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PROFESSIONALS

making pensions work

The Society of Pension Professionals (SPP) response to the HMRC technical consultation on draft regulations, draft guidance on the requirements for evidence, and draft withholding and payment notices relating to the imposition of IHT on pensions from April 2027

1. Executive summary

1.1. The SPP believes that current exemption checks are impractical.

Pension Scheme Administrators (PSAs) and insurers cannot realistically determine beneficiaries' IHT exemption status, particularly where complex residency rules apply.

1.2. HMRC should clarify whether annuity protection lump sum death benefits are within the scope of the new IHT regime.

The draft legislation appears to create uncertainty for annuity providers, particularly section 32 providers.

1.3. It would be sensible for PRs to assess exemptions.

Schemes should provide beneficiary details and values only, with PRs responsible for determining exemption status.

1.4. Reporting requirements need simplification.

Certain information requests (e.g., excluded benefits) appear unnecessary, inconsistent, or duplicative.

1.5. The SPP believes that operational deadlines are too restrictive.

Timelines should better accommodate identity verification and use working days rather than calendar days.

1.6. The SPP is concerned that drafting and process issues remain.

Several provisions require technical clarification, including death benefit definitions, reporting obligations, withholding notices, and payment notice processes.

1.7. Verification requirements need clearer guidance.

Additional clarity is needed for PR/PPR verification, intestacy cases, overseas estates, and data protection responsibilities.

1.8. The SPP would appreciate further guidance on benefit valuations.

Uncertainty remains around DB guarantees, benefit augmentations, and CMP valuation methodologies.

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2. Consultation response

- 2.1. Practicalities of Determining Exemption Status (Reg 10C & 10D)
- 2.2. The Burden of Verifying Exempt Beneficiaries
- 2.3. Under draft Regulations 10C(2)(f) and 10D(2)(e), PSAs and insurers must confirm how notional pension property will be split between exempt and non-exempt beneficiaries to help Personal Representatives (PRs) determine if an IHT account must be filed. Industry feedback strongly indicates that it is unreasonable and unfeasible to require PSAs/insurers to ascertain beneficiary tax exemptions, particularly regarding spouses or civil partners.
- 2.4. Complex Long-Term Residency (LTR) Rules: A spouse or civil partner is not automatically entitled to an unlimited IHT exemption. Full exemption depends on complex LTR status rules (considering 20-year UK residency patterns, overseas periods, or specific HMRC elections). PSAs simply do not possess the historical or financial data to verify this.
- 2.5. It would therefore make sense to ensure that where the PSA acts in good faith based on the statement from the PR/PPR regarding the residence status of the spouse/civil partner, there will be no penalty on the PSA if they pay 100% of the benefit out to the spouse/civil partner i.e. if the PPR/PR stated that they are a long term UK resident and it later transpires this statement was false.
- 2.6. The regulations should be updated so that PSAs/insurers are only required to notify PRs of the *identities* (or relationships) of the beneficiaries and the *value* of the property allocated to them. Alternatively, schemes should have the option to mark a beneficiary's status as "unknown". The PRs, who already evaluate the wider estate, are best placed to assess final IHT exemptions.
- 2.7. Information Provisions & Regulatory Discrepancies (Regs 10E, 10F, 10I)

Excluded Benefits (Reg 10F)

- 2.8. The SPP questions the necessity of requiring PSAs to report on "excluded benefits" under Regulation 10F. Because excluded benefits fall entirely outside the scope of notional pension property and IHT, it is unclear why PRs require this information. Furthermore, if Reg 10F is retained, there is an unexplained asymmetry as no comparable obligation is placed on insurance companies to provide details on excluded benefits they pay (e.g., trivial commutation lump sum death benefits).
- 2.9. Furthermore, there is a wider question when considering the draft regulations and how the provisions apply to insurance companies. Section 66 of the Finance Act 2026 adds new section 150A into the Inheritance Tax Act 1984. These provisions only apply to registered pension schemes, QNUPS and s615 schemes. They do not appear to apply to insurance companies. Insurance companies pay lifetime annuities. While we appreciate joint life annuities are an excluded benefit under section 66, they also pay annuity protection lump sum death benefits. These are the same as scheme continuation payments which are in scope under section 66 for DB schemes. It is therefore important that HMRC clarifies whether the intention was for annuity protection lump sum death benefits to be in or out of scope. It is essential for annuity providers to understand this given many insurance companies are section 32 providers which are deemed registered pension schemes so they will have to take different actions if one is in scope and one is not.
- 2.10. Similarly, in regulation 10E(3) (further information provided by PSA to PRs if PRs are required to file an IHT account), it is not clear which beneficiaries' details need to be reported. This regulation should be amended to clarify that it refers to the member's beneficiaries entitled to notional pension property, not all beneficiaries.

