Association of Consulting Actuaries Limited

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About the Association of Consulting Actuaries

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. Members also advise thousands of smaller pension arrangements and individuals (many in self-employment) as well as advising life and general insurers.

Particularly relevant for this consultation, our members' work includes general consulting to enable the proper running of pension schemes from the perspective of sponsoring employers and trustees. Several of our members' firms also provide third party administration for pension schemes and so are key agents for the trustees running schemes.

1 Financial dependants

1.1 DB/CDC pension benefits

We welcome that dependants' scheme pensions in respect of DB/CDC arrangements will not be included within scope of IHT. This will enable pension scheme trustees to commence speedy payments of these benefits without undergoing any more checks than are currently required. It is important that an income stream can commence as soon as possible to avoid debts building up.

1.2 Risk pension benefits

Our reading (please see 2.4 below) is that 'risk' beneficiary pensions are also scheme pensions so would also be out of scope of IHT. This is welcome. As almost all such pensions would be provided on death in service, this also is consistent with the treatment of [LSDIS](#) (please see 2.3 below).

1.3 DC/CB: dependants' scheme pensions and annuities

Our reading of the draft legislation (please see 2.2 below) is that dependants' scheme pensions payable from DC or CB schemes will effectively be in scope of IHT. This is because the beneficiary would have the option to purchase a dependants' annuity instead. This obviously creates an anomaly which we suggest is unfair.

The reason given in the October consultation² for excluding dependants' scheme pensions was "A small number of specified pension benefits will remain outside scope for Inheritance Tax, including where funds can only be used to provide a dependants' scheme pension. These are currently out of scope in non-discretionary schemes and so will remain out of scope under this change."

At least one lawyer has suggested that the reason dependants' scheme pensions are currently out of scope for IHT is because these benefits have no capital value as they cannot be commuted for a lump sum (other than if trivial). If so, then the same rationale would apply to some DC or CB funds,

² <https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/technical-consultation-inheritance-tax-on-pensions-liability-reporting-and-payment>

which can also only be used to provide either a dependants' scheme pension or a dependants' annuity. Please could HMRC confirm whether such fund would be in scope of IHT under these proposals?

In any event, we would like HMRC to go further and exclude funds used to provide dependants' scheme pensions and dependants' annuities from the scope of IHT. The outcome is the same as for dependants' scheme pensions from a DB scheme: the entire benefit is immediately put into payment as an income for life. For deaths after age 75, these payments are fully subject to income tax and PAYE in the normal way. These annuities are currently non-taxable for death before age 75 provided that entitlement to the dependants annuity arose within the [relevant two year period](#). Given people don't generally 'plan' to die before age 75, there isn't usually scope to use a dependant's annuity as an IHT tax-avoidance device.

We believe that unless these changes are implemented there will be considerable hardship caused in the event of death to partners and young families of unmarried deceased persons who were members of DC schemes. This would not be the case with members of DB schemes and we believe the anomaly should be corrected.

Including dependants' annuities would remove one difference between the treatment of DB/CDC arrangements (where a survivor pension is always a dependants' scheme pension) and DC/CB (where a survivor annuity can be classified as either a dependants' scheme pension or a dependants annuity, depending on how it is secured). The response document notes, in the context of life cover, "This is in line with the broader policy objective of removing inconsistencies in the Inheritance Tax treatment of different types of pension benefits."

We understand that the position on joint life annuities purchased prior to death will not be changing. The consultation response confirms that the reversionary part of the annuity does not form part of the member's estate. We are unclear whether or not the purchase of a joint life annuity could be a potentially exempt transfer (PET). Where a joint life annuity has been purchased by a pension fund, then it can only be payable to a [dependant](#)³. Hence, for the reasons set out above, we believe that purchases of joint life annuities by funds in registered pension schemes should be out of scope of IHT.

1.4 DC/CB: dependants' drawdown

A level or inflation linked pension for life is not always the most appropriate way to provide for financial needs. For example, an individual might wish to earmark pension resources for the possibility that they will need to pay for care in later life. Similarly, more resources may be needed initially where greater funds are required early to help sustain young families. As such, there are circumstances in which the income argument above also applies to dependants' drawdown and so it would seem appropriate for amounts allocated by a [financial dependant](#) to dependants' drawdown to fall outside IHT.

A child who was dependant on the member at the date of death because of physical or mental impairment is considered to be a financial dependant regardless of their age at the member's death

³ There are also restrictions on when it can cease before death.

or when the benefits are paid to the child. We propose that such children are always considered to be financial dependants.

For other children, two complications arise.

1. **Children aged 23 and over:** The definition of dependant for drawdown is currently wider than the usual definition and includes children aged 23 or over. We propose that children aged 23 and over are not considered to be financial dependants⁴.
2. **Children age 22 and under:** Children are only treated as being a financial dependant where the payment is made before they reach age 23⁵ – the assessment does not depend on their age at death. Legislative changes would be required in order to require drawdown payments to be made before age 23 (or for some tax charge akin to IHT to apply if not). As such, further consideration would be required as to whether the exemption from IHT should apply to children designating sums to drawdown⁶.

For deaths after age 75, these payments are fully subject to income tax and PAYE in the normal way. Amounts designated to drawdown are currently non-taxable for death before age 75 provided that entitlement to the drawdown pension arose within the [relevant two year period](#). This is a more generous tax treatment than applies to dependants' scheme pensions. However, as noted above, individuals don't usually 'plan' to die before age 75, so the scope for abuse is limited.

1.5 Lump sum benefits

We welcome that LSDIS will be out of scope for IHT (see 2.3 below for comments on the detail).

However, we hope it would be possible to go further. Extending the above argument, IHT would not be levied on [financial dependants](#) whether the payment was as income or a lump sum. This would enable payments to be made swiftly to those in financial hardship. Where all of the potential beneficiaries are financial dependants, this also means that the estate could be settled without the PRs needing any further information from Pension Scheme Administrators (PSAs).

1.6 Minimum Age Exemption

An alternative to the approaches above which focus on financial dependants would be an exemption for pension assets from IHT if the member dies before a certain age. We suggest State pension age as Government policy is that people should continue working until State pension age and not be drawing down their pension benefits.

The fact that those of working age are more likely to have minor children than older generations, and societal trends towards cohabitation rather than marriage mean that younger deaths are more

⁴ Unless, as already noted, they were dependant on the member at the date of death because of physical or mental impairment

⁵ See footnote 4

⁶ See footnote 4

likely to leave financial dependants who are not spouse/civil partners. Further, the trend from DB to DC will bring more assets into scope, at least amongst private-sector employees.

