

# Inheritance Tax on Pensions: CenTax Response

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## 1 About CenTax

We are researchers at the Centre for the Analysis of Taxation (CenTax), a research centre co-hosted by LSE and University of Warwick. CenTax is dedicated to improving public understanding of tax policy and helping to design a better tax system, by generating evidence that is rigorous and relevant to policymakers and the public. Further information about CenTax is available via our website.

Our work focuses on tax policy design and the measurement of tax policy outcomes. We conduct cutting-edge research on the behavioural and economic impacts of tax policy changes and have contributed substantively to debates on tax policy in the UK over recent years. We use HMRC administrative data accessed through a secure research environment that allows us to compare academic research findings with official government costings, providing insight into how policy analyses are conducted.

We sent this in response to the government's consultation on Inheritance Tax on Pensions: Liability, Reporting and Payment which can be found [here](#).

## 2 General principles of reform

We strongly support the introduction of Inheritance Tax (IHT) on pension funds and death benefits from 6 April 2027. We do not express any view on what the overall level of IHT should be, but for so long as IHT exists it is important that it applies comprehensively to all asset types, both to avoid economic distortions to investment behaviours and to prevent unjustified horizontal inequity between individuals of equivalent levels of total wealth.

We note the absurdity of the incentives created by the existing exemption of pension funds from IHT, such that pensioners were effectively encouraged by the tax system to use everything except their pension to fund their retirement. The reform is welcome in correcting this obvious anomaly. Indeed, we think that the government should be commended for tackling this issue now, before the cumulative distortion to savings and investment behaviours (since the exemption was introduced in 2015) gets any worse.

### **3 Liability, reporting and payment**

In principle, we see a strong case for treating pension funds as part of the deceased's estate, rather than levying a fixed charge on the withdrawal by beneficiaries as was the case prior to 2015. This is because, in line with the general principles discussed above, we think that a well-designed IHT should apply neutrally across asset types. The most direct way to achieve this is to include the pension fund within the chargeable estate like any other asset.

However, in practice, we can see that there are some potential challenges of administration arising from the lack of comprehensive information held by either the pension scheme or the executors of the estate independently. We do not wish to comment in detail on the exchange of information and reporting mechanisms that the government has proposed to address this, as we think that pension industry experts may be better placed here. Instead, we wish to emphasise three key principles that we think the government should keep in mind:

#### **3.1 Neutrality across asset types**

As explained above, we think it is important that IHT applies neutrally across all asset types. This should be the overriding principle unless there are very strong policy reasons for divergence and exceptions are carefully circumscribed. When considering the tax treatment and administration of pension funds for IHT, the government should therefore expressly consider whether proposals would result in an advantage or disadvantage for estates comprising pension fund assets compared with other types of asset and seek to minimise these discrepancies as far as possible. We think that neutrality across asset types is the strongest argument in favour of treating pension funds as part of the chargeable estate, rather than levying a separate fixed charge.

#### **3.2 Timeliness of payments to beneficiaries**

We understand that payments by pension schemes are often amongst the first resources made available to relatives following the death of the deceased, because they are unaffected by any delays in administration of the wider estate (whether resulting from IHT reporting or other reasons). We acknowledge a risk that bringing pension funds within the chargeable estate for IHT could threaten timeliness of payments, causing genuine hardship to beneficiaries who are entitled to the (post-tax) funds. We think it is important that the mechanism for charging IHT on pension funds is designed in such a way as to strike an appropriate balance between the

need to ensure IHT compliance and the need to facilitate timely payments. Ideally, this consideration should be applied to all estates and not only to those comprising pension funds.

### **3.3 Data collection for compliance and policy evaluation**

We think it is crucial for compliance and policy evaluation purposes that all data relating to pension funds held by deceased is collected in such a way that it can be reliably linked with data on the rest of the deceased's estate. We emphasise that it is not sufficient that data can be linked on a case-by-case basis, for example by manual matching of records. To be useful for risk-assessment and policy evaluation, any data links must be fully automated, ideally by ensuring integration of the reporting system for pension funds within the main IT infrastructure for IHT (under the new digitised system). This consideration should be factored into the design of relevant reporting mechanisms by pension schemes and executors.