TISA

# ALTERNATIVE APPROACHES TO TAXING UNUSED PENSION WEALTH AT DEATH

## A REPORT FOR TISA

JULY 2025

Prepared by OXFORD ECONOMICS

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July 2025

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# FOREWORD BY TISA

The treatment of unused pensions within the inheritance tax (IHT) framework is an issue that has garnered increasing attention in recent months. While both pensions and IHT are individually complex areas, the prospect of integrating them creates a significant challenge—one that risks introducing further complication, confusion, and unintended consequences for individuals, families, and professionals alike.

This paper outlines alternative solutions to the government's proposal to include unused pension funds within the value of a person's estate for IHT purposes. From the additional burden placed on personal representatives (PRs), many of whom are grieving family members, to the increased likelihood of errors, delays, and unintended tax liabilities, the issues span far beyond mere policy intent. Particularly concerning is the potential impact on individuals in vulnerable circumstances, many of whom may be forced to make rushed decisions under stress and within tight deadlines.

The interaction between pension scheme administrators (PSAs) and PRs would become far more intensive, constrained by time pressures and complex calculations around nil-rate bands and asset valuations. The implications are clear: longer delays in paying death benefits, greater risk of interest charges for late IHT payments, and the possibility of misallocation of entitlements due to outdated or binding nominations replacing flexible discretionary decisions. The appendix provides a more detailed breakdown of some of the key challenges and risks that the proposed IHT approach creates, along with the benefits of alternative models.

Moreover, there are broader behavioural concerns. Including unused pensions within IHT risks undermining long-standing efforts to promote sustainable retirement planning and responsible pension savings. It could prompt individuals to reconsider increasing pension contributions and draw down their pension savings prematurely, diminishing retirement adequacy and potentially increasing future reliance on state support.

While no solution is without its challenges, we recognise the government's focus on this area. The current proposals, however, risk delivering poor outcomes for consumers. In this paper, we outline alternative approaches that aim to achieve a more equitable and less detrimental outcome than the one currently under consideration. These alternative approaches maintain simplicity; ensure beneficiaries receive funds in a timely manner; leverage existing processes between HMRC and beneficiaries; and protect customers in vulnerable circumstances, while still delivering the intended fiscal objectives. Furthermore, we would like to emphasise that annuity death benefits and registered group life insurance (i.e. death in service payments) should remain outside the scope of the government's current pensions and IHT proposals. These benefits do not align with the policy's intended objectives, as they cannot be used as tax incentivised wealth savings vehicles and serve as an important financial lifeline for beneficiaries following the death of a loved one. As such, annuity death benefits nor death in service benefits are included in the analysis, and we strongly advocate for their exclusion from any future changes.

We hope this paper contributes meaningfully to the wider debate and encourages the exploration of balanced, practical solutions. We remain committed to working constructively with government to ensure any changes serve the best interests of consumers, the industry, and the public purse alike.

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# EXECUTIVE SUMMARY

The UK government has announced plans to bring unspent pension pots and death benefits into scope of inheritance tax (IHT) from April 2027. The Investing and Saving Alliance (TISA) has commissioned Oxford Economics to estimate the fiscal impacts of two alternative policy proposals designed to improve outcomes for pension scheme members, beneficiaries and pension scheme administrators while raising the same level of tax revenues as the government's proposal.

- Under **Proposal 1**, inherited pension pots and DB lump sum death benefits[1] can only be taken as taxable income over time if the beneficiary is a dependant. If the beneficiary is not a dependant, then they must take the full pension value as a lump sum paying income tax at their marginal rate. There is no difference in income tax based on the age at which an individual dies and the tax only applies where the deceased's remaining unused fund exceeds £90,000.
- Under **Proposal 2**, a standalone flat rate "inheritable pension tax charge" is paid on all unused pension funds and DB lump sum death benefits above a threshold. Each deceased individual has their own threshold and there is no spousal exemption. Separately, the income tax treatment of pensions based on age remains unchanged with pension wealth being tax-free when the deceased is under the age of 75 and taxed at the recipient's marginal rate when the deceased is over the age of 75. Three combinations of threshold and flat rates have been modelled for this proposal—Option A (25% rate and £150,000 threshold); Option B (30% rate and £200,000 threshold); and Option C (35% rate and £250,000 threshold).

The mechanism for collection of the tax would mirror the existing process for collection of death benefits which exceed the LSDBA i.e. the Personal Representative would liaise with HMRC to determine and arrange collection of any tax due from beneficiaries.

Prior to assessing the fiscal impact of the alternative proposals, the modelling framework **was tested against outturn IHT receipts data as well as the OBR's forecasts for IHT receipts**. The model performed well against these tests providing confidence in the robustness of our analytical framework.

Our modelling suggests that **the government's policy will raise £1.3 billion in additional IHT revenues in the first year** following implementation compared to the OBR's £1.1 billion estimate. In the following years **revenues from the government's proposal increase in both forecasts to exceed £2.0 billion**.

Our modelling shows that **revenues raised through the alternative policies aligned closely with revenues raised by the government's proposal**. The difference in revenue between the alternative proposals and the government's proposal never exceeds £40 million in any year of the forecast. This demonstrates the scope to move to alternative policy options with minimal impact on the public finances.

This analysis **focuses on the fiscal impact of the alternative proposals** relative to the government's plans. It does not consider the impact these policies may have on pension savings behaviour, how the policies would affect different types of beneficiaries across the income spectrum, or the practicalities of implementation.