However, a minimum age exemption does not address financial hardship arising from deaths of older members, including financially dependent cohabitants, those dependent due to physical or mental impairment or minor children of later marriages.

2 Draft legislation: Section 1: Certain pension property treated as part of estate

2.1 Valuation of benefits at death

150A(1) of the draft legislation reads “beneficially entitled immediately before their death to so much of the property held for the purposes of the scheme”

How should that be interpreted in the following situations:

1. **PPF assessment:** During PPF assessment, benefits are paid out at PPF-levels, which are often lower than the benefits set out in a scheme’s rules. Some, albeit a minority, of these schemes will leave PPF assessment and their benefits will be fully or partially restored at a later date⁷. Please could HMRC provide guidance on how this scenario should be accommodated. We suggest that whilst a scheme is in PPF assessment, the relevant death benefit should be limited to that payable in PPF assessment. If the scheme leaves PPF assessment, then any increase to a relevant death benefit would need to be taken into account at that stage, potentially requiring additional IHT to be paid.
2. **Assets can only be accessed infrequently:** Some collective investment funds have restrictions that only deliver valuations and withdrawals periodically, for example once a month, once every three months, once every six months or even once a year. Is it reasonable to base the valuation on the value of the fund at the next withdrawal date following death?

Please see 6.3.2 below which sets out situations in which an accurate value cannot be obtained in 4 weeks and possible approaches.

Please see 4.1 below which explains that payment of IHT under PITPS could impact the value of the assets relating to the deceased (and indeed for continuing scheme members). The same point can be made regarding payment of the death benefit itself.

2.2 DC funds used to provide a scheme pension

150A(1) of the draft legislation reads (our emphasis) “(1) ...

(a) must be used to pay a relevant death benefit in the event of the person’s death, or

⁷ <https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf> Figure 10.2

(b) may, subject to anyone's discretion, be so used."

A DC/CB fund cannot be used to provide a dependants' scheme pension unless the beneficiary has been given the option to purchase a dependants' annuity instead⁸. This means that a DC/CB fund 'may' always be used to provide a dependants' annuity rather than a dependants' scheme pension. Our reading of the draft legislation is that this means that all DC/CB funds are in scope of IHT regardless of how they are used. Specifically, they are in scope even if, in fact, the DC/CB funds are used to provide a dependant's scheme pension. Is that correct? (If not, then we would like further guidance as to how to determine whether a pension is a dependants' scheme pension or a dependants' annuity when purchased from an insurer.)

Please see the discussion in 1.3 DC/CB: dependants' scheme pensions and annuities above as to why we think these funds should be out of scope of IHT.

2.3 Death-in-service lump sums

We are very pleased that most death-in-service lump sums will now be out of scope of IHT.

2.3.1 Employed deferreds

150A(6) of the draft legislation refers to "an active member".

Please could HMRC confirm that where an employee does not qualify for the deferred member carve-out⁹, then they would be treated as active members under this provision. This would include, inter alia, employees with a continued salary link and employees with continuing life cover.

If the lump sum death benefits are as set out below, in what circumstances, if any, would the lump sum death benefit be out of scope for IHT? Would it depend on whether the salary linked benefit was higher immediately before death?

Death in deferment benefit	Death in service benefit: member is an employed deferred
A lump sum of 4 x deferred pension at death; the deferred pension is calculated as at date pensionable service ceased with statutory revaluation thereafter	A lump sum of 4 x deferred pension at death; the deferred pension is calculated as the better of the deferred pension at date pensionable service ceased with (i) statutory revaluation and (ii) (broadly) salary linkage

2.3.2 Only payable to actives and in employment

Under 150A(6) of the draft legislation, a death in service lump sum must be "*not payable unless the member is an active member of the scheme, and in employment of a description specified in the terms of the scheme, immediately before their death.*"

⁸ [FA2004 S167](#) Pension death benefit rule 3

⁹ [PTM053910](#) - Annual allowance: pension input amounts: deferred members: general

We have set out some situations below together with a possible interpretation of which death in service benefits would be in or out of scope of IHT, but it would be helpful for HMRC to confirm how to interpret this provision.

Death in deferment benefit	Death in service benefit	Possible interpretation of death in service benefits in scope of IHT	Possible interpretation of death in service benefits out of scope of IHT
DC Pot	DC Pot, plus A lump sum of 4 x pensionable salary	DC Pot	A lump sum of 4 x pensionable salary
A refund of contributions	A refund of contributions, plus A lump sum of 4 x pensionable salary	A refund of contributions	A lump sum of 4 x pensionable salary
A refund of contributions with no interest	A refund of contributions with interest to the point of death, plus A lump sum of 4 x pensionable salary	A refund of contributions	Interest to the point of death, plus A lump sum of 4 x pensionable salary
A refund of contributions if no survivor pension payable.	A refund of contributions (even if a survivor pension payable), plus A lump sum of 4 x pensionable salary	A refund of contributions if no survivor pension would have been payable if deferred	A refund of contributions if a survivor pension would have been payable if deferred, plus A lump sum of 4 x pensionable salary
A lump sum of 4 x deferred pension with revaluation to date of death	A lump sum of 4 x pensionable salary	None	A lump sum of 4 x pensionable salary

2.3.3 Interaction of LSDIS and other exemptions

Please see the example in 6.4.5 below.

2.3.4 QNUPS

We note that the exemption for LSDIS benefits is limited to registered pension schemes. Why wouldn't this exemption apply to [QNUPS](#)? Particularly to [QROPS](#). Broadly, under a QROPS benefits must be payable in line with the principles governing registered pension schemes or tax penalties will apply to the member. Benefits payable by QROPS should be treated in similar fashion to the benefits payable from registered pension schemes.

Please note that although we have made a couple of comments regarding overseas schemes in this response, we have not looked at the legislation for QNUPS in detail or S615 schemes at all.

