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PATHways
Pension Administration Technical Help

Highlighting pensions news and legislation that has particular relevance to what we do in pension administration

Inheritance Tax - Finance (No. 2) Bill 2024-26

The Government published the Finance (No. 2) Bill on 4 December 2025. When passed, and subject to amendments as it passes through Parliament, this will form the Finance Act 2026. The Bill provides the initial details of how unused pension funds and certain death benefits in registered pension schemes are to be treated, given they will be included in the value of the deceased member's estate for the purposes of inheritance tax (IHT) for deaths from 6 April 2027. These include:

Valuation of death benefits

- For DC arrangements, broadly, the total value at the member's date of death which may be used to provide death benefits (including any unused pension funds) is to be treated as part of the estate for IHT purposes.
- For DB arrangements, broadly, the amount of any lump sum death benefit and any 'guaranteed' pension payments that must be paid or can reasonably be expected to be paid based on actuarial assumptions, on the death of the member are to be treated as part of the estate for IHT purposes.
- As it currently stands, the following will be exempted from IHT:
  - death in service benefits, as defined for this purpose;
  - dependant's scheme pensions;
  - dependant's or nominee's annuities if purchased together with a lifetime annuity for the member,
  - charity lump sum death benefits, and;
  - trivial commutation lump sum death benefits in respect of a dependant's scheme pension.

Withholding and payment notices

The Bill introduces some additional options that will be available for the processing and payment of IHT where it becomes due from pension benefits from 2027, in addition to the current routes for personal representatives to deal with IHT, such as paying from the free estate. This includes:

- In some circumstances, the personal representative of the estate may give a notice to the scheme administrators directing the scheme to withhold, for up to 15 months after the end of the month of the member's death, up to 50% of the unused pension or death benefits subject to IHT.
- Where the amount of IHT in respect of unused pension or death benefits to be paid by a scheme to a particular person exceeds £1,000, and subject to other conditions, a person liable for that tax may give a notice to the scheme administrator directing them to pay the IHT (and any interest due) to HMRC.

Further important details will be set out through regulations and guidance, for example on the revised information requirements for scheme administrators dealing with the death of a member. The Government informs that most estates are not expected to incur the tax charge as they will be exempt from IHT as the value of the estate will either be under the relevant threshold, or will be passed to a spouse or civil partner.

TPR publishes administration guidance

The Pensions Regulator (TPR) has published revised guidance on scheme administration. This focuses on the practical steps schemes can take to meet TPR's expectations as outlined in the administration section of their general code of practice. The guidance builds on some of the findings of TPR's recent market oversight report, which highlighted some issues with data quality. The guidance applies whether the administration for a scheme is in-house or outsourced. The guidance is split into the following sections:

Responsibilities in scheme administration

This includes that a scheme's trustees should have governance and internal controls which ensure that the scheme rules, legal and regulatory obligations are followed, whilst providing good value for members. This should include having a written scheme administration policy, as well as trustees monitoring the performance of the administration function. Trustees should seek evidence that IT systems used to deliver administration services are adequate for their scheme's operational requirements.

Key administration activities

This covers TPR's expectations for member communications, contributions, transfers, payment methods, investment procedures and DB risk reduction incentive exercises.

Key administration considerations

This sets out TPR's guidance on standards of record-keeping and data management, disaster recovery and business continuity, and breach reporting.

Maintaining the quality of administration service

This section goes into more detail about the required contents of a scheme's administration policy and contractual arrangements with any third party administrators. It also covers the reporting and performance measures which the administrator should produce for the scheme's trustees.

HMRC newsletter 176

HM Revenue & Customs (HMRC) has published its Pensions schemes newsletter 176 for December 2025. This includes articles on:

- The new reporting function on the Managing pension schemes (MPS) service for transfers to qualifying recognised overseas pension schemes. This replaces the paper APSS262 form previously used for this purpose.
- Confirmation that the look-up service for member allowance protections and enhancements will be moved to the MPS service in 2026.
- An update confirming that pension scheme administrators and practitioners will be exempted from the forthcoming requirement from the Finance (No. 2) Bill for 'tax advisers' to be registered with HMRC.