[1] Annuity death benefits and registered life assurance schemes not captured in the modelling for either proposal.

# 1. INTRODUCTION

In the Autumn Budget 2024 the government announced plans to bring unspent pension pots and death benefits into scope of inheritance tax (IHT) from April 2027.[2] The rationale for this change was to restore the principle that pensions should not be a vehicle that can be used by individuals to accumulate wealth for the specific purpose of inheritance planning, as was the case prior to pension reforms in 2015. The Investing and Saving Alliance (TISA) has commissioned Oxford Economics to estimate the fiscal impacts of two alternative policy proposals. These proposals have been designed to show that there are alternative to IHT that improve outcomes for pension scheme members, beneficiaries and pension scheme administrators while raising the same level of revenues as the policy put forward by the government.

- Under **Proposal 1**, inherited pension pots and DB lump sum death benefits can only be taken as taxable income over time if the beneficiary is a dependant. If the beneficiary is not a dependant, then they must take the full pension value as a lump sum paying income tax at the required rate. There is no difference in income tax based on the age at which an individual dies and the tax only applies where the deceased's pot exceeds £90,000.
- Under **Proposal 2**, a standalone flat rate "inheritable pension tax charge"' is paid on all unused pension funds and DB lump sum death benefits above a threshold. Each deceased individual has their own threshold and there is no spousal exemption. Separately, the income tax treatment of pensions based on age remains unchanged with pension wealth being tax free when the deceased is under the age of 75 and taxed at the recipient's marginal rate when the deceased is over the age of 75. Three combinations of threshold and flat rates have been modelled, each of which raise revenues that are broadly equivalent to the government's proposal (see 0).

A detailed description of the proposals and modelling approach can be found in the Appendix.

**Fig. 1 Proposal 2—flat rate inheritable pension tax charge and threshold combinations**

| | Inheritable pension tax charge | Threshold |
|---|---|---|
| Proposal 2A | 25% | £150,000 |
| Proposal 2B | 30% | £200,000 |
| Proposal 2C | 35% | £250,000 |

As acknowledged by the Office for Budget Responsibility (OBR), there is significant uncertainty regarding the exact level of revenues that will be raised by reforms to the taxation of pension wealth at death. However, the primary value of this analysis is to assess whether, when analysed through a robust modelling framework, the revenues raised from the alternative policies are broadly equivalent to the government's proposal. Sensitivity analysis has been performed on the core analytical assumptions to present plausible ranges around our central revenue estimates for the government's proposal and TISA's two alternative proposals.

This analysis focuses on the fiscal impact of the alternative proposals relative to the government's plans. It does not consider the impact these policies may have on pension savings behaviour, how the policies would affect different types of beneficiaries across the income spectrum, or the practicalities of implementation.

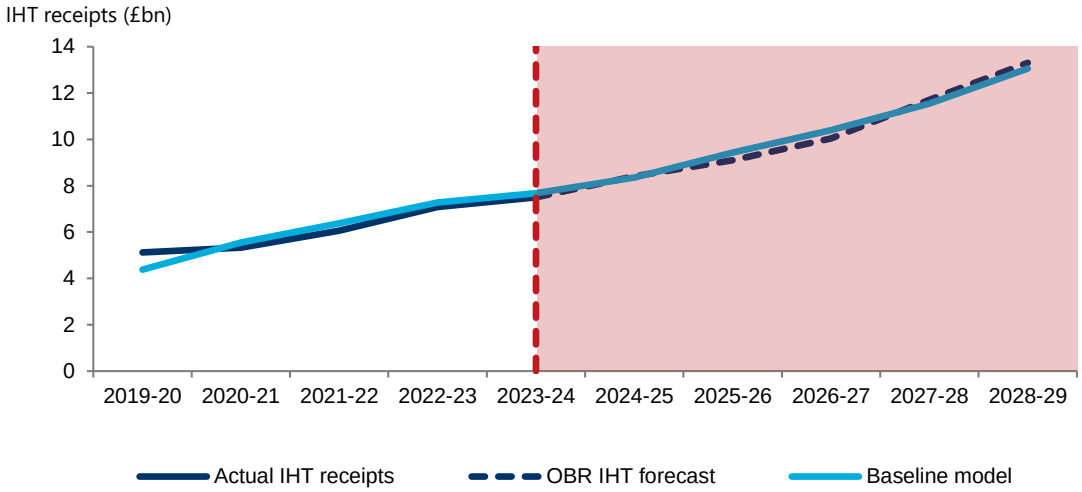
[2] HM Government, Autumn Budget 2024

# 2. ANALYSIS

### 2.1 MODEL TESTING

As a first step, prior to modelling the expected fiscal impact of the government's proposed policy and TISA's two alternative policies, the model was tested against outturn data and the OBR's "no policy change" baseline. The chart in 0 shows that our model closely tracks actual outturn IHT receipts between 2019-20 and 2023-24 and the OBR's forecast after that providing confidence in the robustness of our analytical framework.

