



Assets, Residence and Valuation team
HM Revenue and Customs
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17 January 2025

Dear Sirs

I am writing on behalf of the Firefighters' Pensions (England) Scheme Advisory Board (the SAB) to set out our deep misgivings with regard to the announced measures to reform Inheritance Tax (IHT) on death payments from pension schemes.

The remit of the SAB comprises two elements:

- The purpose of the Board is to provide advice in response to a request from the Secretary of State on the desirability of making changes to this scheme and any connected scheme.
- To provide advice to scheme managers and local pension boards in relation to the effective and efficient administration and management of this scheme and any connected scheme. As you may be aware the Firefighters' Scheme is locally administered with the individual Fire and Rescue Authorities (FRAs) acting as Scheme Managers and with day-to-day administration in the hands of a number of administrators.

The secretariat for the SAB is provided by the Local Government Association who will be providing their own response to the technical consultation you have issued. However, the purpose of this letter is to explain the concerns that were raised with the SAB about the proposals.

We understand the background to the proposals and the concerns that Defined Contribution pots are being used as a vehicle for inheritance tax planning given the flexibilities introduced in 2015. However, as you are aware, defined benefit schemes do not provide benefits which can be passed on if unused. They can, however, provide lump sum, death benefits on a discretionary basis and the ability to do this so that they are free from

Inheritance Tax has been a feature of most pension schemes for many decades.

With regard to the Firefighters' Scheme, we understand that the proposals will impact on both the lump sum death in service benefit and the five-year guarantee paid for those dying within a few years of retirement. We would make the following points on each of these:

The lump sum death benefit on death in service

A benefit of three times pensionable pay is made. This is clearly an important benefit given the inherent risk of the role of a firefighter (not only from the limited circumstances covered by ihtm11281).

The lump sum is usually paid as quickly as possible directly by the Scheme Manager without involving the pension administrators and supplies a useful source of liquidity to the bereaved. This may be especially welcome where they have to pay inheritance tax on the estate and cannot sell other assets until probate has been granted. It is disappointing that the examples in your technical consultation did not consider this situation.

The effect of the proposals announced in the Budget would be as follows:

- In contrast to a private sector employer who could choose to take out a separate insured life cover only policy/scheme, the Firefighters' Scheme would not be able to change its rules or procure such insurance leading to potential anomalies between the private and public sectors.
- Under your proposals the administrator would need to become involved with personal representative and await instruction on how much of the death benefit can be offset for inheritance tax purposes. This could lead to lengthy delays especially where the deceased member has complex arrangements or has more than one pension arrangement. As you note in the consultation, this means that the benefit will not be able to pay out as quickly as possible and it certainly cannot provide the valuable source of liquidity noted in the previous bullet point.
- The involvement of administrators in a process in which they have not previously been involved will doubtless involve increased costs to the FRAs. You will be aware that the administration of the Firefighters' Scheme is already struggling with the implementation of the various remedies for Matthews and McCloud/Sargeant and the new IHT processes from 2027 give little hope to the administrators that they will have a period of stability.

The five-year guarantee for pensions in payment

This tops up the amount of pension paid to ensure that at least five years of payments have been made. Although these payments are usually made by the administrators rather than the Scheme Managers. the other comments

raised above regarding time delays and complexity apply equally to this death benefit.

I would also note that unmarried members are more likely to be impacted by the change in IHT treatment and it is likely that such members might not have received benefits equating to the value of their own contributions net of tax relief especially if IHT is deducted from the balancing payment.

Please pass on these comments to HMT as the originators of this tax proposal.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Joanne Livingstone', written in a cursive style.

Joanne Livingstone
Chair of the Firefighters' (England) Pension Scheme Advisory Board