



THORNTONS WEALTH

DON'T MISS THE DEADLINE FOR INDIVIDUAL SAVINGS ACCOUNTS

Have you fully utilised this wrapper that shields
your savings and investments from tax?



TIME TO BOOST YOUR RETIREMENT FUND

*Maximise your pension planning before
the end of the 2025/26 tax year*

DON'T LET YOUR PENSION FUNDS DISAPPEAR

*How financial awareness can protect your
hard-earned retirement savings*

DECODING RECENT PENSION CHANGES

*Staying informed and maximising available
tax benefits for a comfortable retirement*

Thorntons Wealth

Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU

T: +44 (0)1382 797600 **E:** enquiries@thorntons-wealth.co.uk **W:** www.thorntons-wealth.co.uk

Thorntons Wealth is a trading name of Drumnor Investments Limited (SC438886) and Thorntons Wealth Management Ltd (SC241755). Both companies are registered in Scotland and the registered address is Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU. The companies are authorised and regulated by the Financial Conduct Authority.





04 DON'T MISS THE DEADLINE FOR INDIVIDUAL SAVINGS ACCOUNTS

Have you fully utilised this wrapper that shields your savings and investments from tax?

06 TIME TO BOOST YOUR RETIREMENT FUND

Maximise your pension planning before the end of the 2025/26 tax year

08 DON'T LET YOUR PENSION FUNDS DISAPPEAR

How financial awareness can protect your hard-earned retirement savings

10 DECODING RECENT PENSION CHANGES

Staying informed and maximising available tax benefits for a comfortable retirement

12 A NEW ERA FOR PENSION INHERITANCE

The inevitable shift in the approach to intergenerational wealth transfer



Thorntons Wealth

Whitehall House, 35 Yeaman Shore,

Dundee DD1 4BU

T: +44 (0)1382 797600

E: enquiries@thorntons-wealth.co.uk

W: www.thorntons-wealth.co.uk

Thorntons Wealth is a trading name of Drumnor Investments Limited (SC438886) and Thorntons Wealth Management Ltd (SC241755). Both companies are registered in Scotland and the registered address is Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU. The companies are authorised and regulated by the Financial Conduct Authority.



WELCOME TO THE LATEST ISSUE OF THORNTONS WEALTH MAGAZINE.

Welcome to the January 2026 issue of Thorntons Wealth's monthly e-zine newsletter.

In this issue, we examine how Individual Savings Accounts (ISAs) offer a tax-efficient way to save or invest, shielding earnings such as interest, capital gains, and dividends from tax. With a £20,000 annual allowance for the 2025/26 tax year, savers can allocate funds across various ISA types, including Cash ISAs, Stocks & Shares ISAs, and Lifetime ISAs. Recent changes from the Autumn Budget 2025, such as reduced Cash ISA limits and restrictions on transfers, aim to encourage younger savers to explore investment options. Utilising the allowance before the 5 April 2026 deadline is crucial to maximising tax-free growth opportunities and aligning savings with financial goals.

Maximising pension contributions before the 2025/26 tax year ends on 5 April can secure valuable tax relief and boost retirement savings. Pension contributions remain highly tax-efficient, with an annual allowance of £60,000, though tapering rules apply to high earners. The article highlights the importance of salary sacrifice arrangements and the Money Purchase Annual Allowance, particularly in light of upcoming changes, such as the cap on salary-sacrificed earnings. Proactive planning ensures savers can make the most of current rules, providing a stronger foundation for long-term retirement goals.

Millions of UK adults risk losing track of their pensions due to job changes, with many unaware of their current providers or the value of lost pots. Consolidating scattered pensions can simplify finances and reduce fees, yet many avoid this step due to confusion or perceived difficulty. Practical advice includes using the Pension Tracing Service, updating personal details with providers, and keeping clear records. Even small pension pots can grow significantly over time, making it essential to stay organised and take control of retirement savings.

Recent pension updates from the Autumn Budget 2025 bring both opportunities and challenges. The State Pension will rise by

4.8% in 2026/27, providing a welcome boost, while tax-free cash allowances and pension tax relief remain unchanged. However, a cap on salary-sacrifice contributions from 2029 may impact higher earners. These changes underscore the need to reassess pension strategies to adapt to new rules. Staying informed and maximising available tax benefits are key to maintaining a strong financial footing for retirement.

