

Can SEIS change the economics of drawing surplus pension wealth?

Pensions, IHT and SEIS

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From 6 April 2027, most unused pension funds fall into the estate for inheritance tax. For some clients, particularly older ones with more pension than they will ever spend, it materially alters the traditional "pension last" approach to retirement and estate planning.

One response is to draw taxable income from the remaining drawdown pot and subscribe the proceeds to SEIS. The 50% income tax relief may offset some or all of the extra income tax the withdrawal creates, and after two years the shares can qualify for Business Relief. This RAM Insight walks through the mechanics, the numbers and the risks, so advisers can judge where it might fit.

What changes on 6 April 2027

For deaths on or after 6 April 2027, most unused pension funds and death benefits are added to the estate and taxed at 40% above the nil-rate bands. This is now law: [Finance Act 2026 received Royal Assent on 18 March 2026](#).

- **What is caught:** uncrystallised pots, drawdown funds and lump sum death benefits, which the legislation calls "notional pension property".
- **What is not:** death-in-service benefits from a registered scheme, dependants' scheme pensions, and joint-life annuities bought alongside the member's own.
- **Spouses:** pension passing to a spouse or civil partner stays exempt, as other assets do.
- **Who pays:** personal representatives report and pay. They can ask the scheme to **withhold up to 50% of benefits for up to 15 months** while the tax is settled.
- **No reliefs inside the pension:** HMRC confirms Business Relief cannot apply to notional pension property, because the member is not treated as owning the scheme's assets. Instalment payment is not available either.

That last point matters here. Whatever the pension holds, the wrapper is taxed at full value. Business Relief only becomes available once money is outside the pension and held personally in qualifying

shares.

The double charge after age 75

Where the member dies at 75 or over, beneficiaries also pay income tax at their own marginal rate as they draw the inherited pot. HMRC has confirmed that income tax is calculated after allowing for the part of the benefits used to pay IHT, so income tax is not also charged on that part. Even so, the combined rate can reach 67%.

What a beneficiary keeps from each £100 of pension, assuming the estate is already above the nil-rate bands:

Member's age at death	Beneficiary's tax rate	IHT at 40%	Income tax	Beneficiary keeps	Effective tax
Under 75	Any	£40	£0	£60	40%
75 or over	Basic (20%)	£40	£12	£48	52%
75 or over	Higher (40%)	£40	£24	£36	64%
75 or over	Additional (45%)	£40	£27	£33	67%

Scottish beneficiaries face different bands, and the top rate there takes the combined figure higher still. For many families with large pensions and a parent in their late seventies or eighties, the 64% row is the realistic one.

Drawing from the taxable pot

This Insight assumes the client has already taken tax-free cash and holds the rest in flexi-access drawdown. Every pound drawn from that pot is taxable income, added to their other income for the year.

Income tax bands, England, Wales and Northern Ireland, 2026/27. These are **frozen until April 2031**.

Band	Taxable income	Rate
Personal allowance	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,271 to £125,140	40%
Additional rate	Over £125,140	45%

Points to plan around:

- **The £100,000 trap.** The personal allowance is withdrawn by £1 for every £2 of income over £100,000. Income between £100,000 and £125,140 is effectively taxed at 60%, so withdrawals are usually sized to stop short of it.
- **Spreading.** Several smaller withdrawals across tax years generally cost less than one large one. There is no cliff edge on 6 April 2027: the change bites at death, so a phased plan can run over several

years.

- **Emergency tax.** A first or irregular withdrawal is often taxed on a month 1 basis. The excess comes back by reclaim or through the tax code, but cash flow needs allowing for.
- **Money Purchase Annual Allowance.** Taking any taxable drawdown income caps future money purchase contributions at **£10,000 a year**. For most retired clients this is academic; for anyone still contributing it is not.

On its own, drawing out and holding cash rarely helps a higher-rate client whose heirs are also higher-rate. The withdrawal is taxed at 40% now, and the cash is then taxed at 40% in the estate. The worked example below shows this comes out the same as leaving it in the pension. The value comes from what the money does next.

Where SEIS comes in

SEIS gives **50% income tax relief on up to £200,000 a year**, unchanged for 2026/27. The relief reduces the client's income tax bill for the year, and pension income counts towards that bill like any other income. A £32,000 subscription therefore cancels £16,000 of tax, which is exactly the tax on a £40,000 higher-rate withdrawal.

The features that make it fit:

- **Relief matched to the withdrawal.** For a higher-rate taxpayer, subscribing 80% of the gross withdrawal removes the tax on it. For an additional-rate taxpayer the figure is 90%.
- **Carry-back.** Relief can be set against the current year or carried back one year, within each year's £200,000 limit. A withdrawal in 2026/27 can be matched by a subscription made in 2027/28.
- **Business Relief after two years.** Qualifying SEIS shares may also qualify for Business Relief once the ownership and other conditions are met; SEIS status alone does not guarantee it. Held for two years and still held at death, they can attract 100% relief within the **£2.5m allowance that applies from 6 April 2026**, shared with any other business and agricultural property, with 50% relief generally applying above it.
- **Capital gains.** Gains are free of CGT after three years. Reinvestment relief can also exempt up to 50% of a gain reinvested, though that is secondary here.
- **Loss relief.** If a company fails, the loss net of income tax relief can be set against income at the client's marginal rate.