2.4 Risk pension benefits

The consultation response states *“From 6 April 2027 all death in service benefits payable from registered pension schemes will be out of scope of Inheritance Tax, regardless of whether the scheme is discretionary or non-discretionary.”* And *“Death in service benefits are employment benefits which provide a lump sum payment (typically a multiple of an individual’s salary) to a deceased employee’s beneficiaries if they die while employed.”*¹⁰

Although more unusual, some schemes promise that a beneficiary will be provided with a pension on death. Our view is that, even where that promise is backed by an insurance policy, the resulting pension would be considered to be a dependants’ scheme pension and so will be out of scope for IHT. Do you agree? If not, then the exemption for LSDIS should be extended to include such pension benefits.

3 Draft legislation: Section 2: Liability for tax on pension interests

We are unsure of the consequences if the PSA fails to pay the IHT within the 3 week deadline. The PSAs should not be subject to any rules or deadlines more onerous than those which apply to other IHT payers. For example, the PSAs should have the same time to pay facilities as would be available if an illiquid asset was held in the general estate.

Under [PITPS](#), the amount payable is limited to the remaining relevant death benefit. The same limit should apply to the PSA’s liability. Otherwise, if the IHT (and any other obligations due under IHT legislation) due exceeds the remaining relevant death benefits, perhaps because the late payment interest exceeds the actual return on scheme assets, then:

- Who would be liable for the shortfall?
- How could that payment be met? By reducing the funds of other pension scheme beneficiaries? From the PSAs themselves – presumably PSAs would then be very reluctant to operate unless this liability could be covered by reasonably-priced insurance? From charges levied on the pension scheme – which would be passed on in due course through higher fees to the sponsoring employer or by the members collectively? The tax would not be borne by the beneficiaries of the deceased’s estate.
- Any payment in excess of the relevant death benefit would not be payable under PITPS and so we suspect would not be an authorised benefit

The authorised payment that could be made under PITPS appears to be limited to the original amount requested by the beneficiary. Would payment of IHT late payment interest require beneficiaries to submit additional PITPS forms? In order to do so, beneficiaries would need to know the effective date that an IHT amount would be paid. How would that be determined?

¹⁰ <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>

4 Draft legislation: Section 3: Direct payment by pension scheme administrator of beneficiary's tax

4.1 3 week deadline

A 3 week deadline is unworkable and impractical for some types of illiquid assets held by pension schemes for their long term purposes. Such illiquid assets include asset classes which the Government is encouraging actively for pension investment. These illiquid investments includes:

- a) Private equity in UK and other companies of all sorts.
- b) Loans
- c) Collective funds involving a) and b) above.
- d) Suspended funds or quoted equities.
- e) Hedge funds or other collectives which do not deal daily.
- f) Properties – funds can only be raised in respect of such holdings by either sale or remortgage. Premature sale could affect beneficiaries and other scheme members adversely. In any event sale cannot be assumed to take place with a year. Similarly, mortgage facilities may not be readily available.

The effective forced sale of illiquid assets could:

- seriously impact small and growing companies who benefit from pension fund equity loan or property investments; and
- impact the value of such investments negatively. Trustees have a fiduciary duty to act in the best interests of ALL of the beneficiaries of the trust. Meeting a PITPS payment for a single beneficiary could force trustees into a position where they have to make decisions which are detrimental to multiple other beneficiaries.

We would argue in these circumstances that to avoid all of these problems there should be provisions for time to pay.

See also comments in 3 above on the options if the 3-week deadline is missed.

4.2 2 stage process

We expect that some beneficiaries would like a 2 stage process whereby beneficiaries could first elect to take part of their death benefits and then at a later stage require the scheme to pay some IHT under PITPS and take the rest of their benefits. We considered two ways to achieve that.

Our preference would be that should be an **option** for schemes not a **right** for beneficiaries.

We expect that schemes which offer beneficiaries flexi-access drawdown would be happy to accommodate requests for 2 (or more) stage processes.

However, in most occupational pension schemes, the death benefits for any given beneficiary are dealt with in one stage. There are barriers to making a second payment designed to prevent fraudulent activity. If HMRC legislate to make this a right, then scheme administrators will need at least a year to amend their systems and bring in alternative anti-fraud measures.

Making it easier to transfer to dependants' drawdown, as discussed in 4.3 below, could also solve this issue, but is even more complicated for day-to-day administrators.

4.3 Relevant two year period

Where the member died before age 75, most relevant death benefits would be payable free of income tax, provided that they were paid to the beneficiary within the [relevant two year period](#).

Beneficiaries may decide not to draw some, or all, of their benefits until they know their IHT liability. If the IHT liability is still not determined as the relevant two year period deadline approaches, then beneficiaries could:

- Still decide not to take their benefits. This is likely to result in payments being made after the relevant two year period and so becoming subject to income tax, but would give the beneficiaries confidence that they could meet the IHT liability.
- Take their benefits and then meet the IHT liability themselves.

A third solution would be for beneficiaries to designate their relevant death benefits to dependants' drawdown. However, very few occupational pension schemes offer this option at the moment, because of the complexity of operating drawdown.

Some pension schemes might be prepared to consider giving beneficiaries an option to transfer their benefits to another pension scheme, if this process could be made easier. Options include

- Allowing the transfer of uncrystallised pots (it is only currently possible to transfer beneficiaries' pension benefits).
- Clarifying that a designation to dependants' drawdown is valid if the scheme only offers dependants' drawdown on condition that the beneficiary cannot draw any benefits under the scheme but must then transfer those rights to another scheme.

It might be possible to extend these options to other types of lump sum death benefit such as refunds of contributions.

If the solution was to transfer uncrystallised rights, then HMRC legislation would need to specify that benefits would not be subject to income tax if designated in the received scheme within the relevant two year period which applied in the transferring scheme.

Another approach would be to keep the current definition of the relevant two year period, but to legislate to extend this where the IHT liability had not been established. The extension could be based on when the PRs communicated the IHT liability (or that no IHT would be due) to the PSAs. We suggest PSAs would need at least three months from when they heard from PRs to allow time for (i) communication from the PSA to the beneficiaries, (ii) the beneficiary to instruct the PSA to use PITPS to meet the IHT charge, and (iii) for the PSA to pay the remaining benefit to the beneficiary. PSAs tend to warn beneficiaries that the relevant two year period deadline is approaching; so that PSA could continue to do this, it would be necessary that PSAs could easily identify when the period would end and therefore that it was based on information they hold.

4.4 Mandatory PITPS: this scheme or any scheme

Clause 3 of the draft legislation¹¹ says (our emphasis) “226A ... (1) This section applies to an amount of tax... (b) that is attributable to property— (i) that is held for the purposes of a registered pension scheme, ...