**Fig. 2. Estimated IHT receipts relative to outturn and the OBR forecasts**




Source: Oxford Economics, OBR

### 2.2 ESTIMATING THE FISCAL IMPACT OF THE GOVERNMENT'S PROPOSAL

The second step was to estimate the fiscal impact of the policy proposed by the government and compare our estimates to the estimates published by the OBR in their Economic and Fiscal Outlook – October 2024.[3] The OBR's estimates *only* relate to IHT gains, rather than the impact of the policy on overall revenues (IHT and income tax), so this revenue stream is the focus for our comparison. The modelling in the subsequent sections includes the impact of the policies on *both* IHT and income tax.

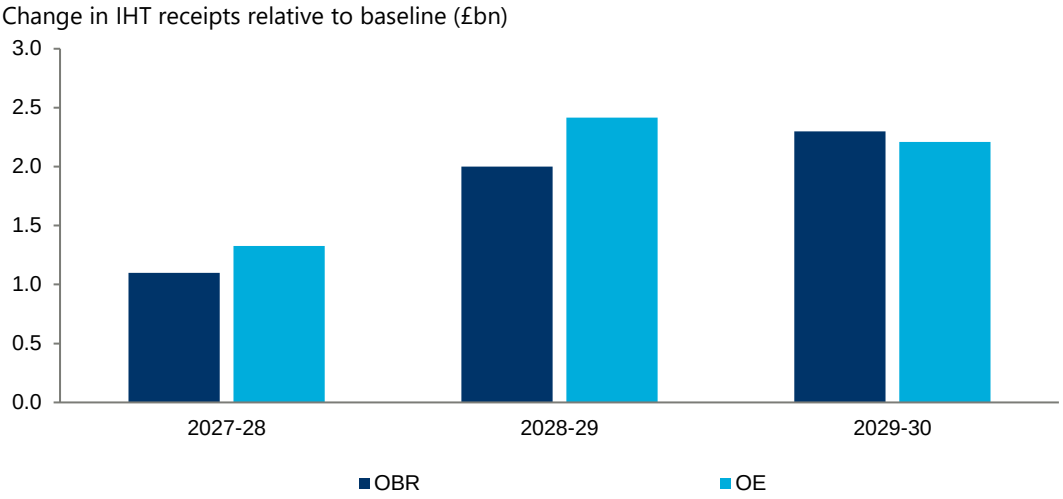
As seen in 0,[4] our estimates for IHT revenues raised through the government's proposal closely follow the OBR's forecast. Our modelling suggests that the government's policy will raise £1.3 billion in additional IHT revenues in the first year following implementation compared to the OBR's £1.1 billion estimate. In the following years revenues increase in both forecasts to exceed £2.0 billion.

The rationale for the lower tax take in the first year is that not all IHT revenues from deaths that occur in 2027-28 will fall in that first year, so some revenues from deaths in this period (and each subsequent period) will fall in the following financial year. The fall in revenues between 2028-29 and 2029-30 is driven by a behavioural response assumption which mirrors that applied by the OBR.

[3] The Office for Budget Responsibility, Economic and Fiscal Outlook – October 2024.

[4] Fig. 3 only goes to 2029-30 as this is the last year for which the OBR have provided estimates of the additional IHT receipts raised through the government's proposal.

**Fig. 3. Estimated increase in IHT receipts relative to OBR forecast**




Source: Oxford Economics, OBR

### 2.3 ESTIMATING THE FISCAL IMPACT OF THE ALTERNATIVE PROPOSALS

Each of the alternative proposals has been designed to ensure that the revenues raised align closely to the revenues raised through the government's proposal. For Proposal 1, the threshold above which the tax applies to the deceased's pension pot was adjusted to £90,000 to align the revenues raised through this proposal with the government's proposal. It was not feasible to adjust the tax rate in this proposal as the rate is based on the marginal tax rates of beneficiaries.

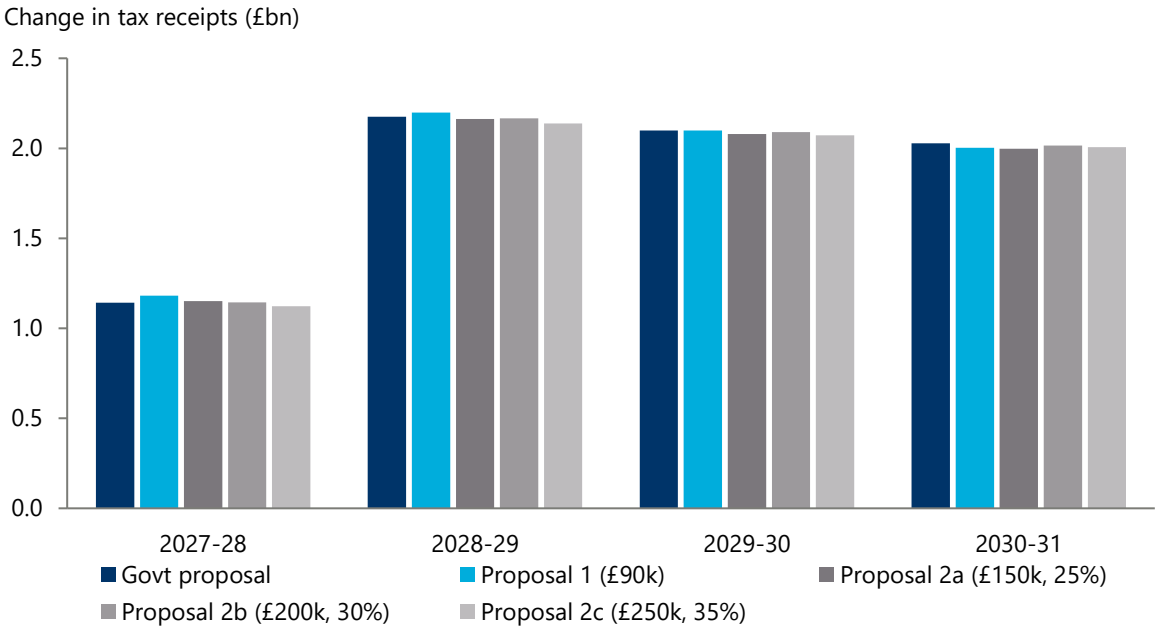
For Proposal 2, three alternative combinations of thresholds and flat rate 'inheritable pension tax charges' were modelled (see 0). Again, these were set to align the revenues raised with the government's proposal. Proposal 2A has the lowest rate of tax but leads to the largest proportion of estates falling into scope of taxation. In contrast, Proposal 2C has the highest rate but would leave fewer estates liable for the flat rate "inheritable pension tax charge".