The inclusion of pensions in Inheritance Tax (IHT) from April 2027 marks a significant shift in intergenerational wealth transfer. Unused pension funds will now form part of an estate for IHT purposes, potentially affecting beneficiaries, particularly unmarried partners. This change may prompt savers to explore alternative strategies, such as ISAs or lifetime gifts, to minimise tax liabilities. While pensions remain valuable for immediate tax relief, their appeal as an inheritance tool may diminish. Careful planning and professional advice are essential to navigate these changes and protect assets for future generations.

We hope you find this issue insightful. If you know someone who would enjoy it, please feel free to share it with them.

Best wishes,

Thorntons Wealth

The content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change, and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results.

DON'T MISS THE DEADLINE FOR INDIVIDUAL SAVINGS ACCOUNTS

Have you fully utilised this wrapper that shields your savings and investments from tax?

AN INDIVIDUAL SAVINGS ACCOUNT (ISA) IS HIGHLY EFFECTIVE FOR ANYONE LOOKING TO SAVE OR INVEST MONEY IN A TAX-EFFICIENT WAY. AN ISA FUNCTIONS AS A WRAPPER THAT SHIELDS YOUR SAVINGS AND INVESTMENTS FROM TAX. ANY INTEREST, CAPITAL GAINS OR DIVIDENDS EARNED WITHIN AN ISA ARE COMPLETELY TAX-FREE, ENABLING YOUR MONEY TO GROW MORE EFFICIENTLY THAN IT WOULD IN A STANDARD SAVINGS ACCOUNT.

For the 2025/26 tax year, every eligible UK resident has an annual ISA allowance of £20,000. You can choose to save or invest the full amount in a single ISA or spread it across multiple ISAs, based on your financial goals. The flexibility of the ISA system means there is probably an option suited to your needs, whether you're saving for a short-term aim or investing for your long-term future.

UNDERSTANDING YOUR OPTIONS

There are different types of ISAs available. The most common is the Cash ISA, which functions similarly to a regular savings account but provides the key advantage of tax-free interest. For those willing to accept a higher

level of risk in exchange for the potential for better returns, a Stocks & Shares ISA allows investment in a wide range of assets, including funds, bonds and individual company shares, without incurring Capital Gains Tax or Dividend Tax.

The Lifetime ISA (LISA) has also been in the spotlight following the Autumn Budget 2025. While the current LISA still allows you to save for your first home or retirement and offers a government bonus, the government has announced a consultation to replace it with a new, simpler product aimed solely at first-time buyers.

Other specialised ISAs include the Innovative Finance ISA (IFISA), which involves peer-to-peer lending. Each type has its own

rules and benefits, so it is important to understand which one suits your personal circumstances and savings goals.

CHANGES TO CASH ISAS

The Autumn Budget 2025 has announced significant changes to Cash ISAs. From April 2027, the annual limit for new contributions to Cash ISAs will decrease to £12,000 for those under 65. If you are 65 or over, you can still contribute up to the current limit of £20,000 to your Cash ISA each tax year. Despite this change, the overall annual ISA allowance stays at £20,000, allowing you to allocate your remaining allowance to other types of ISAs, such as Stocks & Shares ISAs or Innovative Finance ISAs.

However, the new regulations will prevent transfers from Stocks & Shares ISAs or Innovative Finance ISAs into Cash ISAs. Additionally, interest earned on cash within Stocks & Shares ISAs or Innovative Finance ISAs will now be taxed, discouraging the accumulation of large cash balances in investment-focused accounts. These changes aim to encourage younger savers to explore investment options for long-term growth,



while safeguarding older savers who might prefer the security of cash savings.

DON'T MISS THE DEADLINE

The ISA allowance is available on a 'use it or lose it' basis each tax year. Your allowance for the 2025/26 tax year cannot be carried forward, so it is crucial to make your contributions before the 5 April 2026 deadline. Failing to utilise your allowance means missing out on a valuable opportunity to grow your savings tax-efficiently.

