UNISON response to HMRC Technical consultation on

Inheritance Tax on pensions

January 2025

UNISON has over 1.3 million members employed in a broad range of sectors. Many of these have access to public sector defined benefit (DB) pension schemes, especially the local government pension scheme (LGPS) and the NHS pension scheme (NHSPS), but a substantial minority do not. Some are in sectors such as social housing, energy and water in which DB pensions were in recent memory a standard feature of the reward package for workers, but where most employers have retreated from this provision. Others, such as our 100,000 members in social care, deliver core public services but are employed by private and third sector employers who have no history of offering most staff DB schemes.

In response to the consultation on inheritance tax on pensions, we would like to offer some broad points for consideration:

a) UNISON supports the broad principle of applying inheritance tax (IHT) to pension pots. We share the concern that large pension savings pots should not be used by the very wealthy as a device to avoid IHT.
b) We support the exclusion of dependant's DB pensions from the value of the estate for IHT. It is appropriate that these are taxed as income.
c) We note that life policy products that are part of a pension package are not in scope for IHT (Annex B). We believe that death in service benefits associated with public sector pensions should therefore similarly not be subject to IHT. Such benefits are not calculated based on a formula that considers the value of the pension, but on the basis of pay. In the LGPS, the benefit is 3 times annual pay. In the NHSPS, the benefit is 2 times pay for active members. Death in service payments are not a means of transferring pension 'wealth' to a survivor, rather they are the equivalent of a life assurance policy associated

with pension scheme membership that provides an amount based on a function of pay for bereaved dependents at a time of need.

d) Our experience is that death in service payments are paid at a time of acute financial need for dependents and that the authorities administering the LGPS and NHSPS typically do all they can to deal with these difficult circumstances sensitively, efficiently and as quickly as possible. We are concerned that the application of IHT will delay much-needed payments. We would urge HMRC to consider carefully the technical obstacles that the proposed changes could cause that are raised by colleagues at the LGPS and NHSPS, and the emergence of possible inequalities such as different IHT treatment for married and unmarried couples.

e) We note that in the NHS pension scheme, which is non-discretionary, IHT is already paid when benefits are directed to a beneficiary other than a spouse. Here we are concerned that the proposal for the scheme to be responsible for paying IHT can be anticipated to result in unnecessary delays.

f) The workers in public services that UNISON represents are unlikely to have large estates that would incur IHT should they die in service (92% of estates are not liable to IHT). They are much more likely to have dependents for whom the prompt payment of a life assurance death in benefit payment is very valuable at a time of need. It would make no sense to delay such a payment until after an IHT calculation has been undertaken that likely results in no IHT being levied anyway. A delay defeats the object of death in service benefits – to provide timely financial relief at the point when most needed. The proposal as it stands would be to the detriment of low-income households at the point of greatest vulnerability, even though they do not have enough to pay IHT.

In view of the comments above, we offer brief responses to some of the specific consultation questions posed:

> Question 1: Do you agree that PSAs should only be required to report unused pension funds or death benefits of scheme members to HMRC when there is an Inheritance Tax liability on those funds or death benefits?

Yes, we don’t see any advantage in placing unnecessary additional requirements on scheme administrators who are already poorly resourced.

> Question 2: How are PSAs likely to respond if they have not received all the relevant information from the PR to pay any Inheritance Tax due on a pension by the 6-month payment deadline?

We are concerned about the possibility of delays in the payment of death in service benefits (see point (d) above).

Question 3: What action, if any, could government take to ensure that PSAs can fulfil their Inheritance Tax liabilities before the Inheritance Tax payment deadline while also meeting their separate obligations to beneficiaries?

With death in service payments, the aim must be to get monies to those who need them without delay. We support streamlined processes for achieving this. If necessary, it may be appropriate to forward an interim payment covering part of the death in service benefit (i.e. 60%) pending the final IHT calculation.

Question 4: Do you have any views on PSAs reporting and paying Inheritance Tax and late payment interest charges via the Accounting for Tax return?

N/A

Question 5: Do you agree that 12 months after end of the month in which the member died is the appropriate point for their beneficiaries to become jointly and severally liable for the payment of Inheritance Tax?

We would wish the arrangements applied to avoid any undue delay in PSAs making benefit payments available. We would not want cautious PSAs to delay the release of payments for 12 months.

Question 6: What is the most appropriate means of identifying or contacting beneficiaries if either the PR or HMRC realises that an amendment is needed after Inheritance Tax has been paid? Should PSAs be required to retain the details of beneficiaries for a certain period?

N/A

Question 7: What are your views on the process and information sharing requirements set out above?

N/A

Question 8: Are there any scenarios which would not fit neatly into the typical process outlined above? How might we address these?

Where there are exceptionally long delays, it may be appropriate to pay a benefit with IHT deducted, with the beneficiary able to retrieve any overpaid IHT at a later date.

Question 9: Do you have any other views on the proposal to make PSAs liable for reporting details of unused pension funds and death benefits directly to HMRC and paying any Inheritance Tax due on those benefits? Are there any feasible alternatives to this model?

In regard to the public sector pension schemes, we are not clear what problem this proposal is addressing. We are concerned that increased complexity could cause detriment to low-income households at their point of greatest need.

Contact

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