**Fig. 4. Proposal 2—flat rate inheritable pension tax charge and threshold combinations**

| | Inheritable pension tax charge | Threshold |
|---|---|---|
| Proposal 2A | 25% | £150,000 |
| Proposal 2B | 30% | £200,000 |
| Proposal 2C | 35% | £250,000 |

The additional tax revenues raised from Proposal 1 and the three variations of Proposal 2 over the 2027-28 to 2030-31 period can be seen in 0. The revenues raised by each alternative proposal align closely with revenues raised by the government's proposal. Across all policies the difference to the government's proposal never exceeds £40 million in any year of the forecast.

**Fig. 5. Additional tax revenues raised in the government proposal and the alternative proposals**




Source: Oxford Economics

### 2.4 SENSITIVITY ANALYSIS

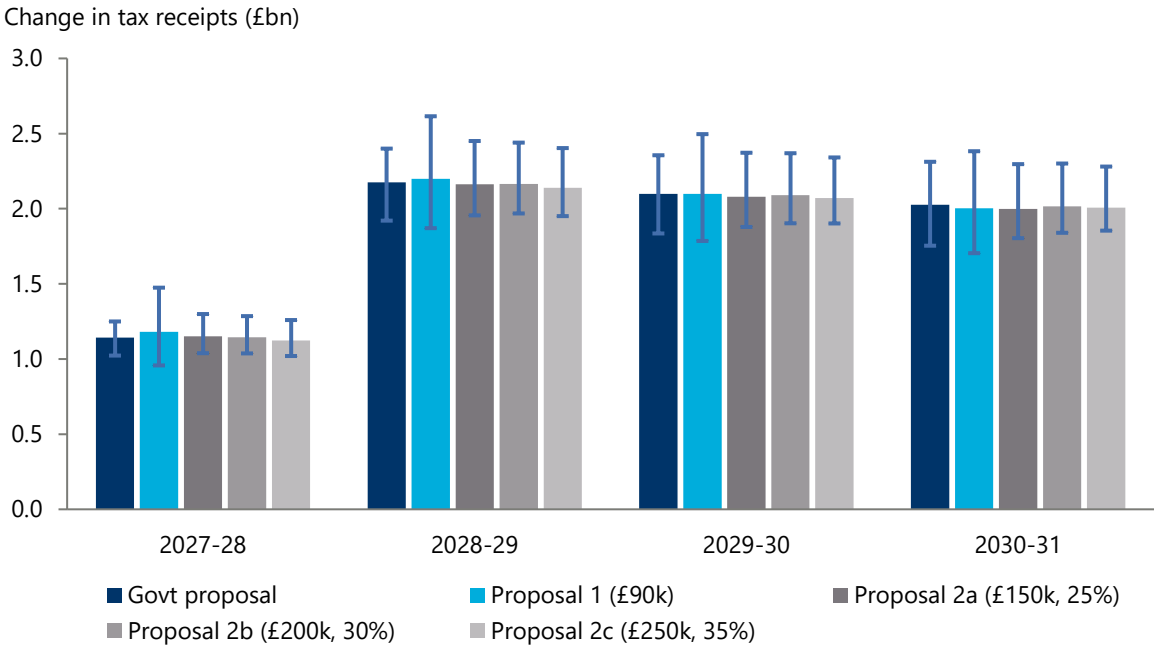
There is significant uncertainty regarding the exact level of revenues this that will be raised by changes in how pensions are taxed at death. As such, analysis has been carried out to test how sensitive the revenue take from each policy is to the following key assumptions: the rate at which individuals drawdown on their pensions; the rate at which a non-spouse beneficiary draws down on their inherited pension income; pension contribution rates; and the marginal tax rate of non-spouse beneficiaries. The assumptions used in the low, central, and high scenarios are set out in 0.

**Fig. 6 Sensitivity analysis assumptions**

| | Low | Central | High |
|---|---|---|---|
| Pension drawdown rate per (p.a) | 6% | 5% | 4% |
| Non-spouse beneficiary drawdown rate (p.a.) | 4% | 8% | 12% |
| Pension contribution rate | Min 8% (for all ages) | Min 8% (for all ages) | Under 40 - min 8%<br>40 to 50 – min 10%<br>50 to 60 – min 12%<br>60 to retirement - min 15% |
| Marginal tax rate of non-spouse beneficiaries | 25% | 30% | 35% |

The maximum range between the high and low sensitivities is £750 million in the forecast for Proposal 1 (see 0). This is driven by uncertainty around the marginal income tax rate that will be paid by non-spouse beneficiaries on inherited pension wealth.