Whether you're an experienced investor or just starting your savings journey, making full use of your annual ISA allowance is a wise financial decision. Take control of your financial future by exploring the advantages of ISAs. Whether you're aiming to grow

your wealth tax-efficiently or secure a reliable income stream, ISAs provide a flexible and effective way to reach your goals. ■

DOES YOUR ISA STRATEGY ALIGN WITH YOUR FINANCIAL GOALS?

With a variety of options available, from Cash ISAs to Stocks & Shares ISAs, selecting the right one can make a significant difference. Don't face these decisions alone; contact us to ensure your ISA strategy aligns with your financial goals and maximises your potential returns. To help your money work harder for you, please get in touch.

THIS ARTICLE IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE. TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE. THE VALUE OF INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVEST.

TIME TO BOOST YOUR RETIREMENT FUND

Maximise your pension planning before the end of the 2025/26 tax year

AS THE 2025/26 TAX YEAR ENDS ON 5 APRIL, NOW IS THE RIGHT TIME TO REVIEW YOUR PENSION ARRANGEMENTS AND ENSURE YOU'RE MAXIMISING ALL AVAILABLE ALLOWANCES. TAKING PROACTIVE STEPS IN PENSION PLANNING NOW CAN HELP YOU SECURE VALUABLE TAX RELIEF, BOOST YOUR RETIREMENT FUND AND PREPARE FOR THE FUTURE. ACTING QUICKLY ALLOWS YOU TO FULLY UTILISE THE RULES BEFORE THE NEW TAX YEAR BEGINS, ENSURING YOU DON'T MISS OUT ON POTENTIAL BENEFITS.

Recent economic and political events have emphasised the importance of practical pension contributions and understanding relevant limits. Although the broader tax landscape has seen minor changes, adjustments to thresholds and regulations affecting pensions can significantly influence your long-term retirement plans. With the deadline approaching, it is crucial to make any final top-ups to your pension while you still can.

REVIEWING PENSION ALLOWANCES AND TAX RELIEF

Pension contributions remain one of the most tax-efficient methods to save for retirement.

Contributions receive tax relief at your marginal rate, making each pound you invest work harder for your future. As the tax year concludes, review your contributions against your annual allowance to ensure you do not miss out on this valuable relief.

An annual allowance limits how much someone can pay into pension schemes each year before incurring Income Tax. In 2025/26, individuals can contribute up to £60,000 into pension schemes without paying Income Tax. Typically, tax relief is not available for pension contributions above an individual's earnings. However, individuals can still contribute up to £3,600 annually, including tax relief, even if their earnings are below this amount.

MAXIMISE YOUR CONTRIBUTIONS FOR THIS YEAR

The annual allowance is tapered for higher earners. It decreases by £1 for every £2 earned above £260,000 (including pension contributions), and tapering ends when the allowance reaches £10,000. In defined contribution pension schemes, individuals accumulate a retirement savings pot.

In certain situations, if someone withdraws money from a defined contribution scheme, the amount they can contribute to these schemes in the future while still receiving tax relief is permanently reduced. The lower limit, known as the Money Purchase Annual Allowance, is set at £10,000 per year. For those with variable incomes, it is advisable to consider whether carry-forward rules on pension allowances can help you maximise contributions this year.

LAST CHANCE FOR PENSION PLANNING OPPORTUNITIES

The end of the tax year is a crucial time to make extra pension contributions if you can afford them.



Even small additional payments can receive immediate tax relief, providing a smart boost to your retirement savings. For higher and additional rate taxpayers, claiming the full amount of tax relief could make a significant difference.

Review salary sacrifice arrangements and confirm that contributions are processed before the end of the tax year. This is especially important given recent updates from the Autumn Budget 2025, which introduced a £2,000 cap on salary-sacrificed earnings sheltered from National Insurance contributions from April 2029. Planning ahead will help you maximise the current rules before they change.

As the 2025/26 tax year ends on 5 April, keeping your pension planning

current remains one of the most effective ways to secure your retirement. Maximising contributions, using available allowances and understanding any rule changes can protect and grow your savings for the future. ■

**TIME TO MAKE
WELL-INFORMED DECISIONS
FOR YOUR FUTURE
RETIREMENT PLANS?**

For personalised guidance on your pension plans, we'll assist you in making confident and well-informed decisions about your future. To learn more, please contact us.

