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Inheritance tax raid is disaster for pensions: Attack 'horribly reminiscent' of Gordon Brown plundering dividends in 1997

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Labour's 'bombshell' plan to levy inheritance tax on retirement pots will hit Middle England and leave millions in poverty, according to a former pensions minister.

Ros Altmann argues the Chancellor's raid on prudent savers is 'horribly reminiscent' of the 'fatal blow'

Gordon Brown inflicted when he removed dividend tax credits from UK pension funds in 1997.

Writing in the Mail, she warns Rachel Reeves that the new death duty is 'more like confiscation than taxation' and could 'destroy' the pensions system.

And the boss of City wealth manager Quilter has warned that the move risks 'undermining savers' confidence'.

In her first Budget, Chancellor Reeves said that from April 2027 pension pots will no longer be exempt from inheritance tax (IHT). Currently, money left in a pension, on death, can **usually be passed on tax-free** if the deceased is under the age of 75.



Tax grab: The current Chancellor's raid has been compared to the 'fatal blow' Gordon Brown (pictured) inflicted when he removed dividend tax credits from UK pension funds in 1997

But tens of thousands of grieving families now face a new death duty on pensions that will rake in £1.5billion a year by the end of the decade.

'The bombshell Budget inheritance tax announcement is a potential disaster for pensions,' says Altmann in the Mail today.

'It will mean less money going in, more early withdrawals, lower pension fund investment in long-term higher-return assets and more pensioners reliant on state benefits.

'Millions are at risk of later-life poverty. The UK economy and markets will suffer too as less pension money stays invested for the long-term. It's time to wake up.'

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Families can pass on up to £325,000 after death, free of inheritance tax. Couples who are married or in civil partnerships can combine their allowances to pass on £650,000.

There is also a further chunky allowance of £170,000 per person if you leave your home to your direct descendants - *see the box below for more on the rules.*

Anything above is taxed at a rate of 40 per cent.

Altmann warns the pension changes proposed by Reeves mean many face a form of double taxation because the retirement pots of those dying over the age of 75 will be hit by both inheritance tax and income tax.

This would leave basic-rate taxpayers facing a levy of 52 per cent on an inherited pension fund while those on higher rates would pay 64 per cent, or 67 per cent.

'This is more like confiscation than taxation,' says Altmann.

Steven Levin, chief executive of Quilter, said: 'This feels like retrospective taxation on those who planned based on current rules.'

The combined impact of 40 per cent IHT and income tax could lead to marginal rates of 64 per cent or 67 per cent. This is unconscionable.

'Changing the rules soon after introducing pension freedoms risks undermining savers' confidence.

'The proposed changes will introduce significant complexity into an already overburdened system. Grieving families will face significant stress and delays in accessing assets until probate is granted.

'There are alternative ways to determine how pensions are taxed that would avoid excessive tax rates and allow beneficiaries prompt access to funds.'

The Government has faced a backlash over the proposals. In a letter to the Chancellor, AJ Bell chief executive Michael Summersgill said: 'If the Government presses ahead with the proposals as written, it will risk fundamentally undermining the UK pensions system.'

How much is inheritance tax and who pays?

Inheritance tax is levied at 40 per cent on estates above a certain size.

You need to be worth £325,000 if you are single, or £650,000 jointly if you are married or in a civil partnership, for your loved ones to have to stump up inheritance tax.

A further allowance, the residence nil rate band, increases the threshold by £175,000 each - so £350,000 for a married couple - for those who leave their home to direct descendants. This creates a potential maximum joint inheritance tax-free total of £1million.

This own home allowance starts being removed once an estate reaches £2million, at a rate of £1 for every £2 above the threshold. It vanishes completely by £2.3million.

Chancellor Rachel Reeves said in the Budget these thresholds will be frozen until 2030.