**Fig. 7. Sensitivity analysis results**




Source: Oxford Economics

# APPENDIX – TISA

**This section sets out TISA's views on potential challenges relating to including pensions within scope of Inheritance Tax.**

There are a number of issues with including pensions within Inheritance Tax (IHT). These are both complex areas with specific rules which don't easily mesh together, rather creating many more additional complexities which need to be worked through.

It would instil many more requirements on Personal Representatives (PRs) – who are frequently family members not professionals - to deal with more, often high value, assets. The key issues include:

**Complexity and lack of understanding**

Describing the complexities of how IHT fits with pensions is difficult. People generally don't understand IHT with many people believing it will apply to them when it in fact won't. YouGov polling in July 2023 found that 15% of Britons believed they would have to pay IHT on a future inheritance, and 31% expected tax would be levied on the assets they leave behind.[5] However, in the 2020–2021 tax year, fewer than 4% of estates (3.7%) actually paid inheritance tax[6] .

PRs would need to understand the interaction with the value of other non-pension assets, the availability of the IHT nil rate band, the inheritability of a nil rate band should the member's spouse have pre-deceased them, the additional complexity around residential nil rate band, the interaction with IHT reliefs and administrative easements which apply to non-pension assets and many other factors. Simply PRs will in many cases need to seek – and pay for – professional estate advice to make sure they have accounted correctly, thus reducing the value of the estate for the beneficiaries

Interactions between PRs and PSAs will be much more significant with much tighter timescales than is currently the case.

PSAs will need to be able to communicate this to clients and beneficiaries in a simple, clear and not misleading manner, which won't be straightforward.

**Vulnerable customers**

PRs are frequently a spouse/partner or a child of the deceased. Those who have recently experienced the death of a family member are more likely to display characteristics of vulnerability. Especially as many may also have concerns or issues around future financial security. Together this means these individuals may be at greater risk of harm and be more susceptible to behavioural biases.

Including pensions with the estate for IHT is likely to drive behaviour which focuses on speed of process – given the six-month window – at the expense of client understanding, and client support. Ideally, firms will have customer service that responds flexibly to the needs of vulnerable consumers. And for some bereaved clients that may mean taking slightly more time to understand and consider options, rather than rushing into decisions. Overall, this process with its very tight deadlines and financial penalties doesn't fit well with the support firms may want to provide to vulnerable customers.

[5] YouGov / The Times Survey Results, 11th July2023: Survey Report

[6] Inheritance tax: Who's paying it, how much is it generating and is it just the rich who benefit from its abolition? | Money News | Sky News

**Slower payment of death benefits**

Under most pension schemes, the Trustees use their discretion to determine who should receive the pension death benefits. It is rare that members make a binding nomination who should inherit.

Once the scheme is informed of death it will go through a process to determine suitable beneficiaries to receive the death benefits. That is often a reiterative process involving many discussions with family and others. Once the decision on beneficiary(ies) is made, currently those benefits would then be paid.

However, if pensions fall within IHT there will be a further step involved. The scheme needs to tell the PRs of the value of benefits and who they are being paid to. HMRC proposals give PSAs two months to do this, which will prove impractical for most cases.

Once the PRs have that information from every pension scheme (the majority of people will have multiple pension pots) and full details of all non-pension assets they will be in a position to tell schemes how much nil rate band is apportioned to the scheme. So effectively all schemes will be working to the pace of the slowest scheme.

The deadline for payment of IHT is six months after the month in which death occurred. Given the fact notification of death to the PSA is often weeks or months after death, and the involved process in determining suitable exercise of the PSAs discretion, meeting this deadline will be challenging in many cases.

This is likely to lead to many more beneficiaries paying late interest charges, reducing the value of their inherited pensions.

**Multiple schemes and illiquid assets**

This could be a slower process if there are multiple pension schemes or, if schemes hold illiquid or esoteric assets, which are hard to value. Or if the PRs have difficulty valuing assets or identifying all the assets which the deceased held in the individual's wider estate.

The proposed rules set out that the PSA is liable for the IHT for the first 12 months following the member's death. This means normally the IHT will be paid from the pension scheme and can't be paid from other assets outside of the pension.

Under current rules IHT must be paid within six months following the end of the month in which the individual died. This means all of the above steps must be completed within that timescale or late interest penalties will be added to the IHT bill.

The timescale will be more problematic where the pension scheme isn't informed of death quickly. Some schemes may also contain illiquid assets which may create practical difficulties if there is not sufficient realisable assets in the pension to pay the tax bill. We acknowledge that, to an extent, the issue of illiquid assets to pay beneficiaries and account for tax applies whatever solution is implemented.

**HMRC reconciliation**

In many estates further assets are often discovered at a later date. For example, a small savings policy which PRs were initially unaware of or an additional bank account. The discovery of these additional assets at a later date means the calculations around IHT and the apportionment of the nil rate band between the pension and non-pension assets will have been incorrect.

HMRC are then likely to have to reconcile this, revising figures, approaching PRs, beneficiaries and schemes to correct the position and then either requesting further payments or refunding overdue tax. This will cause confusion, complexity and additional cost for all, including HMRC.