The explanatory note¹² 5 says (our emphasis): New subsection 226A(2) allows the beneficiary of a relevant death benefit to request (via a notice) the pension scheme administrator pay the amount of Inheritance Tax liability for which they are liable , in connection with **that** pension scheme.

We are unsure whether the policy intention is that the maximum that PSAs could be required to pay is the IHT in relation to the relevant death benefits in their scheme for that beneficiary, or whether it is based on the higher amount of IHT across all pension schemes for that beneficiary.

We think that mandatory PITPS payments should be based on the IHT due in respect of relevant death benefits in that scheme only.

4.5 Mandatory PITPS: £4,000 limit

We support that an IHT payment under PITPS should only be required where the IHT due in relation to the relevant death benefits in that scheme for that beneficiary is £4,000 or more. This means that a scheme could (usually) pay out a pot of less than £10,000 in full¹³, because the beneficiary would not have a right to payment of IHT from the scheme (but see comment in 4.4 above). This would simplify disclosures for the millions of small pots; as beneficiaries would not have the option of using the sum for a PITPS payment; this should make it easier for beneficiaries to decide on their benefit options.

4.6 Mandatory PITPS: Multiple payments

Provided that each request met the conditions, including that the payment specified is at least £4,000, it appears that a beneficiary could make more than one request for a PITPS payment. Is that the policy intention?

¹¹

https://assets.publishing.service.gov.uk/media/6877b89ff5eb08157f36383b/6002_Draft_legislation_IHT_on_pension_interests.pdf

¹²

https://assets.publishing.service.gov.uk/media/687dfb06312ee8a5f0806be2/M6002_explanatory_note.odt

¹³ The £4,000 for mandatory payment is 40% of £10,000, the maximum IHT that could be due excluding IHT late payment interest. If payment might be made after the IHT end of six months from date of death deadline, then a limit lower than £10,000 would need to be calculated to take into account the late payment interest that might apply.

4.7 Mandatory PITPS: Interaction with IHT process

The explanatory note to 226A(1) says “New subsection 226A(1) provides that section 226A applies when a beneficiary has received a relevant death benefit on which there is an Inheritance Tax liability.”

How does this interact with the IHT process? Is the policy intention that probate must have been granted before the beneficiary can make a PITPS request? It might be helpful for beneficiaries to be able to make an earlier request based on estimates. This could be operated as a voluntary rather than mandatory PITPS payment.

See also 6.4.7 below regarding our question regarding appointment of a beneficiary.

4.8 Voluntary PITPS

As noted in 4.4 above, we think there would be merit in limiting the mandatory IHT to that due in relation to the relevant death benefits in that scheme for that beneficiary. However, we think it would be useful to allow PSAs, at the trustees’s discretion, to pay a higher amount, capped at the total IHT due in respect of registered pension schemes. This would enable beneficiaries to use more liquid assets in one pension scheme to meet an IHT liability if they hold illiquid assets in another.

We suggest that the cap on the maximum that could be requested should be the remaining relevant death benefits in the scheme.

The process is analogous to Scheme Pays¹⁴ where pension scheme members can request that annual allowance charges are met directly from their pension assets. There, members have a mandatory right to scheme pays in some circumstances, with higher amounts settled at the discretion of the trustees. These higher amounts would need to be authorised payments so specifically allowed for by the PITPS legislation.

We expect that HMRC would not wish beneficiaries to use their pension assets to meet more than the total IHT liability in respect of all registered pension schemes. This would incur additional costs for HMRC as they would need to handle refunds of IHT to the estate and income tax adjustments. See 5.3 below.

4.9 DWP legislation

We are not lawyers, but will there need to be consequential changes for DWP’s legislation? For example, an exemption from the inalienability and forfeiture provisions corresponding to that for scheme pays.¹⁵

4.10 Transfers

Linked to the above point, the ACA’s view is that following a transfer, it should be possible for the beneficiary to ask the receiving scheme to pay IHT under PITPS. The same mandatory/voluntary approach could apply as in the transferring scheme – this would need some additional disclosures

¹⁴ <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056410>

¹⁵ SI1997/785 [Regulation 8\(7\)](#)

(see 6.7.4 below) and might need tweaks to the legislation to reference the amount in a previous scheme. Alternatively, this payment could be purely voluntary. Please see 4.3 above regarding the relevant 2 year deadline.

4.11 Meaning of paid

The amount that can be paid under PITPS scheme is limited by 226A(3)(a) to “*the amount of the chargeable relevant death benefit payable (and not yet paid) to the beneficiary*”

‘Not yet paid’ needs to exclude funds which have been transferred to other schemes, used to purchase dependants’ annuities/dependants’ scheme pensions. It also needs to include cases where it was too late to stop these processes¹⁶.

4.12 Trivial commutation lump sum death benefit

The consultation response helpfully clarifies that “*Therefore, the original pension income, and not the Trivial Commutation lump sum, should be considered for Inheritance Tax purposes.*”

For a DC pot with a GMP or s9(2B) rights underpin, would this mean that only the excess (if any) of the DC pot over the value of the GMP/s9(2B)rights underpin would be considered to be a relevant death benefit? If not, then it might be necessary to consider amendments to DWP’s legislation for payment of GMP¹⁷ and s9(2B)rights¹⁸ as a lump sum in order to permit a payment of a PITPS.

4.13 Date IHT treated as due

Will HMRC treat tax paid by the PSA within the 3 week period as being paid on the date of the notice by the beneficiary to the PSA? How will that date be determined? As the amount to pay includes late payment interest, the beneficiary will need to know the effective date of payment in order to determine the IHT that needs to be paid.

4.14 How IHT funded

We note that the maximum PITPS payment is limited to the remaining relevant death benefit.

However, that does not necessarily mean that the funds used to provide the PITPS payment must come from the relevant death benefit.

For example, if a beneficiary is entitled to a lump sum death benefit of 4 times salary and a DC pot, they might prefer for the PITPS payment to be taken from the lump sum death benefit (which would in any event have to be paid as cash) and to leave the DC pot untouched (which they might be able to designate to drawdown). Would that be permitted?

¹⁶ See for example wording in SI2009/1171 [Regulation 14](#) “A payment is within this paragraph if it is made even though the payer took reasonable steps to prevent its being made or its being made in that amount.”