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Step 1 vs. Step 2 Timing and Streamlining

- 2.11. Reg 10C (Step 1): The current 28-day turnaround for providing information upon a PR's request fails to factor in the time needed to verify the PR's identity; that decisions from trustee meetings may take time to flow through to the PSA and/or confirmed values in writing from AVC providers may take some time. The SPP therefore suggests amending this timeline to the latter of 28 days from receipt of request or 14 days after the PR's identity has been successfully verified.
- 2.12. Step 2 Info (Regs 10E, 10F, 10G): The regulations replicate the complex "later of 28 days and 14 days from beneficiary decision" formulation here. Because the beneficiary decisions are already finalised in Step 1, the Step 2 deadline should be simplified to a flat 28-day window.

Technical Discrepancies (Reg 10I)

- 2.13. Regulation 10I(1) governs block transfers of a "member's rights to benefits... to which the member has become entitled." Since these regulations strictly concern death benefits payable to *beneficiaries* after a member's death, the drafting should be corrected to refer to rights "payable in respect of the member" or "payable to the deceased member's beneficiaries" to ensure accurate legislative capture.
- 2.14. Event Reporting and Operational Timelines
- 2.15. *Quarterly Event Reporting vs. Accounting for Tax*
- 2.16. The amendment to Regulation 3 introduces a requirement to submit an "event report" within 30 days of the end of the quarter in which a payment is made. This introduces significant operational friction and confusion:
- In existing frameworks, an "Event Report" (capitalised) is an annual filing due by January 31st following the tax year-end. Moving this specific event into a quarterly cycle is highly unusual.
 - If the mechanism intends to use the Accounting for Tax (AFT) return, it remains poorly targeted, especially where true Defined Benefit (DB) Death-in-Service (DIS) payments carry no actual IHT liability. Respondents request that reporting either align with a standard quarterly AFT or match immediate reporting cycles like those used for QROPS.
- 2.17. *Calendar Days vs. Working Days*
- 2.18. The strict use of tight windows (e.g., 14 days) based on calendar days poses a substantial delivery risk for administrators during peak public holiday periods (e.g., the Christmas/New Year shutdown). It is requested that all such tight turnaround times be converted to working days.
- 2.19. Withholding Notices (Section 226A)

Operational Ambiguities and Communication Gaps

- 2.20. The draft notice implies the withholding notice can be issued by someone acting on behalf of the PR/PPR. This is not reflected in FA26 or the draft regulations, so there is a question as to validity if it was provided by someone other than the PR/PPR.
- 2.21. Draft reg 10J: this sets out the information that must be sent to beneficiaries where a scheme administrator receives a valid withholding notice from PRs. The information is limited to the date of receipt of the withholding notice and name and contact details for the PRs. Since the member may not have been involved in or aware of the death benefit and IHT process before receiving this information, it would be useful if it included confirmation that a valid withholding notice is in place and an explanation of the effect of that notice.

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- 2.22. The 50% Threshold Rule: Section 3 of the guidance notes states that no benefit can be paid if it exceeds 50% of a person's entitlement. There needs to be clarification on whether this ceiling freezes payments across the *entire scheme* to all beneficiaries, or if it strictly targets the single individual who has reached their 50% threshold.
- 2.23. Settled Benefits: Where a scheme has fully distributed death benefits before receiving a valid withholding notice from the PR, the legislation appears to imply that the notice will have no practical effect because there are no remaining benefits to withhold and the direct payment provisions cannot operate. However, this outcome is not expressly stated. We would welcome confirmation that, in these circumstances, the notice is simply ineffective and expires in accordance with section 226A(7), rather than creating any continuing obligations for the scheme administrator.
- 2.24. Updating the PR Loop: Where a withholding notice is applied before trustees have exercised their discretion to choose beneficiaries, the scheme will initially hold back funds. Respondents note a lack of clarity on whether schemes must "loop back" to update the PR with names and allocations once those beneficiaries are finally chosen.

Prospective Personal Representatives (PPRs) and Joint Authorities

- 2.25. Data Protection & Privacy: The guidance notes indicate that a PPR's personal details will be shared with scheme beneficiaries. Because a PPR is merely *purported* and may never actually become the legal PR, sharing their personal details poses severe data privacy risks. Clear guidance from the Information Commissioner's Office (ICO) is requested to align with HMRC's goals.
- 2.26. Revocation Blockades: Under the current draft, a withholding notice given by a PPR can only be withdrawn by that same person. If that PPR loses interest or is superseded by an actual, court-appointed PR, the actual PR seemingly has no legislative mechanism to override or withdraw the notice.