**Changing pension and savings behaviour**

If Government proceed with including pensions within the estate for IHT purposes, it will drive significant changes to long-term savings behaviour.

Firstly, it is likely many more people will start to withdraw greater amounts from their pensions at younger ages, and then throughout their later life. Which increases the risk of these individuals having a poor outcome. This behaviour is likely to be across a much wider cohort than the 8% of customers which HMRC suggests will be affected by including pensions in IHT. Encouraging greater pension withdrawals – which may not be sustainable over the individual's lifetime – runs contrary to work which the FCA has undertaken to encourage more people to withdraw a sustainable retirement income. The Government has recognised sustainability as an issue and Phase two of the Government's Pensions Review aims to assess retirement adequacy.

As people withdraw greater amounts at younger ages this increases the likelihood of people falling back on State benefits later in life. Many will also have less capital wealth to cope with the costs of long-term care and may need greater State support than would previously have been the case.

Secondly, including pensions within the IHT environment is likely to discourage people from making pension savings. Which runs contrary to the FCA's aims of giving consumers confidence in pension savings as a vehicle and the aim of securing better outcomes for customers.

**Removal of discretionary powers**

If Government proceeds with including pensions within IHT, schemes will look at ways of increasing the speed of payment. One option is to remove a scheme's discretionary powers over the recipient of death benefits. A binding nomination made by a member could instead be used and would potentially speed up part of the process – while not necessarily removing all of the issues mentioned above as there would still be a reliance on other schemes and the PRs.

While this would potentially increase speed there is potential for consumer detriment. Discretion allows schemes to choose the most appropriate beneficiary(ies) taking into account all of the deceased's circumstances. That wouldn't be the case with a binding nomination so could mean benefits are paid to an individual who was nominated many years ago and now has no or little connection to the member.

**Benefits of using an alternative method**

We understand the Government's policy desire to raise additional revenue from those wealthier clients passing on pension funds to their families. But we believe it is worth exploring other options which can achieve that policy objective, rather than simply focusing on how they could be included in the IHT environment.

This paper sets out some alternative options to tax pension money passed on after death, which raise similar amounts of tax to including pensions within IHT. Rather than recommend just one alternative option, our aim is to provoke debate and a wider discussion around the best way to move forward rather than simply pushing ahead with the pension and IHT proposals.

An alternative method potentially has many advantages including:

**Simplicity for members and beneficiaries**

Communicating a charge which is solely based on the size of the remaining pension fund, potentially alongside a certain level of tax-free element, is much simpler.

**Quicker payment and lower costs for beneficiaries and schemes**

Schemes would not have to rely on the speed of other schemes or the PRs in making payments – they could do so quickly and easily. This greatly simplifies the process and administrative burden falling on schemes. Remembering that any increase in costs which schemes experience will, over time, likely be passed to consumers.

Paying benefits quickly and outside the IHT environment will also avoid any additional costs falling on beneficiaries – such as late payment interest.

**Benefits for HMRC**

Using one of the alternative approaches will allow schemes or beneficiaries to pay tax to HMRC quickly and easily using established processes. This will mean HMRC receive tax much more quickly and it is much more likely to be an accurate amount.

There will be little, or no, reconciliation required at HMRC reducing work and costs.

# APPENDIX – OXFORD ECONOMICS

**ESTIMATING HOUSEHOLD WEALTH**

The Wealth and Asset Survey (WAS), conducted by the Office for National Statistics, is the key dataset underpinning the modelling for this study. The WAS is the UK's most detailed household financial survey, containing data on assets and liabilities. In the modelling it is used to estimate the value of non-pension wealth and pension wealth held by individuals.

The WAS is published with a long reporting lag meaning that the data are not timely. A summary of the approaches used to extrapolate and forecast the value of non-pension and pension wealth held by each individual surveyed in 2030 is detailed below.

**Non-pension wealth**

The value of property owned is extrapolated / forecasted using Oxford Economics' forecasts of regional house prices.

The remaining mortgage balance is estimated using current mortgage data, including interest rate and mortgage term from the WAS, and the projected path of interest rates. We subtract the mortgage balance from the property value to estimate the value of equity held in property. This approach applies to both the main residence and any additional residences that individuals may own.

The approach to extrapolating / forecasting the value of financial assets held by individuals differs depending on whether they are retired or not. It is assumed that retirees are not making new investments in financial assets and therefore the value of assets held are forecast to grow according to the projected return on the respective assets. Retirees are also assumed to drawdown the value of their financial assets at 5% per year.

For non-retirees, additional investments (based on national trends) are factored into changes in financial assets alongside market performance. Once an individual reaches state retirement age they are assumed to shift into the retiree cohort with the evolution of their non-pension wealth following the approach detailed above.

Household liabilities are forecasted using the growth in national household debt sourced from Oxford Economics.

**Pension wealth**

For our modelling we only consider the share of total pension wealth that will be liable to inheritance tax. We therefore exclude estimates of the lump sum value of annuities and salary scheme defined benefit pensions (calculated in the WAS) from pension wealth.

Our approach to extrapolating / forecasting the value of pension wealth held by individuals differs depending on whether they are retired or not. In the central forecast retirees are assumed to drawdown their pension at 5% per year and have their pension invested in low-risk assets.