THIS ARTICLE IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE. TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY CHANGE IN THE FUTURE. A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. INVESTMENTS CAN FALL AS WELL AS RISE IN VALUE, AND YOU MAY GET BACK LESS THAN YOU INVEST.

DON'T LET YOUR PENSION FUNDS DISAPPEAR

How financial awareness can protect your hard-earned retirement savings

IN AN ERA WHEN JOB CHANGES ARE COMMON, MILLIONS OF PEOPLE IN THE UK RISK LOSING TOUCH WITH THEIR HARD-EARNED RETIREMENT SAVINGS. NEW RESEARCH HIGHLIGHTS A CONCERNING GAP IN FINANCIAL AWARENESS, WITH MANY INDIVIDUALS POTENTIALLY MISSING OUT ON A SIGNIFICANT PART OF THEIR FUTURE INCOME BECAUSE PENSION POTS FROM PREVIOUS JOBS HAVE BEEN FORGOTTEN.

The findings are eye-opening: one in four UK adults (26%) admit they do not know who their current pension provider is^[1]. This lack of engagement is made worse by the fact that two-thirds (66%) have never attempted to locate a lost pension, even though the average lost pension pot is worth around £9,470^[2]. This reveals a widespread misunderstanding of how pensions work when people change jobs, with a quarter (24%) unaware that switching employers can result in multiple, separate pension pots.

GROWING PROBLEM OF SCATTERED SAVINGS

Fewer than one in three people (30%) have carefully kept records of all their pension

funds from previous jobs. Although merging these scattered savings into a single plan is often recommended as a practical solution, most have not taken this step. A significant 60% of adults have never combined their workplace pensions, a trend surprisingly common among older, more experienced generations.

This reluctance is clear across all age groups. Nearly three-quarters of the Silent Generation (73%) and two-thirds of both Baby Boomers (65%) and Gen X (66%) have never combined their pensions. Younger workers show a similar pattern, with over half of Millennials (50%) and Gen Z (55%) still to consolidate. Despite the potential advantages of these unclaimed savings, many who haven't combined their pensions

have no plans to do so, often because they don't know where to start (31%) or feel it would be too much trouble (10%).

SIMPLE STEPS TO LOCATE YOUR LOST FUNDS

Even if a pension pot seems small, it can grow substantially over time, making the effort to find it worthwhile. Tracking down your savings might seem intimidating, but there are simple ways to help you re-establish control. A good starting point is to look for any old paperwork, as pension providers are required to send you an annual statement with important details about your plan.

If you cannot locate any documents, you can contact your previous employers directly. They will have records of the pension scheme they offered and can give you the administrator's contact details. For those still having difficulty, the government's free Pension Tracing Service is an invaluable resource. With your National Insurance number and employment dates at hand, you can use the service to find up-to-date contact details for past employers and providers.



HOW TO KEEP YOUR PENSIONS IN ORDER

Once you have found all your savings, it is important to keep them secure and prevent them from being misplaced again. Ensure your personal details, such as your address and personal email, are up to date with all your pension providers. This allows them to contact you with important information, even long after you have left a job. Keeping a clear record of each plan will give you a complete overview of your retirement savings.

This comprehensive overview helps you make informed decisions, such as whether consolidation is right for you. Combining your pots can simplify your finances and, in some cases, reduce fees.

However, it is crucial to check carefully beforehand, as some older pension schemes may include valuable guarantees or benefits that could be lost if you transfer them. Taking the time to understand what

you have is the first step towards a more secure financial future. ■

WOULD YOU LIKE TO DISCUSS WAYS TO ENHANCE YOUR RETIREMENT PLAN?

For advice on finding your pension pots or improving your retirement plan, speak to us about taking control of your future. Don't let your hard-earned savings disappear. To discuss your concerns or review your current plans, please contact us.

Source data:

[1] Research conducted amongst 2,000 UK adults on behalf of Standard Life by Opinium from 12–15 August 2025.

[2] The average size of a lost pension pot, according to the Pensions Policy Institute.

