

PENSION AND INHERITANCE TAX CHANGES AHEAD

What should families in Norfolk,
Suffolk, and Essex plan for?



Diss Business Hub **Tel:** 01379 454508
(DBH 29), Hopper Way, **Email:** info@dgfs.biz
Diss, Norfolk, IP22 4GT **Web:** www.dgfs.biz

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What should families in Norfolk, Suffolk, and Essex plan for?

Over the coming years, substantial reforms to pensions and Inheritance Tax (IHT) rules are set to reshape the financial landscape. These changes could have a profound impact on how you plan for retirement and the legacy you leave behind. For individuals and families across Norfolk, Suffolk, and Essex, adopting a proactive approach is more critical than ever to safeguard your wealth and ensure it benefits your loved ones.

Regional factors, such as rising property values, local business interests, and agricultural assets, add further complexity to financial planning in these areas. To help you prepare, we've outlined the essentials of IHT, the upcoming rule changes, and practical strategies to minimise their impact. With real-life examples from Norfolk, Suffolk, and Essex, we aim to provide actionable insights to help you make informed decisions.

UNDERSTANDING THE BASICS OF IHT AND ALLOWANCES

Inheritance Tax is currently charged at 40% on estates exceeding specific thresholds.

Here's a breakdown of the key allowances for the 2025/26 tax year:

Nil-Rate Band (NRB): Every individual has a £325,000 allowance before IHT applies.

Residence Nil-Rate Band (RNRB): An additional £175,000 allowance is available if you leave a qualifying residence to a direct descendant.

Tapering for larger estates: For estates exceeding £2 million, the RNRB is gradually reduced.

Transferable allowances:

Unused allowances can be transferred to a surviving spouse, enabling some families to leave up to £1 million IHT-free.

However, rising property values in areas such as Norwich, Ipswich, and Colchester mean that more families are being drawn into the IHT bracket. Early and effective financial planning is crucial for preserving the wealth built within these growing markets for future generations.

EXAMPLE: PROTECTING THE FAMILY HOME

Emily, a homeowner in Southwold, Suffolk, owns a Victorian property valued at £700,000. By utilising her NRB and RNRB, she could shield her home from IHT. However, if her total estate—including savings and investments—exceeds these allowances, her beneficiaries could face a significant tax bill. At D G Financial, we work with families across Suffolk and Norfolk to develop tailored strategies, such as maximising allowances and leveraging gifting opportunities, to reduce these impacts.

WHAT'S CHANGING? PENSIONS AND IHT REFORMS

From April 2027, major reforms to pensions and Inheritance Tax (IHT) will come into

effect, fundamentally changing how pension funds are taxed. These changes are likely to have wide-ranging effects on estate planning, especially for families with large pension savings, business interests, or agricultural assets.

PENSIONS INCLUDED IN IHT CALCULATIONS

Historically, unused pension funds were mostly exempt from IHT, making them a very tax-efficient way to transfer wealth to the next generation. However, under the new rules, unused pension funds and most pension death benefits will be considered part of the deceased's estate for IHT purposes.

THIS MEANS:

Increased tax liability: Including pension funds in the estate could raise its total value above the IHT threshold, leading to a 40% tax on the excess. This is especially concerning for individuals with large pension pots or multiple pension schemes.

Impact on retirement planning: For those who have relied on pensions as a tax-efficient means of wealth transfer,

this change requires a re-evaluation of retirement and estate planning strategies.

Loss of flexibility: Previously, pensions were often used as a flexible tool to support beneficiaries without incurring significant tax liabilities. The new rules diminish this flexibility, requiring more careful planning to reduce tax exposure.

REGIONAL IMPACT

The changes are likely to significantly impact families in Norfolk, Suffolk, and Essex, where regional factors such as property values, agricultural assets, and local business interests already drive higher estate values.

FOR EXAMPLE:

Agricultural and business

interests: Families with substantial agricultural holdings or business assets must carefully balance pension planning with other estate assets to minimise tax exposure. Agricultural Property Relief (APR) and Business Relief (BR) may still offer some protection, but the inclusion of pensions in IHT calculations introduces a new layer of complexity.

Rising property values: In areas like Norwich, Ipswich, and Chelmsford, increasing property prices have already pushed many estates into the IHT bracket. The addition of pension funds to the estate could worsen this issue, making early planning even more essential.

DELAYED ACCESS TO PENSION FUNDS

One of the most difficult aspects of the new rules is the possible delay beneficiaries might encounter when accessing pension funds.

UNDER THE REVISED SYSTEM:

HMRC assessment: Pension death benefits can only be paid after HM Revenue & Customs (HMRC) completes its assessment of the estate. This process can take several months, or even longer in complex cases.

Probate requirements: If probate is necessary before pension funds can be released, this could further delay the process, leaving beneficiaries unable to access these funds during a potentially challenging time.



Financial strain: Delays in accessing pension funds could create cashflow issues for beneficiaries, particularly if they were relying on these funds for immediate living expenses, care fees, or other financial obligations.