Non-retirees are assumed to contribute the same proportion of their income into their pension each year (in the central scenario) and the distribution of asset classes shifts towards lower risk and lower return assets from the age of 55 onwards. When an individual within a household reaches the state pension age, they are assumed to take their maximum tax-free lump sum in withdrawals spread evenly until age 75, this assumption was based on feedback from industry experts. They are also assumed to use a proportion of their pension wealth to purchase an annuity. These lump sum withdrawals are removed from pension wealth that is liable to inheritance tax.

**TAX LIABILITY**

**Probability of survival**

We model the probability of survival over time for each individual using mortality rates, split by age band and gender, published by the Office for National Statistics.[7] In each subsequent year, individuals will be subject to higher mortality rates given they will be a year older. The probability that an individual passes away each year is given by the incremental decrease in the probability of survival.

**Probability-weighted tax liability**

In each year, we estimate the inheritance tax and income tax liability for recipients of inheritance based on wealth and demographic assumptions related to the deceased and assumptions on the marginal tax rate of the recipient. For the deceased, this considers the value of their pension and non-pension wealth and their demographic characteristics (such as age, marital status, and whether they have children). The latter may affect the nil-rate allowances and drawdown options of the policies considered. More details on the modelling approach for different cohorts for all the policies can be found in Appendix 2.

Inheritance tax and income tax paid on lump sum payments from an inherited pension will only occur in the year of death. However, income tax paid when a beneficiary draws down the inherited pension as income will occur in all subsequent years after the death up until the value of the inherited pension reaching zero. In our central scenario we assume non-spouse beneficiaries draw down at a rate of 8% and spouse beneficiaries draw down at rate which maintains their household income.

The tax liability for the wealth of a deceased individual is multiplied by the probability that they pass away in that year to estimate the probability-weighted tax liability. We aggregate the tax liability of every individual to a national value using the relevant weights within the WAS.

[7] Nomis, "Mortality statistics – underlying cause, sex and age", accessed May 2025

**ASSSUMPTIONS**

This section sets out the policy assumptions that underpin our modelling. The assumptions are set out across six different cohorts to reflect differences in the way the tax will be applied based on relationship status and age.

**Cohort 1—married, aged over 75**

| Wealth | Category | Baseline | Government proposal | Proposal 1 | Proposal 2 |
|---|---|---|---|---|---|
| Non-pension | Under £325,000 | No IHT—below threshold | No IHT—assume all non-pension wealth is left to spouse | No IHT—below threshold | No IHT—below threshold |
| | Over £325,000 | No IHT – assume all non-pension wealth is left to spouse | | | |
| | | | | | |
| Pension | Total | Pension wealth split 75%-25% between spouse and non-spouse. Beneficiary takes inherited pension as income.<br><br>For spouse, drawdown is chosen to maintain their household income. For non-spouse, drawdown at 8% per year and beneficiary pays 30% marginal income tax. | 100% of pension wealth inherited by spouse.<br><br>Beneficiary takes inherited pension as income. Drawdown is chosen to maintain their household income. | Pension wealth split 75%-25% between spouse and non-spouse. Beneficiary takes inherited pension as income.<br><br>For spouse, drawdown is chosen to maintain their household income.<br><br>If have dependent children, then take as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax.<br><br>If no dependent children, then take all as lump sum and pay income tax at beneficiary marginal rate. | Pension wealth split 75%-25% between spouse and non-spouse. Beneficiary takes inherited pension as income.<br><br>For spouse, drawdown is chosen to maintain their household income.<br><br>For non-spouse, assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax. |

**Cohort 2—married, aged under 75**

| Wealth | Category | Baseline | Government proposal | Proposal 1 | Proposal 2 |
|---|---|---|---|---|---|
| Non-pension | Under £325,000 | No IHT—below threshold | No IHT—assume all non-pension wealth is left to spouse | No IHT—below threshold | No IHT—below threshold |
| | Over £325,000 | No IHT—assume all non-pension wealth is left to spouse | | | |
| | | | | | |
| Pension | Below LSDBA threshold | Outside scope of IHT.<br><br>Pension wealth split 75%-25% between spouse and non-spouse. Beneficiary takes inherited pension as income.<br><br>For spouse, drawdown is chosen to maintain their household income. For non-spouse, drawdown at 8% per year and beneficiary pays no income tax. | No IHT – assume all is left to spouse.<br><br>Assume take all as income-tax-free lump sum. | Pension wealth split 75%-25% between spouse and non-spouse. Beneficiary takes inherited pension as income.<br><br>For spouse, drawdown is chosen to maintain their household income.<br><br>If have dependent children, then take as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax.<br><br>If no dependent children, then take all as lump sum and pay income tax at beneficiary marginal rate. | Pension wealth split 75%-25% between spouse and non-spouse. Beneficiary takes inherited pension as income.<br><br>For spouse, drawdown is chosen to maintain their household income.<br><br>For non-spouse, assume drawdown inherited pension at 8% per year and beneficiary pays no income tax. |
| | Above LSDBA threshold | | No IHT – assume all is left to spouse.<br><br>Assume maximum income-tax-free lump sum is taken. (LSDBA threshold minus maximum tax-free lump sum taken whilst alive (i.e., 25% capped at £268,275)).<br><br>Remaining pension assumed to be taken as income. Assume annual income drawdown is chosen to maintain their household income. | | |