THIS ARTICLE IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE. TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY CHANGE IN THE FUTURE. A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. INVESTMENTS CAN FALL AS WELL AS RISE IN VALUE, AND YOU MAY GET BACK LESS THAN YOU INVEST.

DECODING RECENT PENSION CHANGES

Staying informed and maximising available tax benefits for a comfortable retirement

LAST NOVEMBER'S AUTUMN BUDGET 2025 STATEMENT OUTLINED A SERIES OF UPDATES FOR PENSIONERS AND THOSE SAVING FOR RETIREMENT. WHILE A WELCOME INCREASE TO THE STATE PENSION WAS CONFIRMED FOR APRIL, THE CHANCELLOR ALSO ANNOUNCED A FUTURE CAP ON SALARY-SACRIFICE PENSION CONTRIBUTIONS, WHICH WILL IMPACT MANY WORKPLACE PENSION SAVERS.

Understanding these developments is essential for planning your financial future. Although the above-inflation increase in the State Pension provides some immediate relief, the new restrictions on salary sacrifice may impact those contributing to certain workplace schemes. Here, we look at what's changing, what remains the same, and why these announcements should not deter you from prioritising your retirement savings.

GOOD NEWS ON TAX-FREE CASH AND RELIEF

After months of speculation that the Chancellor might target pension tax benefits,

both tax-free cash allowances and pension tax relief remained untouched. This provides significant relief for savers. Currently, you can typically take up to 25% of your pension pot as a tax-free lump sum once you reach the age of 55 (which will increase to 57 in 2028), subject to a maximum of £268,275, subject to protections.

Additionally, there were no modifications to the valuable Income Tax relief available on pension contributions. This relief remains applied at an individual's marginal rate of Income Tax, meaning higher-rate taxpayers receive more tax back on their contributions. These consistencies provide a stable foundation for long-term retirement

planning, allowing you to continue building your pension with confidence in the current tax benefits.

STATE PENSION BOOSTED BY TRIPLE LOCK

The Chancellor confirmed that the State Pension will increase by 4.8% in the 2026/27 tax year, thanks to the government's triple lock guarantee. This policy ensures that the State Pension rises each year based on whichever of the following three measures is highest: average earnings growth, September's Consumer Prices Index (CPI) inflation rate or a baseline of 2.5%.

The new full State Pension will rise from £230.25 a week to £241.30 in April, adding an extra £575 annually. For those claiming the basic State Pension (who reached State Pension age before April 2016), weekly payments will increase from £176.45 to £184.90. However, the amount you get depends on your personal National Insurance record.



CAP ON SALARY SACRIFICE CONTRIBUTIONS

A major change announced in the Budget is the cap on salary sacrifice pension contributions.

From April 2029, any contributions made through this method exceeding £2,000 annually will be liable for National Insurance. Salary sacrifice remains a popular feature of many workplace schemes, enabling you to exchange part of your gross salary for an employer pension contribution.

This reduces your taxable income and your National Insurance liability.

Under current auto-enrolment minimums, individuals earning less than £40,000 annually are unlikely to be affected by this cap. For higher earners, the impact will depend on how employers customise their pension schemes. It could lead to many individuals seeing their monthly National Insurance contributions rise, and their take-home pay falls. Despite this change, the overall tax advantages of pension saving remain substantial and should not be overlooked.

STAYING INFORMED IS YOUR BEST STRATEGY

The Autumn Budget has undoubtedly brought a mixture of positive and challenging news for those planning for retirement. While the increase in the State Pension offers a welcome boost, upcoming changes to salary sacrifice make it more important than ever to reassess your existing pension strategy and understand how you could be affected.

Staying informed and maximising available tax benefits will help ensure your retirement savings continue to work as hard as possible for you. Proactive planning is the best defence against policy changes, enabling you to adapt and maintain a strong financial footing for the future. ■

NEED MORE INFORMATION ON HOW TO SAVE FOR A COMFORTABLE RETIREMENT?

If you have any questions about your pension and how these changes may affect you, please do not hesitate to get in touch for further information.

THIS ARTICLE IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE. TAX TREATMENT DEPENDS ON INDIVIDUAL CIRCUMSTANCES AND MAY CHANGE IN THE FUTURE. A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. INVESTMENTS CAN FALL AS WELL AS RISE IN VALUE, AND YOU MAY GET BACK LESS THAN YOU INVEST.



