



Beat the 2027 Inheritance Tax changes

Why a junior pension could be a smart family move

For many families, passing wealth down to future generations has long been an important part of financial planning. However, with significant changes to Inheritance Tax (IHT) rules scheduled to take effect from April 2027, parents and grandparents across the UK are increasingly reviewing how to protect family wealth and create lasting financial security for younger relatives.

Traditionally, pensions have been regarded as one of the most tax-efficient ways to preserve wealth. Yet forthcoming reforms could significantly alter that landscape, prompting many families to explore alternative strategies before the new rules take effect.

A MAJOR SHIFT IN INHERITANCE PLANNING

The government's planned reforms will bring unused pension funds within the scope of Inheritance Tax from 6 April 2027. Under the current system, pension assets generally fall outside an individual's estate, allowing them to be passed on without forming part of the IHT calculation.

For families whose estates exceed the current £325,000 nil-rate band, including pension assets could significantly increase the value of assets liable to tax. As a result, many people are reassessing how and when they transfer wealth to younger generations.

The changes are particularly relevant for individuals who have relied on pensions as a key estate-planning tool. With the rules set to change, there is growing interest in strategies that allow wealth to be transferred outside an estate sooner rather than later.

WHY JUNIOR PENSIONS ARE ATTRACTING ATTENTION

One option gaining increased attention is the Junior Self-Invested Personal Pension (Junior SIPP). This type of pension can be opened on behalf of a child by a parent, grandparent or other family member.

Although the child owns the pension, they cannot access the funds until they reach the minimum pension age, currently expected to be 57 for today's younger generations. While retirement may seem a lifetime away, this extended investment timeframe can offer significant advantages.

For families looking beyond immediate financial needs, a Junior SIPP combines tax efficiency, long-term investment growth and wealth-transfer opportunities.

THE BENEFITS OF TAX RELIEF AND LONG-TERM GROWTH

One of the key attractions of a Junior SIPP is the government's tax relief on contributions. Up to £2,880 can be contributed each tax year on behalf of a child, with basic rate tax relief increasing the total amount invested to £3,600. In simple terms, every £80 contributed becomes £100 invested.

In addition, investments held within the pension can grow free from Income Tax and Capital Gains Tax, allowing returns to compound without the drag of ongoing taxation.

Time is one of the most powerful factors in investing. Contributions made during childhood can benefit from decades of compound growth before retirement. Even modest, regular contributions have the potential to grow into substantial sums over a 50-year investment horizon, helping to provide valuable retirement savings later in life.

A USEFUL ESTATE-PLANNING TOOL

Junior SIPPs can also play a role in wider inheritance planning. Contributions are treated as gifts for Inheritance Tax purposes and may fall within existing gifting exemptions. For example, payments may be covered by the annual £3,000 gifting allowance. In some cases, larger regular contributions may also qualify under the normal expenditure out of income exemption.

For grandparents concerned about future IHT liabilities, contributing to a grandchild's pension can gradually reduce the value of an estate while creating a meaningful financial legacy. With the 2027 changes approaching, many advisers believe the current period presents an important opportunity for families to review their plans. ■

READY TO TAKE ACTION BEFORE THE DEADLINE?

By acting early, families can take advantage of existing tax reliefs, gifting allowances and long-term investment opportunities while helping younger generations build a stronger financial future.

If you would like to understand how the 2027 reforms could affect your estate, explore whether a Junior SIPP could benefit your children or grandchildren, or review your wider inheritance planning strategy, please contact us.

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