¹⁷ SI2015/1677 [Regulation 25](#)

¹⁸ SI2015/1677 [Regulation 18](#)

Our view is that it would be best for trustees to decide on any restrictions to which benefits are used to fund the PITPS. This would be analogous to the current position for pension commencement lump sums where each scheme decides on the approach to which benefits are commuted.

The flexibility should be for trustees to decide not beneficiaries. For example, trustees might want to decide that a beneficiary could not commute a DB dependants' scheme pension¹⁹

See also comments on voluntary PITPS in 4.8 above and trivial commutation lump sum death benefits in 4.12 above.

4.15 No lump sum option

As noted in 1.3 above, some schemes require beneficiaries to use their DC/CB funds to provide a pension. Would scheme rules need to be amended in order to permit such schemes to make a payment under PITPS?

4.16 PPF assessment

Where the member died prior to the scheme entering PPF assessment, our understanding is that a relevant death benefit may be payable²⁰. Does the existing DWP legislation permit a scheme in PPF assessment to make a payment under the PITPS?

4.17 QNUPS

We note that the PITPS (and the associated IHT liability for failure to pay within the three week notification period) is limited to registered pension schemes. This makes sense as it would be difficult for HMRC to impose a tax obligation on the scheme managers of QNUPS.

4.18 Business property and agricultural property

The explanation note sets out that "New subsection 150A(4) maintains the existing position that agricultural property relief and business property relief do not apply to the assets, under the pension scheme, treated as part of the estate for Inheritance Tax purposes."

We certainly support that the values provided by PSAs to PRs should be before any agricultural property relief or business property relief. We believe that there should be equal treatment for agricultural property and business property held in pension schemes to the reliefs available in the wider estate. It is a) unfair and b) a disincentive to desirable pension investment in business and agricultural property if pension scheme holdings are uniquely discriminated against by being ineligible for these reliefs.

¹⁹ As a DB dependants' scheme pension is not a relevant death benefit, any PITPS payment must arise on other death benefits within the scheme.

²⁰ Generally, the only death benefits payable during PPF assessment would be dependant scheme pensions and so out of scope of IHT. However, a relevant death benefit might be payable during the assessment period if the member died before the commencement of the assessment period. Pensions Act 2004 S138(12) and SI2005/590 Regulation 17(2)

5 Draft legislation: Section 6: Related changes to income tax rules

5.1 Interaction of IHT and income tax

Where the PRs pay the IHT bill, in order to meet the conditions of s567B(1)(c)(ii), the PRs need to “pass on the burden of this payment to the beneficiary”. Does this need to have taken place on or before 31 January and how would it be evidenced? Would it be sufficient merely for the PRs to pay the IHT by 31 January, since that is an objective tax event that can be easily determined?

567B (2) would provide for a deduction to the taxable pension income for the year if the beneficiary or PR pays IHT in respect of the relevant death benefit by 31 January following the tax year of the payment. It appears to us that, if IHT is not paid until after 31 January following the tax year of death, then the scope to reclaim income tax would fall away. This seems unfair on beneficiaries. Is that the policy intention?

By contrast, where IHT is paid before the pension benefit, 567B(3) provides for the extra IHT to be carried forward to offset against future pension payments.

What happens if the beneficiary dies before all excess IHT has been credited? Would the unrecouped IHT be an asset of the pension beneficiary’s own estate?

5.2 Income tax on IHT refunds

579CB would impose income tax on all IHT refunds to beneficiaries in respect of IHT paid under PITPS. We note that there may be circumstances in which those payments would not have been subject to income tax if they had been made directly to the beneficiary from the pension scheme. Is the policy intention to levy income tax on all such refunds?

It appears that IHT refunds will be made to either the PRs²¹ or the beneficiaries²². We welcome that and would like to emphasise that it is important that the repayments should not be made to the PSAs. As explained in our response²³ to the October 2024 consultation, “Once benefits have been distributed, the deceased member’s record in the pension scheme would potentially have been closed. There are material barriers and complexity in re-opening a closed member record, especially of a deceased member, which are important financial controls to prevent fraudulent activity.”

5.3 PR IHT liability and PITPS overpayments

This question primarily arises if HMRC allowed a voluntary PITPS scheme (see 4.8 above), though overpayments could also arise through adjustments, errors etc.

²¹ HMRC’s response says “Generally, Inheritance Tax refunds will not be made until the deceased’s account is settled. When refunds are issued, PRs are responsible for distributing these to the appropriate beneficiaries.”

²² The explanatory note includes “New section 579CB ... and a subsequent repayment is made directly to the beneficiary, ...”

²³ <https://aca.org.uk/aca-response-says-separate-pension-inheritance-tax-regime-should-be-considered/>

If too much IHT is payable by pension schemes, then the excess should (usually) be subject to income tax so that the income tax treatment is the same as if the payment had been made to the beneficiary. As noted in 5.2 above, if the excess IHT is refunded, then it will be subject to income tax.

Do PR's always retain the liability to meet the IHT due in respect of the non-pension part of the estate, regardless of how much IHT is paid under PITPS? We ask the question because income tax is only levied on an overpayment under the PITPS if it is refunded to the PRs. It is therefore necessary for an IHT overpayment to occur, so that the extra PITPS IHT is refunded.

5.4 LSDBA

What is the policy intention for the lump sum death benefit to be assessed against the LSDBA? Is it the actual lump sum death benefits paid less the IHT payable (regardless of whether the IHT is paid by the PR, beneficiary or PSA)? If so, we think the legislation will need to be amended.

6 Information sharing regulations

In July, HMRC indicated in a workshop that HMRC were looking for feedback in advance that would help to shape the information sharing regulations. We have therefore included some preliminary thoughts below and look forward to providing further comments on the draft regulations.

Administrators need time to update their communications. System changes take months, not least because changes are addressed sequentially and each element locked down and tested before being released. Therefore, we hope that the draft regulations will be available for consultation in the Autumn so that final regulations can be available at least a year before implementation from 6 April 2027.

Although administrators could achieve most sorts of reporting, this may mean more fields being created, and further instructions. This increases the risk of inaccurate or incomplete recording of information. As such, it is helpful to minimise any extra information that needs recording to that which is essential.

6.1 Three stages of disclosures from PSAs to PRs

We welcome that disclosures will be split into three stages. The first providing the total amount of death benefits in scope – for smaller estates, this should enable the PRs to establish that no IHT is payable however the benefits are paid out. Secondly, a split between exempt and non-exempt beneficiaries – this will enable PRs to establish the IHT due, though not how it should be split between beneficiaries. Thirdly, detailed beneficiary information where IHT is payable.

