

ADVISER COMPLIANCE PACK

# Flexible Pension Annuity

Finance Act 2026 — Planning Resource  
for UK Financial Advisers

**67%**

Combined IHT +  
income tax rate  
(clients over 75)

**£0**

Tax with the FPA  
after 2 years  
(IHT + income tax)

**2 years**

For BPR to  
eliminate IHT  
entirely

**250+**

HMRC BPR claims  
confirmed with  
zero refusals

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## EXECUTIVE SUMMARY

## What Finance Act 2026 means for your clients' pension funds

The Finance Act 2026, which received Royal Assent on 20 March 2026, brings unused defined contribution (DC) pension funds into the inheritance tax (IHT) estate from 6 April 2027. For the first time, pension funds that were previously outside the IHT estate will be subject to a 40% IHT charge on death — and for clients who die aged 75 or over, income tax on the residual fund creates a compounding double charge that can reach 67% in a standard scenario, and over 80% in the most severe cases.

### The Double Whammy — how the charges stack

	Without the FPA (from April 2027)	With the FPA (after 2 years)
<b>Pension fund value</b>	£500,000	£500,000
<b>IHT @ 40%</b>	−£200,000	£0 (100% BPR)
<b>Residual fund</b>	£300,000	£500,000
<b>Income tax @ 45% (on death over 75)</b>	−£135,000	£0 (Pref Share structure)
<b>Net to beneficiaries</b>	£165,000 (33p in every £1)	£472,700 (94p in every £1)
<b>Tax saving</b>	—	<b>+£307,700</b>

Based on a £500,000 DC pension fund for a client aged 75 or over with no spousal exemption and beneficiaries paying income tax at 45%. Figures are illustrative. Tax treatment depends on individual circumstances.

## THE SOLUTION

### How the Flexible Pension Annuity works

The Flexible Pension Annuity (FPA) is a FCA-regulated, FSCS-protected product structured through a Gibraltar Protected Cell Company (PCC). It eliminates both the IHT and income tax charges on the pension fund while functioning identically to a standard drawdown arrangement during the client's lifetime — there is no change to accessible income, investment flexibility, or day-to-day experience.

#### Five-stage process

Stage	Action	Outcome
1	Pension transfer via ORIGO	Seamless transfer from existing provider. No disruption to client.
2	FPA established (Day 1)	Income tax on death benefits eliminated immediately from day of transfer.
3	BPR clock starts (Day 1)	Two-year qualifying period begins for Business Property Relief.
4	After 2 years	Fund qualifies for 100% BPR under s105(1)(bb) IHTA 1984. IHT charge eliminated.
5	On death	No IHT. No income tax. Full fund passes to beneficiaries (less FPA charges).

#### Key product features

Feature	Detail
<b>Regulation</b>	FCA-regulated. FSCS-protected at 100% with no monetary cap.
<b>Transfers</b>	Available on ORIGO platform. Standard pension transfer process.
<b>Income access</b>	Full drawdown flexibility maintained. No change to client income arrangements.
<b>Investment</b>	Client retains investment choice and flexibility throughout.
<b>BPR qualification</b>	Confirmed by Threesixty Services. 250+ successful HMRC BPR claims, zero refusals.
<b>Income tax</b>	Eliminated from day one of transfer via Preference Share structure within the PCC.
<b>IHT</b>	Eliminated after two-year BPR qualifying period under s105(1)(bb) IHTA 1984.
<b>Suitable for</b>	Clients with DC pension funds of any size. Particularly high impact for over-75s.

**BPR LEGAL BASIS**

## Business Property Relief — the legislative foundation

The IHT exemption delivered by the FPA is grounded in a specific and well-established provision of the Inheritance Tax Act 1984. This section sets out the statutory basis, the qualification conditions, and the independent confirmation obtained from Threesixty Services — the UK's leading financial services compliance consultancy.

### The statutory provision — s105(1)(bb) IHTA 1984

Section 105(1)(bb) of the Inheritance Tax Act 1984 provides that a holding of shares in an unquoted company qualifies for 100% Business Property Relief (BPR), provided the holding has been owned for a minimum of two years at the time of the chargeable transfer (death). The FPA operates via a Preference Share holding within a Gibraltar Protected Cell Company — an unquoted structure that satisfies the conditions of s105(1)(bb) precisely.