A NEW ERA FOR PENSION INHERITANCE

The inevitable shift in the approach to intergenerational wealth transfer

PENSION SAVERS INTENDING TO PASS ON THEIR RETIREMENT FUNDS TO LOVED ONES RECEIVED UNWELCOME NEWS FOLLOWING ANNOUNCEMENTS IN THE 2024 BUDGET. THE CHANCELLOR REVEALED THAT PENSIONS WILL SOON BE SUBJECT TO INHERITANCE TAX (IHT), MARKING A SIGNIFICANT CHANGE FROM PREVIOUS RULES THAT USUALLY PROTECTED PENSION FUNDS FROM TAX UPON DEATH.

Although the tax-free lump sum and pension tax relief remain unaffected, the government confirmed that unused defined contribution pension funds and death benefits paid from a pension will be included in a person's estate for IHT purposes. This change will take effect from 6 April 2027, meaning children inheriting their parents' pension savings could face a significant tax bill that was previously avoidable.

UNDERSTANDING THE NEW TAX LANDSCAPE

When you die, IHT is charged on the value of your assets above a certain threshold.

This IHT threshold, known as the 'nil rate band', is currently set at £325,000, and any assets exceeding this amount are liable to a 40% tax charge. The threshold has been frozen at this level since 2009, and Chancellor Rachel Reeves announced in the Budget that it will remain at £325,000 until April 2030, causing more families to fall into the tax net as asset values rise.

If you are married or have a registered civil partner, you can currently leave your entire estate to your spouse or partner free of IHT. Under current rules, your pension usually isn't counted as part of your taxable estate on death. From April

2027, unused pension funds and certain death benefits will be brought into scope for IHT, meaning they may form part of your estate for tax purposes.

IMPACT ON UNMARRIED PARTNERS AND BENEFICIARIES

The pension pots targeted by these new proposals include both defined contribution benefits paid as income to dependants through an annuity or drawdown, and defined benefit pension lump sum death benefits. Careful implementation and clarity will be essential, particularly for unmarried partners who may be at a disadvantage compared to their married counterparts.

Because the IHT spousal exemption allows married couples and registered civil partners to pass their estates to their spouses without tax, benefits paid to an unmarried partner may face IHT charges. Now that pensions are set to fall within the scope of IHT, surviving unmarried partners could end up with considerably

less income and, consequently, a lower standard of living in retirement.

ADMINISTRATION AND STRATEGIC SHIFTS

According to the Treasury, pension scheme administrators (PSAs) will be responsible for reporting and paying any IHT due on unused pension funds and death benefits. Including pensions in the IHT net is likely to encourage many savers to consider alternative ways of passing on their wealth without facing a significant tax bill.

The long-standing practice of shielding pensions from IHT has been a key element of retirement planning; removing this benefit will inevitably alter the approach to intergenerational wealth transfer. We might see more pensioners inclined to draw down their pension funds during their lifetime rather than leaving them as an inheritance.

RETHINKING YOUR FINANCIAL FUTURE

This change could direct attention towards other tax-efficient savings options, such as Individual Savings Accounts (ISAs). While ISAs offer tax-efficient growth and withdrawals, pensions still provide immediate tax relief on contributions and may include

employer contributions. However, their appeal as a method of passing on wealth might be diminished by these new factors, encouraging some savers to make more generous gifts during their lifetime.

Gifts benefit from the 'seven-year rule', meaning if a gift is made more than seven years before a donor's death, no IHT is payable. There are also several other gift allowances available that haven't been affected by the Budget. While the changes are significant, avoid making panic decisions. It is worth noting that estate planning and determining the best way to manage your pension can be complex, and professional advice is often the safest approach. ■

TIME TO FIND OUT HOW TO PROTECT YOUR ASSETS FOR YOUR BENEFICIARIES?

Navigating these new rules requires careful planning to safeguard your assets for your beneficiaries. We can assist with your unique circumstances if you want more information on how this may impact you. Feel free to contact us to discuss your situation.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH.

TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE. THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE ESTATE PLANNING, TAX ADVICE OR TRUSTS.