6.2 Initial information from PR to PSA

6.2.1 Spousal exemption

The response document²⁴ says

²⁴ See footnote 10

[PRs] should also inform the scheme whether the deceased had a surviving spouse or civil partner...

PSAs already have processes to determine whether the deceased had a surviving spouse/civil partner. The information that the PSA needs from the PRs is whether the surviving spouse/civil partner will benefit from the spousal exemption.

However, PRs may be the bereaved beneficiary. The number of spouses and civil partners who would understand the tax aspects of sections 6A²⁵ and 6B of the Inheritance Tax Act 1984 concerning long-term residence for IHT purposes, and its interaction with section 18 of IHTA 1984 concerning inter-spousal transfers is likely to be very small. A bereavement is a difficult time for a family. We suggest that it should be encouraged, but optional, for the PRs to provide this information to the PSAs as part of the initial information, as it might not be required, although it would make the PSA's job easier.

6.3 First information from PSAs to PRs: total amount

6.3.1 Date of notification

PSAs often discover that a member has died before being contacted by the PRs. In those circumstances, it is not explicit in the consultation response whether it is the notification of death or the notification from the PRs which sets the deadline running. The period should run from notification from the PRs to the PSAs, not the point at which PSA finds out about the death (if earlier).

6.3.2 4 week disclosure deadline

Sometimes valuing the death benefits will be relatively straightforward, but in other cases, as set out in 4.1 above, it will be impossible to obtain valuations for perhaps up to a year. In addition, to the examples provided in 4.1 there are the additional following points to consider:

- **Provider delays** PSAs will often be dependent on other bodies to provide valuations. For example many pension funds include assets managed by insurance companies. We understand that it can be very challenging to obtain information from an insurance company in a timely manner.
- **Property:** PSAs will require a RICS valuation for any properties. That alone can often take more than 6 months.
- **Disputed valuations:** The valuation can be controversial where there is more than one member of the trust. Payment of the death benefit will result in a real one-off reduction to the pension schemes' assets which will reduce the amount available to other members of that trust. The effective forced sale of assets could mean that it is not just the deceased beneficiaries who will lose out. Trustees have a fiduciary duty to act in the best interests of ALL of the beneficiaries of the trust.

²⁵ <https://www.legislation.gov.uk/ukpga/1984/51/section/6A>

- **Illiquid assets:** We note the Government continued focus on increasing the proportion of assets of pension schemes in less liquid long-term unquoted investments, patient capital or long-term infrastructure. These are likely to be harder and slower to value.

Please see also comments in 2.1 above on schemes in PPF assessment.

We suggest that a longer deadline is required for an accurate valuation – though as noted that is likely to be up to 12 months for some types of assets – or the legislation provides for an approximate value to be provided initially, with confirmation within 12 months. There must be no penalties on the PSAs if their approximation proves to be inaccurate (provided not fraudulent etc).

6.4 Second information from PSA to PR: Exempt/non-exempt split

6.4.1 No deadline.

We welcome that the response indicates that there will be no deadline for the trustees to complete their processes to determine how the benefits should be distributed. Our earlier response²⁶ set out the complexities that can arise.

It would be reasonable to include a deadline that this information is provided to the PRs within 4 weeks of the date the trustees make the decision.

6.4.2 Late payment interest

We note that the response also confirms that there will be no change to the 6-month payment deadline for IHT. Our earlier response²⁷ set out why trustees will need more than six months to make these decisions for complex family situations – but this means that PRs may not be able to determine the estate in time to avoid late payment interest on the estate.

Pension scheme trustees need to be able to carry out their discretionary process as they do currently and the estate/beneficiaries should not suffer any adverse consequences if this takes longer than 6 months. Also trustees should not feel pressured into making discretionary decisions within this deadline - there is a long-established practice of giving trustees (at least) 2 years to make discretionary payments.

Other than for payments from non-discretionary schemes, including relevant death benefits within the scope of IHT will be an additional amount to include. As such, we wonder if there might be a way of imposing effectively the same late payment interest as now on the “free” estate, but without additional penalties applying solely because the PRs cannot finalise their calculations without information from the pension schemes.

PRs are more familiar with the process than us and will be better placed to make suggestions.

²⁶ See footnote 23

²⁷ See footnote 23

6.4.3 Amend discretionary powers

As noted in HMRC's response, the decisions are likely to take longer in discretionary schemes. We expect many trustees to be required and to wish to retain the option to have discretion to choose the beneficiaries (as is currently common in private sector pension schemes). This acts as a safety measure so that they can take the needs and interests of all potential beneficiaries into account – to deal with unusual family situations as well as the frequent position where members' nomination forms are out-of-date (noting that many deferred members do not engage with their occupational pension scheme between leaving the relevant employment and retirement, a period that can run for decades). However, in order to speed up the process, a minority of pension scheme trustees may want to replace their power to choose beneficiaries with a mandatory decision based on scheme rules and/or a nomination form. There would be winners and losers – the losers are most likely to include hard-pressed financial dependants where no nomination form was submitted. We suggest that the Government considers whether an overriding power might be helpful to enable trustees who wanted to make this change to do so. Such a power should be accompanied by appropriate controls, including a requirement to contact members to explain the change so that members have the opportunity to update their nomination forms.

6.4.4 Spousal exemption not confirmed

The response document²⁸ says

Once the PSA has completed their processes to determine how the benefits should be distributed, they will tell the PR how the pension benefits will be split between exempt beneficiaries (such as spouses and civil partners) and non-exempt beneficiaries. This process is expected to take longer for discretionary schemes, due to the additional time needed to complete the trustees' discretionary process.

As noted in 6.2.1 above, the PRs may be unable to confirm whether or not the spouse/civil partner is exempt. If the PRs are unable to confirm that, then we suggest that the disclosure requirements are phrased so that the PSA provides the split between the spouse/civil partner, charities (see 6.4.6 below) and other beneficiaries.

6.4.5 Interaction of spousal and LSDIS exemption

PSAs will need guidance as to how to disclose the split of the benefits where there are LSDIS benefits, a spouse/civil partner and non-exempt beneficiaries.

Consider a member who dies with death benefits of 3 times salary life cover totalling £60,000 plus a DC pot (£100,000 as at the date of death, now increased to £120,000).