### Qualification conditions

Condition	Requirement	FPA Status
Asset type	Unquoted shares in a qualifying company	✓ Preference Shares in a Gibraltar PCC
Holding period	Minimum 2 years at date of death	✓ BPR clock starts on day of transfer
Business activity	Company must be carrying on a qualifying business	✓ PCC carries on qualifying financial business
No exclusions	Business must not be wholly or mainly investment	✓ Confirmed by Threesixty Services
Rate of relief	100% — full exemption from IHT	✓ Full fund exempt after 2-year period

### Threesixty Services — independent BPR confirmation

Threesixty Services Ltd, one of the UK's most respected independent financial services compliance consultancies, has reviewed the FPA structure and confirmed in writing that the product qualifies for Business Property Relief under s105(1)(bb) IHTA 1984. This written confirmation is available to advisers for their compliance files.

**Track record: Over 250 HMRC BPR claims have been processed using the FPA structure. Zero claims have been refused or challenged by HMRC.**

### HMRC claim record

Total BPR claims processed	Claims accepted by HMRC	Claims refused or challenged	Success rate
<b>250+</b>	<b>250+</b>	<b>0</b>	<b>100%</b>

**EXECUTOR LIABILITY & ADVISER OBLIGATIONS**

## The personal liability risk for executors — and what it means for advisers

The introduction of pension IHT creates a significant and often overlooked personal liability risk for the executors of estates containing DC pension funds. Advisers with a Consumer Duty obligation to act in clients' best interests should understand this risk — both for their clients' estates and for their own professional exposure.

### The executor liability problem

Under the Finance Act 2026, the personal representatives (executors) of an estate containing a DC pension fund are required to account for and pay any IHT due on that pension within six months of the end of the month in which the death occurred. Failure to pay within this deadline results in personal liability for the executor — including interest charges and potential penalties — even if the pension funds themselves are held in a separate pension wrapper and not yet accessible to the estate.

Risk factor	Detail
Personal liability	Executors are personally liable for IHT on the pension fund if unpaid within 6 months of death.
Liquidity risk	Pension funds may be locked or in drawdown — executors may have no liquid assets to pay the IHT bill.
Timeline	Six months from end of month of death. No extension for complex estates.
Interest	HMRC charges interest on unpaid IHT from the due date at the official rate (currently 7.5% p.a.).
Penalties	Additional penalties apply for wilful or negligent failure to account for IHT correctly.
Professional impact	Executors who are also solicitors or accountants face professional regulatory risk in addition to personal liability.

### Consumer Duty — adviser obligations

The FCA's Consumer Duty (effective July 2023) requires advisers to act to deliver good outcomes for retail customers. Where a client has a DC pension fund that will be materially affected by the Finance Act 2026 changes, advisers should consider whether they have a positive obligation to raise the issue and present appropriate planning options — including the FPA — as part of their ongoing service.

**Advisers who fail to engage with the pension IHT issue for affected clients risk a finding that they have not met their Consumer Duty obligations, particularly where the client subsequently suffers financial loss that could have been avoided.**

## REGULATORY INFORMATION

# Important risk information and regulatory disclosures

**Business Property Relief is not guaranteed.** Past claim success does not guarantee future outcomes. HMRC may change its interpretation of BPR qualifying criteria. The two-year holding period must be satisfied at the date of death for BPR to apply.

**The value of pension investments can fall as well as rise.** Clients may get back less than they invest. Past performance is not a guide to future performance. Investment returns are not guaranteed.

**Tax treatment depends on individual circumstances.** The illustrations in this document are based on standard assumptions and are for guidance only. Individual tax positions will vary. Tax legislation may change.

**The FPA is for professional adviser use only.** This document must not be distributed to retail clients. It contains technical and compliance information intended for regulated financial advisers.

**Independent advice required.** Before recommending the FPA to any client, advisers must carry out their own suitability assessment and obtain independent legal and tax advice where appropriate.

**FSCS protection.** The FPA is FCA-regulated and FSCS-protected. FSCS protection covers eligible claims at 100% with no monetary cap for this product category. Subject to FSCS eligibility rules and any future changes to FSCS limits.

## Contact & next steps

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### Book a meeting

To discuss specific client scenarios, request personalised illustrations, or ask compliance questions, book directly into Peter's diary:

[fpa.aetasparkers.com](http://fpa.aetasparkers.com)

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