Example: A client in Essex planned for his spouse to access pension funds quickly to cover living costs and care fees. With the new rules, he needed to adjust his strategy to ensure interim access to capital. By working with D G Financial, a plan was devised that included alternative sources of liquidity, such as savings and investments, to bridge the gap and prevent financial strain for his family.

INCREASED ADMINISTRATIVE BURDEN

The new rules also introduce extra administrative obligations for pension scheme administrators, which could make the estate settlement process even more complicated.

Valuation of pensions: Pension scheme administrators will now be required to assess the value of all pensions at the time

of death. These valuations must then be included in the estate for IHT purposes.

Delays in estate settlement: The need for accurate and timely valuations adds another layer of complexity to the estate administration process. Any delays in obtaining these valuations could prolong the estate's settlement, leaving beneficiaries in limbo.

Importance of documentation: Clear and up-to-date documentation is more critical than ever. This includes ensuring that pension beneficiary forms, Wills, and other estate planning documents are accurate and reflect your current wishes.

ADDITIONAL CONSIDERATIONS

Impact on spousal transfers: While assets left to a spouse or registered civil partner remain exempt from IHT, the inclusion of pensions in the estate could still affect the overall tax planning strategy for couples. For example, careful Will planning may be required to maximise spousal exemptions and ensure that as much value as possible is preserved for the next generation.

Effect on Lifetime Allowance

(LTA): Although the Lifetime Allowance for pensions has been abolished, the inclusion of pensions in IHT calculations effectively reintroduces a form of taxation on larger pension pots, albeit through a different mechanism.

KEY PLANNING STRATEGIES TO PROTECT YOUR LEGACY

Preparation is essential to navigate these changes effectively. Here are some actionable strategies, with regional examples, to consider:

1. EVALUATE YOUR TOTAL ESTATE VALUE

Start by assessing the total value of your assets, including pensions, properties, investments, farmland, and business holdings. Rising property prices in areas such as Bury St Edmunds, Norwich, and Chelmsford may push local residents over critical thresholds. D G Financial can help you evaluate your exposure and identify opportunities to leverage property-related reliefs.

Example: A farming family near King's Lynn had significant assets tied up in land and machinery. By documenting their assets and seeking advice on Agricultural Property Relief and Business Relief, they successfully reduced their IHT exposure while planning for pension changes.

2. GIFTING DURING YOUR LIFETIME

Lifetime gifts can greatly lower IHT liabilities. Gifts given more than seven years before your death are usually exempt from IHT. Regular gifts from excess income are also immediately exempt, as long as they don't diminish your estate's capital.

Example: Oliver, from the outskirts of Norwich, began making annual gifts to his grandchildren for education. Over the course of ten years, these gifts evolved into substantial tax-free wealth transfers, avoiding potential disputes through detailed records and professional advice.

3. CONSIDER TRUSTS

Trusts can provide flexibility in estate planning by transferring assets outside your taxable estate. For clients with business interests in Ipswich or charitable goals, trusts can help achieve both philanthropic and family objectives.

4. MAXIMISE SPOUSE OR REGISTERED CIVIL PARTNER EXEMPTIONS

Assets left to a spouse or registered civil partner are exempt from IHT. Careful will planning can maximise these allowances, particularly for couples dividing farm property or business assets in Essex.

EXPLORING INVESTMENT STRATEGIES

Diversifying your investment portfolio is a

vital step. Options such as Business Relief investments can provide 100% relief if held for a minimum of two years, thereby reducing IHT liabilities while supporting local economies.

Example: Holly, a business owner in Colchester, invested part of her capital into a qualifying small business in Suffolk. This strategy reduced her family's future IHT liability while contributing to the local economy.

COMMUNICATION AND LONG-TERM PLANNING

Clear communication and documentation are vital. Ensure your Will, Power of Attorney, and pension beneficiary forms are up-to-date and reflect your current wishes. Regular family meetings with your D G Financial adviser can foster transparency and harmony, especially in complex family structures.

TAKE CONTROL OF YOUR FINANCIAL FUTURE

The upcoming changes to pensions and Inheritance Tax emphasise the importance of proactively managing your financial and estate planning. With our expert guidance, you can safeguard your assets, develop a strategy tailored to your family's specific needs, and preserve your wealth for future generations, ensuring the prosperity you have built in Norfolk, Suffolk, or Essex continues.

IS IT TIME YOU DISCUSSED YOUR PLANS WITH D G FINANCIAL?

Don't leave your planning to chance. D G Financial specialises in helping clients across Norfolk, Suffolk, and Essex take control of their finances and prepare for

the future. Our team of expert advisers understands the local landscape and can assist you in navigating the new IHT rules with bespoke strategies tailored to your individual circumstances and goals. ■

Contact D G Financial today to discuss your requirements or to find out more about how we can help safeguard your wealth for the next generation. Your financial future and your family's deserve the best possible care and expertise.

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Diss, Norfolk, IP22 4GT

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Web: www.dgfs.biz

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