If the member had requested that benefits are split 50% to the spouse and 25% to each of their children, and the trustees agree to the member's wishes, the spouse would receive £90,000 and each of the children £45,000. The PSAs would initially disclose the DC pot of £100,000. However, this gives rise to the question of how this is split between the beneficiaries in conjunction with the £60,000 life cover (which is out of scope of IHT) in disclosing amounts to the PRs. For example:

²⁸ See footnote 10

- **Split 50:50 in line with the overall benefit distribution:** If so, then the split disclosed to the PRs would be 50% (i.e. £50,000) to the spouse and 50% (i.e. £50,000) to non-exempt beneficiaries
- **Split most favourably from an IHT position:** If so, then the split be disclosed as 90% to the spouse (i.e. the spouse receives £90,000 from the DC pot at date of death) and 10% to non-exempt beneficiaries (i.e. the balance of the DC pot at date of death of £10,000 split equally between the two children)
- **Split least favourably from an IHT position:** If so, then the split be disclosed as 90% to the non-exempt beneficiaries (i.e. the non-exempt beneficiaries receives £90,000 from the DC pot at date of death) and 10% to the spouse (i.e. the balance of the DC pot at date of death of £10,000)
- **Not split, but extra information provided:** If so, then information would need to be provided to the PRs which wouldn't necessarily otherwise be required. i.e. benefits at death were £160,000 of which £100,000 was a relevant death benefit. Benefits distributed were split £90,000/£90,000 between exempt and non-exempt beneficiaries.
- **Something else:** There is a range of ways the benefits could be split.

These options clearly create very different outcomes from an IHT perspective, and it is not clear which should apply. It should not be for PSAs to make this decision, so the disclosure requirements need to be clear.

Scheme Rules will often specify the criteria to be met by beneficiaries. For example, it is common in DB schemes for a narrower definition to apply to benefits paid as pension than those as a lump sum. We assume that the disclosures for DB schemes would only ever consider the split of the benefits that could be paid as a lump sum only (or, perhaps, relevant death benefit) and so the different beneficiaries in scope for the pension would not matter.

It is possible that there are Scheme Rules which have criteria which vary for different types of relevant death benefits. If so, how should those be disclosed?

6.4.6 Charitable exemption

The policy paper states “The existing Inheritance Tax principles providing exemption for ... registered charities will be maintained.”²⁹ And the explanation note for 150(3) confirms that “delay in the payment being made, or discretion about paying that benefit, will not prevent the exemption applying.”

²⁹ See footnote 1

It appears that the same legal definition³⁰ of charities applies to both lump sum death benefits payable from pension schemes to charities and inheritance tax. However, the associated guidance³¹ for the definition of charity for IHT is considerably longer than that for pension schemes. Please can HMRC confirm that the same definition of charity applies to both payments i.e. that if a lump sum death benefits is paid from a pension scheme to a charity then it will be exempt from IHT (provided that the other criteria are met.)

If the pension scheme pays some or all of a relevant death benefit to a charity, please could HMRC confirm that this would be counted as part of the estate for determining whether the criteria for the 36% rate of IHT is met?

If the payment to the charity was in respect of a LSDIS benefit, which would otherwise be out of scope for IHT, would that also count as part of the estate for determining whether the criteria for the 36% rate of IHT is met?

It will be necessary for PSAs to disclose to PRs the lump sum death benefits paid to charities. Would the exempt amount be the amount paid, or the corresponding amount at death? If amounts are also paid to other beneficiaries, then what should be disclosed to the PRs? Please see 6.4.5 above which considers the equivalent issue for the spousal exemption.

6.4.7 Appointment of beneficiaries

The consultation response states “Pension beneficiaries will become jointly and severally liable for any Inheritance Tax due on unused pension funds and death benefits to which they are entitled from the point at which they are appointed.”

How is the date of appointment determined and evidenced?

6.5 Third information from PSA to PR: Detailed disclosures

We are aware that concerns have already been raised regarding the risk to vulnerable beneficiaries arising from the expanded requirement for PSA to provide, on request, detailed information³² to PRs from 6 April 2024 in connection with LSDBA assessment.

The same comments would apply to the requirements for detailed disclosure on request for IHT.

³⁰ Charity is defined in FA2004 [S280](#) as defined in “section 989 of ITA 2007”. But Finance Act 2010, Sch 6 [para 23](#)(6) removed this definition. A new definition of charity was included in paragraph 1 [Schedule 6](#) Finance Act 2010. [PTM073900](#) sets out the conditions for charity lump sum death benefits and states that a charity is defined in paragraph 1 [Schedule 6](#) Finance Act 2010. The paragraph 1 definition confirms that it applies for IHT.

³¹ The guidance for IHT starts at [IHTM11101](#).

³² SI2006/567 Regulation 8

6.6 PSA information to beneficiaries

6.6.1 Advice/guidance boundary

We recognise that PRs are concerned that beneficiaries may withdraw and spend (perhaps in repaying a debt) their pension scheme benefits leaving them with no tangible asset to meet the subsequent IHT. However, PSAs will be wary of crossing the advice/guidance boundary in the information they provide to beneficiaries. We welcome that HMRC has promised guidance and tools to support PRs, PSAs and beneficiaries. It might also be helpful if HMRC could legislate for standard wording on the risks of taking the full benefit to help address PRs' concerns without PSAs crossing into advice.

6.6.2 Funding the PITPS payment

See 4.14 above which discusses which assets should be used to fund the PITPS payment.

The information provided to beneficiaries should include:

- Where PSAs leave beneficiaries to make the choice: any special requirements for the PITPS notification form e.g., that the request has to be on the form provided by the pension scheme.
- Where PSAs operate a default approach: an indication of the default approach.

6.6.3 Overseas residents

There may be individuals who are now resident overseas but retain UK pension assets.

Please could HMRC confirm that UK pension assets are in scope of IHT for such individuals.

6.7 PITPS request

The information required in a PITPS request depends on some of the policy decisions outlined earlier.

6.7.1 Assets

See 6.6.1 above. Where the beneficiary option information specifies that a scheme specific form must be used to make a PITPS request, then the application should be invalid if that form is not used. This is to ensure that the PSAs have sufficient information to be able identify the assets which should be used to provide the PITPS payment.

6.7.2 Mandatory amount

There could be delays in information flows between the PRs and PSAs. As such, it would be safer for the beneficiary to always be required to provide the amount of IHT due across relevant death benefits in that pension scheme in relation to the beneficiary.