Payment Notices (Section 226B)

Circular Information Flows & Calculations

- 2.27. The current workflow for executing a Payment Notice contains a circular dependency:
- Beneficiaries are expected to detail exact IHT amounts and interest on the notice. However, the Provision of Information regulations indicate that PSAs only provide this breakdown *after* a valid payment notice is submitted.
 - Furthermore, calculating precise interest is dependent on the final payment date (accruing from 6 months post-death). Beneficiaries will not know this date in advance, making it impossible to complete the form accurately without prior scheme calculations.

Joint Liability and Scheme Identity

- 2.28. Singular Taxpayer Treatment: The draft legislation treats joint PRs as a singular "taxpayer" entity. If a signature/declaration is required from all joint PRs to initiate a notice, clarity is needed on whether a single PR can subsequently request a withdrawal, or if joint authority is again required.
- 2.29. Omission of Scheme Name: While Section 1 notes that collecting the specific pension scheme name on the form is optional for PSAs, it is highly unpragmatic to expect a PSA to accept and process a valid tax payment instruction without explicit confirmation of the scheme it applies to.

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Verification and Identification of PRs/PPRs

Solicitor Appointees & Corporate Verification

- 2.30. The guidance notes state that if an executor appoints a third party to act on their behalf, individual identity documentation must be provided for the appointee. In the vast majority of cases, executors appoint a regulated law firm via a Letter of Authority (LoA). For administrative efficiency, PSAs should look to verify the firm's regulatory status (e.g., Solicitors Regulation Authority or Companies House check) rather than demanding private ID documents for individual solicitors.

Intestacy Verification and Overseas Jurisdictions

- 2.31. The Intestacy "Pecking Order": Where a member dies without a Will, it is unclear to what extent a PSA must police the legitimacy of a self-proclaimed PPR. For instance, if a sibling claims PPR status, must the scheme proactively check for a surviving spouse or child who ranks higher in the legal order of priority, or can they rely solely on the applicant's signed declaration?
- 2.32. International Estates: For members who die while resident overseas, schemes need clear parameters on how to verify legal personal representation across varying global jurisdictions and whether they must audit those foreign probate structures against local laws.

Duplication

- 2.33. The last sentence of the Draft PR Guidance document says that "*Where several executors submit a request for information, PSAs are required to respond to each if they meet the requirements set out above.*" Where there is more than one PR, can only one letter be sent to them jointly or do they need to be separate letters addressed to each individually? The latter duplicates work and could cause confusion when actually, they are working towards the same end result.

Technical Notes on Notional Pension Property Calculations

DB Pension Guarantees ("Scheme Continuation Payments")

- 2.34. Under paragraph 3.2.2 of the Technical Note, further clarity is required on how pension rule 2 assumptions interact with post-death guarantee periods paid as a pension to another individual:
- Does the total value of the guarantee paid as a pension get notionally converted to a lump sum for IHT property valuation? Or does this calculation only apply if the guarantee could actively be commuted into a lump sum death benefit?
 - Scenario Distinctions: If a member's pension continues to a dependant and delays the start of the standard dependant's pension, it is seemingly caught as notional pension property. However, if the rules state the dependant's pension starts *immediately* but is temporarily paid at the member's higher rate, it is seemingly exempt. Confirmation on this distinction is critical.

Discretionary Augmentations & Collective Money Purchase (CMP)

- 2.35. Augmentation Adjustments: Trustees face challenges evaluating whether there is a "reasonable expectation" that death benefits will be augmented. If an augmentation is factored into the initial notional pension property calculation but ultimately does not occur, the regulations must outline a clear path for adjusting the valuation and reclaiming overpaid IHT.
- 2.36. CMP Open Market Valuations: Section 4 references using the open market value at the date of death to calculate notional pension property. Because Collective Money Purchase benefits do not utilise individual member pots, HMRC must clarify how this calculation applies to CMP arrangements.

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3. About The Society of Pension Professionals

- 3.1. The SPP is the representative body for a wide range of providers of advice and services to pension schemes, trustees and employers. Our work harnesses the expertise of our membership, striving for a positive impact on pension scheme members, the pensions industry and its stakeholders.
- 3.2. The breadth of our members is a unique strength for the SPP. Our membership of 90 corporate organisations employs over 20,000 pension professionals including actuaries, lawyers, professional trustees, DC consultants, investment managers, providers, administrators, covenant assessors, and other pension specialists.

4. Further information

- 4.1. For more information about this consultation response please contact SPP Director of Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.
- 4.2. To find out more about the SPP please visit the SPP web site: <https://the-spp.co.uk/>
- 4.3. Connect with us on LinkedIn at: <https://www.linkedin.com/company/the-society-of-pension-professionals/>
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