

From **Major General Neil Marshall OBE**, Chief Executive



By Email: ihtonpensions@hmrc.gov.uk

Assets, Residence and Valuation team
HM Revenue and Customs
100 Parliament Street
London
SW1A 2BQ

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Technical Consultation – Inheritance Tax on Pensions

Thank you for the opportunity to respond to the above-mentioned consultation. This is the official response from the Forces Pension Society (FPS). The FPS is an independent, not-for-profit organisation that provides guidance and support to its members, serving and retired, from across the Armed Forces Community. At the time of writing the Society has over 66,000 members. Not all are affected by the decisions that will result from this policy change, but a very significant number will be, as will many other (non-FPS) serving personnel and their dependants.

The FPS recognises the scope of the consultation is focussed on the **processes** necessary to implement the use of unused pension funds and death benefits for inclusion within the value of a person's estate for Inheritance Tax (IHT) purposes. We do not intend to comment on such as that is for the expert Scheme Administrators to do. Instead, and in the absence of any other forum, we seek to highlight the **policy flaws associated with this planned change as they apply to the Armed Forces Pension Scheme (AFPS) and seek their reversal**. We believe this approach accords with the outcomes of the Fourth Sitting of the Armed Forces Commissioner Bill debated on 12 December 2024, recorded in Hansard here: [https://hansard.parliament.uk/commons/2024-12-12/debates/33d88eec-880a-4e64-8c9e-ca2445bc00eb/ArmedForcesCommissionerBill\(FourthSitting\)](https://hansard.parliament.uk/commons/2024-12-12/debates/33d88eec-880a-4e64-8c9e-ca2445bc00eb/ArmedForcesCommissionerBill(FourthSitting))

As was aired during the debate, we believe the Government has made an error and would not knowingly implement a policy that runs counter to the Armed Forces Covenant. An explanation of this error and our recommended corrective action follows.

Death in service benefits affect those who die prematurely. **While benefits paid to spouses or civil partners will be unaffected by IHT**, we understand that under the Government proposals, death in service lump sum payments for service personnel **who die**

The Forces Pension Society, 68 South Lambeth Road, Vauxhall, London SW8 1RL
Tel: 020 7840 6614 Email: neilm@forpen.co.uk Web: forcespensionsociety.org

President: Air Chief Marshal Sir Stephen Hillier GCB CBE DFC – Chairman: Lt Gen Sir Gerry Berragan KBE CB
Chief Executive: Maj Gen Neil Marshall OBE – Chief Operating Officer: Brig Matthew Lowe MBE
Registered Office: 68 South Lambeth Road, London SW8 1RL – Registered Number: 418311

in service and are not married or in a civil partnership, would be liable to IHT. This would lead to military personnel being disadvantaged compared with their civilian counterparts who are able to place such benefits in trust and therefore outside of the deceased's estate.

Furthermore, the introduction of AFPS 05 and AFPS 15 saw **eligible partners** recognised as dependents and therefore eligible for benefits. This was in addition to married couples and those in civil partnerships. This was a welcome reflection of societal changes over the past 30 years or so; introducing a potential IHT charge on death in service benefits for those military people who are **not** married or in a civil partnership is at odds with extant policy. There is an entirely plausible scenario where a serving military widow with dependent children dies in service and, at the very point of greatest vulnerability, the death in service benefit payment is placed into probate and paid much (perhaps years) later having been subjected to a significant tax charge. This cannot be an intended consequence of the tax policy change announced in the 30 October 2024 Budget.

Taken together, these aspects (tax disadvantage and only being eligible if married or in a civil partnership) represent a policy change that runs wholly counter to the Armed Forces Covenant. The Covenant is a **promise** that those who serve or have served in the Armed Forces, and their families, should be treated with **fairness** and respect in the communities, economy, and society they serve with their lives. And "face no disadvantage compared to other citizens in the provision of public and commercial services."

Given the high-risk nature of military service and the need for all serving personnel to be focussed on the mission while being treated fairly and equally, irrespective of their marital status, a policy that discriminates against those who are not married or in a civil partnership poses a serious threat to morale, team cohesion and ultimately operational effectiveness.

There is a window of opportunity to avoid introducing a tax policy that breaks the Covenant; we stand ready to work with the Government to identify an appropriate way ahead. We have no desire for this to be 'fought in the court of public opinion' but that remains an option open to us, such is the importance of this topic to those who serve and the wider greater good: the sustainment of operationally effective Armed Forces.

I trust this provides a clear explanation of our position in this matter.

This correspondence is being copied to the Minister for Veterans and People and Chief of Defence People in the MoD.

Neil Marshall



e: neilm@forpen.co.uk

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