If beneficiaries can make mandatory requests based on estimated IHT (see 4.7 above) then the beneficiary would need to confirm this figure as the PSAs would not have it.

6.7.3 Maximum amount

See 4.8 above which discusses voluntary PITPS. The beneficiary should be asked to confirm that the PITPS payment requested does not exceed the total IHT due across all relevant death benefits in registered pension schemes in respect of that beneficiary. We don't think it should be necessary to confirm what that total IHT is.

6.7.4 Transfers

If the right to PITPS can be transferred, then we expect that the receiving scheme would need to provide details of the relevant death benefit at date of death for the beneficiary (but see 4.10 above).

6.8 Disclosure to HMRC

As far as we can see, there is currently no proposal for PSAs to report to HMRC. This leaves a potential loophole if the only significant benefits for which the PRs need probate are those in a pension scheme.

When the lifetime allowance (“LTA”) was in force, there was a tried and tested reporting of significant death benefits to HMRC. The PSA automatically reported to HMRC when the scheme made a lump sum death benefit payment to a person in respect of the death of a member if that payment, either alone or when aggregated with other such payments from that scheme, amounted to more than 50% of the standard LTA applicable at the time of the member's death³³. (The threshold was approximately £500,000.) The PSA reported the name and national insurance number of the deceased member, together with the name and national insurance number of the person to whom the payment was made, and the amount and date of the payment.

This worked well and was easily understood and applied by PSAs, and it also provided good reporting of information to HMRC.

A simple monetary limit, i.e. reporting lump sum death benefits paid above a certain threshold, perhaps half of the nil rate band, would be simple to operate and could be introduced again.

6.9 Payment of benefits

We very much welcome that PSAs can now pay death benefits without waiting for PRs to be in touch – provided that PSAs have explained the IHT implications to the beneficiary. It would be very helpful if HMRC could issue a statement confirming this as there is some confusion in the industry on this point.

³³ The Registered Pension Schemes (Provision of Information) Regulations 2006, SI 2006/567, regulation 3(1) (Provision of information by scheme administrator to the Commissioners), Item 2. Repealed with effect for the tax year 2024–25 and subsequent tax years: Finance Act 2024, s 14, Sch 9, Pt 5, para 106(2)(a)

6.10 LSDBA

PSAs are currently required to provide PRs with a statement of the amount of the member's [LSDBA](#) expended by a [relevant lump sum death benefit](#) within three months of the relevant lump sum death benefit being paid^{34 35}.

In 5.4 above, we asked whether the policy intention was whether the amount expended should be calculated gross or net of any IHT liability.

Either way, for clarity, please could PTM include examples of the LSDBA disclosures required from PSAs to PRs and from PRs to HMRC where a relevant death benefit is paid; and (i) IHT is paid by the PSA; and (ii) IHT is paid by the PR.

7 Key definitions

CB: Cash balance schemes. Under Finance Act 2004, these are treated as a type of money purchase benefit.

CDC: Collective defined contribution. Under Finance Act 2004, these are defined as collective money purchase benefits.

DB: Defined benefit as defined in Finance Act 2004. This does not include cash balance schemes.

DC: Defined contribution. Under Finance Act 2004, these are defined as other money purchase benefits.

Financial dependant: An individual who is classed as a dependant under Finance Act 2004³⁶ as eligible to receive a dependants' scheme pension. Essentially, this definition covers:

- Spouse/Civil partner³⁷
- A child of the member if under 23
- A person (not a child of the member) who was financially dependent or interdependent on the member
- A person who was dependent on the member due to physical or mental impairment.

It does not cover adult children (age 23 or over) unless dependent on the member due to physical or mental impairment.

³⁴ SI2006/567 [Regulation 14](#).

³⁵ ITEPA 2003 [S637S](#) (2)(a) Relevant benefit crystallisation events in relation to an individual, means ... a person being paid a relevant lump sum death benefit in respect of the individual

³⁶ <https://www.legislation.gov.uk/ukpga/2004/12/schedule/28/paragraph/15>

³⁷ Including, if the scheme rules so provide, any person the member was married to or a civil partner of when the member first started to draw a scheme pension. We understand this is to cover cases where payments need to be made following a divorce.

LSDBA: Lump sum death benefit allowance

LSDIS: A lump sum death in service benefit as defined in draft clause 150A(6)

“In subsection (5), “death-in-service benefit” means a lump sum death benefit which under the terms of a registered pension scheme—

(a) is payable in respect of a member of the scheme in the event of the member’s death, and

(b) is not payable unless the member is an active member of the scheme, and in employment of a description specified in the terms of the scheme, immediately before their death.”

PITPS: Pension Inheritance Tax Payments Scheme. As defined in Clause 3 of the draft legislation.

PSA: Pension Scheme Administrator. The legal liability for compliance rests with the PSAs; in a trust-based occupational pension schemes these are typically the trustees. The trustees typically delegate the day-to-day administration to administrators. In this response, we have not generally distinguished between where the PSA or their delegated administrator is taking the action.

QNUPS: qualifying non-UK pension schemes³⁸.

QROPS: Qualifying recognised overseas pension scheme. A recognised overseas pension scheme that satisfies certain HMRC requirements³⁹.

Relevant death benefit: This is the definition relevant for the IHT legislation. “relevant death benefit” means—

- a) a pension death benefit,
- b) a lump sum death benefit, or
- c) payments made in accordance with pension rule 2 in section 165(1) of the Finance Act 2004 (continuing payments after death) or that would be made in accordance with that rule if the scheme in question were a registered pension scheme,

but does not include a dependants’ scheme pension or a death-in-service benefit.

Relevant lump sum death benefit: This is the definition for the LSDBA legislation. “relevant lump sum death benefit” means any authorised lump sum death benefit other than—

(i) a charity lump sum death benefit, or

(ii) a trivial commutation lump sum death benefit.”⁴⁰

³⁸ IHTA [S271A](#) and [SI2010/0051](#)

³⁹ [PTM112100](#) - International: qualifying recognised overseas pension schemes (QROPS): what makes a scheme a QROPS

⁴⁰ ITEPA 2003 [S637S](#) (2)(c)

Relevant two year period: The relevant two year period begins with the earlier of—

(i) the day on which the scheme administrator first knew of the member's death, and

(ii) the day on which the scheme administrator could first reasonably have been expected to know of the death