Assets, Residence and Valuation team
HM Revenue and Customs
100 Parliament Street
London SW1A 2BQ

FCA
Smaller Business Practitioner Panel

By email

14 January 2025

Dear Sir/Madam,

Inheritance Tax on pensions: liability, reporting and payment

The UK's Financial Conduct Authority (FCA) Smaller Business Practitioner Panel (the Panel) is a statutory Panel created by the FCA with the key remit of representing the interests of practitioners of small and medium sized firms, and providing input to the FCA from the industry in order to help it in meeting its statutory and operational objectives in an effective manner. Further details of the Panel are available on its website at: https://www.fca.org.uk/panels/smaller-business-practitioner-panel.

The Panel welcomes the opportunity to respond to this consultation. Our main reflections are that the longer-term outcomes sought are unlikely to be achieved by the proposals, looking at the broader context of the need to encourage saving for retirement and later life. We have highlighted some concerns with the new processes which will also impact desired outcomes.

Firstly, people's faith in pensions savings has been eroded by successive rule changes over the last decade, and these proposals are likely to exacerbate this situation and prompt a change in behaviour. As one example the application of tax on death benefits where death occurs over age 75 is likely to be viewed as unfair, especially as 81% of pension fund holders will live beyond this age. It can be expected there will be a negative impact on new saving as well as existing savers potentially deciding to decumulate faster leaving less intergenerational wealth transfer. If there is a wider aim of delivering better retirement outcomes for those in the UK, the changes to exemptions could have material negative impact in the longer-term.

More consideration is also needed on how the proposals would be administered. In our view the 6-month deadline for Pension Scheme Administrators (PSAs) to pay inheritance tax (IHT) is unworkable as:

- An individual may typically have several pension pots and also DB schemes.
- The PSA will not know the complex calculations (value of estate, other exempt assets, the residence nil-rate band and the nil-rate band remaining based on previous gifts etc) to establish the IHT charge and apportion the nil-rate band between pension and non-pension assets and will need time to work with the deceased's Personal Representatives to establish this, which often includes spouse/civil partner and children.
- Many SIPPs have assets that are non-liquid, such as the commercial property that the partners operate from. How is the IHT to be settled within 6 months on death of a co-owner in these situations? Will there need to be a change in the asset regime?
- Will some pension administrators outsource to third parties at a charge to the customer?

Other areas requiring further consideration include:

- As IHT is proposed to be paid by the pension pot, the PSA will not be able to make payments to beneficiaries, including a dependant spouse, until the IHT charge is deducted and paid. Is this intended?
- Many employers have 'death in service' benefits set up under pension scheme rules, and these will be caught by the new IHT charge. Is this intended?
- Will IHT on annuity protection to dependants will be exempt from IHT, in line with dependants' scheme pensions?

We would be happy to discuss any of these points further.

Yours faithfully,

[signed]

Andy Mielczarek
Chair, FCA Smaller Business Practitioner Panel