**Cohort 3—widowed, aged over 75**

| Wealth | Category | Baseline | Government proposal | Proposal 1 | Proposal 2 |
|---|---|---|---|---|---|
| Non-pension | Under £325,000 | No IHT—below threshold | Assume get full unused nil-rate allowance from spouse.<br><br>Pay IHT if value of total wealth (pension + non-pension) is above £650,000 or £1 million (depending on whether have children) | No IHT—below threshold | No IHT—below threshold |
| | Over £325,000 | Assume get full unused nil-rate allowance from spouse.<br><br>Pay IHT if value of non-pension wealth is above £650,000 or £1 million* (depending on whether have children) [8] | | Assume get full unused nil-rate allowance from spouse.<br><br>Pay IHT if value of non-pension wealth is above £650,000 or £1 million (depending on whether have children) | |
| | | | | | |
| Pension | Total | Outside scope of IHT.<br><br>Assume take all as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax. | See table above for IHT.<br><br>Assume take all as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax. | Outside scope of IHT.<br><br>If have dependent children, then take as income.<br><br>Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax.<br><br>If no dependent children, then take all as lump sum and pay income tax at beneficiary marginal rate. | |

[8] Subject to total estate being valued less than £2m. Assumption is made on proportion of people who have children.

**Cohort 4—widowed, aged under 75**

| Wealth | Category | Baseline | Government proposal | Proposal 1 | Proposal 2 |
|---|---|---|---|---|---|
| Non-pension | Under £325,000 | No IHT—below threshold | Assume get full unused nil-rate allowance from spouse.<br><br>Pay IHT if value of total wealth (pension + non-pension) is above £650,000 or £1 million (depending on whether have children) | No IHT—below threshold | No IHT—below threshold |
| | Over £325,000 | Assume get full unused nil-rate allowance from spouse.<br><br>Pay IHT if value of non-pension wealth is above £650,000 or £1 million* (depending on whether have children) [9] | | Assume get full unused nil-rate allowance from spouse.<br><br>Pay IHT if value of non-pension wealth is above £650,000 or £1 million (depending on whether have children) | |
| | | | | | |
| Pension | Below LSDBA threshold | Outside scope of IHT<br><br>Assume take all as income-tax-free lump sum. | See table above for IHT.<br><br>Assume take all as income-tax-free lump sum. | Outside scope of IHT.<br><br>If have dependent children, then take as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax.<br><br>If no dependent children, then take all as lump sum and pay income tax at beneficiary marginal rate. | Pension assumed to be taken as income. Assume drawdown inherited pension at 8% per year and beneficiary pays no income tax. |
| | Above LSDBA threshold | Outside scope of IHT<br><br>Pension assumed to be taken as income. Assume drawdown inherited pension at 8% per year and beneficiary pays no income tax. | See table above for IHT.<br><br>Assume maximum income-tax-free lump sum is taken. (LSDBA threshold minus maximum tax-free lump sum (25% of pension, capped at £268,275).<br><br>Remaining pension assumed to be taken as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax. | | |

[9] Subject to total estate being valued less than £2m. Assumption is made on proportion of people who have children.

**Cohort 5—not married, aged over 75**

| Wealth | Category | Baseline | Government proposal | Proposal 1 | Proposal 2 |
|---|---|---|---|---|---|
| Non-pension | Under £325,000 | No IHT below threshold | Pay IHT if value of total wealth (pension + non-pension) is above £325,000 or £500,000 (dependent on whether have children) | No IHT—below threshold | No IHT—below threshold |
| | Over £325,000 | Pay IHT if value of non-pension wealth is above £325,000 or £500,000 (dependent on whether have children) | | Pay IHT if value of non-pension wealth is above £325,000 or £500,000 (dependent on whether have children) | |
| | | | | | |
| Pension | Total | Outside scope of IHT.<br><br>Assume take all as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax. | See table above for IHT.<br><br>Assume take all as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax. | Outside scope of IHT.<br><br>If have dependent children, then take as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax.<br><br>If no dependent children, then take all as lump sum and pay income tax at beneficiary marginal rate. | |

**Cohort 6—not married, aged under 75**

| Wealth | Category | Baseline | Government proposal | Proposal 1 | Proposal 2 |
|---|---|---|---|---|---|
| Non-pension | Under £325,000 | No IHT—below threshold | Pay IHT if value of total wealth (pension + non-pension) is above £325,000 or £500,000 (depending on whether have children) | No IHT—below threshold | No IHT—below threshold |
| | Over £325,000 | Pay IHT if value of non-pension wealth is above £325,000 or £500,000 (dependent on whether have children) | | Pay IHT if value of non-pension wealth is above £325,000 or £500,000 (depending on whether have children) | |
| | | | | | |
| Pension | Below LSDBA threshold | Outside scope of IHT<br><br>Assume drawdown inherited pension at 8% per year and beneficiary pays no income tax. | See table above for IHT.<br><br>Assume take all as income-tax-free lump sum. | Outside scope of IHT.<br><br>If have dependent children, then take as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax.<br><br>If no dependent children, then take all as lump sum and pay income tax at beneficiary marginal rate. | Pension assumed to be taken as income. Assume drawdown inherited pension at 8% per year and beneficiary pays no income tax. |
| | Above LSDBA threshold | | See table above for IHT.<br><br>Pension assumed to be taken as income. Assume drawdown inherited pension at 8% per year and beneficiary pays 30% marginal income tax. | | |

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