The relief is a tax reducer: it cannot take the bill below nil, and it is limited by the liability left after other allowances, reliefs and tax reducers, so any EIS or VCT claims need including in the calculation. Relief can only be claimed once the company issues its SEIS3 compliance certificate. The client must not be connected to the companies, and the shares must be held for three years or the income tax relief is clawed back. Death is the exception: if the investor dies within the three years, the relief is not withdrawn.

Worked example

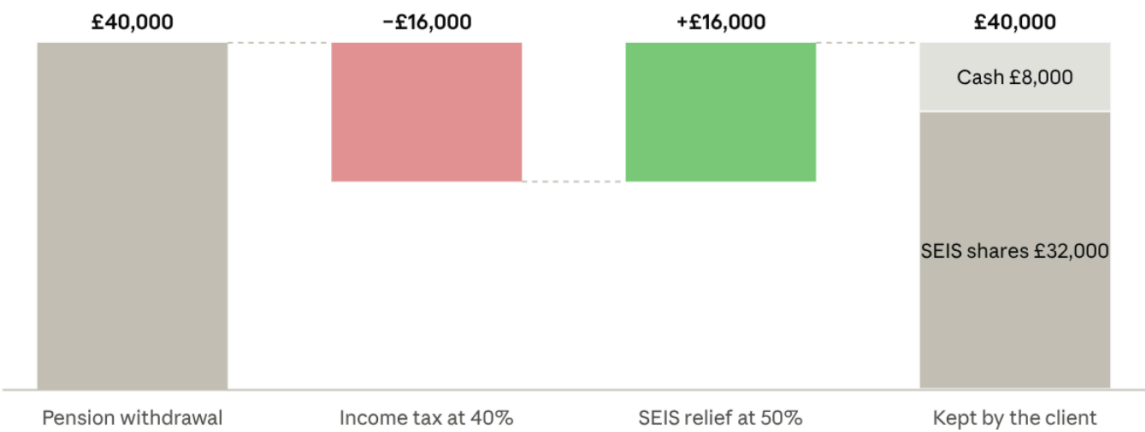
The client. Aged 77 and widowed, with an estate already above the nil-rate bands, so every extra pound is taxed at 40%. He has taken his tax-free cash and holds a drawdown pot he will not need. Other income of £60,000 a year makes him a higher-rate taxpayer, and his children are higher-rate taxpayers too.

The withdrawal. He draws £40,000 from drawdown in 2026/27. His total income becomes £100,000, so the whole withdrawal is taxed at 40%: £16,000. His total income tax bill for the year is £27,432, enough to absorb the SEIS relief.

The subscription. He subscribes £32,000 to SEIS and claims £16,000 of relief through self assessment. From £40,000 of pension he ends up with £32,000 of SEIS shares and £8,000 of cash. The extra £16,000 of income tax created by the withdrawal is offset by the relief, and his bill for the year falls back to £11,432, what it would have been without the withdrawal.

A £32,000 SEIS subscription offsets the £16,000 tax on a £40,000 withdrawal

Higher-rate client, 2026/27, rest-of-UK income tax bands



Green adds to the client's position, red reduces it, grey is a total.

RAM Capital illustration · £40,000 withdrawal, 2026/27 rates

Cash flow needs a thought. Tax is taken at source, and the relief only arrives once the SEIS3 certificates are issued and the claim is made, so he bridges £8,000 from his own cash in the meantime. The refund repays that bridge, so no outside money is left in the exercise:

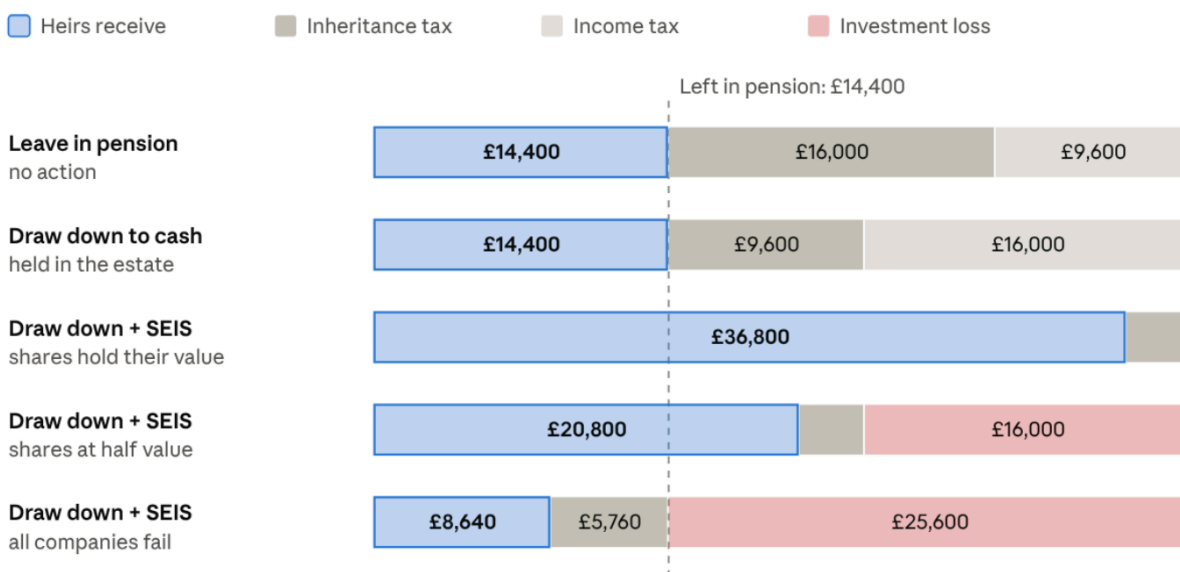
Step	Cash
Net withdrawal after tax at source	+£24,000
SEIS subscription	-£32,000
SEIS relief refunded	+£16,000
Net cash at the end, alongside £32,000 of shares	+£8,000

Alternatively he subscribes in 2027/28 and carries the relief back to 2026/27.

What the heirs receive. The chart below compares five outcomes for the same £40,000, assuming he dies more than two years after subscribing.

Heirs keep £36,800 via SEIS if shares hold value, against £14,400 left in the pension

Where £40,000 of pension ends up, death after 75 and more than two years after subscribing



Higher-rate client and heirs; estate above the nil-rate bands. SEIS shares assumed to qualify for Business Relief.
Failure case includes loss relief at 40%. Illustrative only; not a forecast of SEIS returns.

RAM Capital illustration · £40,000 of pension, five outcomes

- **Leaving it in the pension and drawing it to cash give the same £14,400.** Both lose 64% to tax; only the order of the two taxes changes.
- **Through SEIS, if the shares hold their value, heirs receive £36,800:** £32,000 of shares free of IHT plus £4,800 of cash after IHT.
- **At half value, heirs still receive £20,800.** If every company fails, loss relief returns £6,400 and heirs receive £8,640.
- **Break-even is about 30p in the pound.** The shares need to be worth roughly £9,600, 30% of the amount subscribed, for heirs to match leaving it in the pension.

Death before 75 moves the baseline. Heirs pay no income tax, so leaving £40,000 in the pension gives them £24,000, and the SEIS shares would need to hold around 60% of their cost to match it.

Points for advisers to weigh

- **Investment risk comes first.** SEIS companies are at the very start of their lives and many fail. The tax reliefs reduce the cost of a loss; they do not remove it. This only suits a portion of genuinely surplus wealth, for clients who can bear losing it.
- **Who it suits.** The strongest case is a client aged 75 or over, with a pension they will not need, an estate already above the nil-rate bands, and children who are higher-rate taxpayers. Under 75, heirs inherit free of income tax, so the gain from drawing down is smaller.
- **The two-year clock.** Business Relief normally needs two years of ownership, so death inside that window usually leaves the shares taxable at 40%. The replacement-property rules can shorten this

only where the shares replace other qualifying business property, which pension money is not. Health and age matter.

- **The £2.5m allowance.** It is shared with any business, farm or other unquoted holdings. Clients with existing business assets may already be using it.
- **Liquidity.** Shares cannot be sold for at least three years without losing relief, and exits often take far longer. Heirs may inherit holdings they cannot easily sell.
- **Diversification.** A spread of companies through a managed SEIS portfolio reduces, but does not remove, single-company risk. Deployment can take months, which affects which tax year the relief falls in.
- **Alternatives.** The same logic applies, with lower relief, to EIS at 30%, which also carries Business Relief. VCT relief is 20% from 2026/27 and VCT shares do not qualify for Business Relief. Regular gifting may be an alternative where withdrawals genuinely form part of income and the normal expenditure out of income conditions are met, including leaving enough net income to maintain the client's usual standard of living. Unlike SEIS, it involves no investment risk.
- **Tax and legal advice.** The figures here use rest-of-UK income tax bands. Scottish taxpayers, clients near the £100,000 taper, and anyone with complex estates need individual calculations.

Conclusion

From April 2027, for some older clients, the pension becomes one of the more heavily taxed assets to leave behind. Drawing taxable income and holding cash rarely changes much on its own. Pairing the withdrawal with an SEIS subscription can change the economics: SEIS relief may offset some or all of the extra income tax the withdrawal creates, and qualifying shares may later attract Business Relief.

The price is high investment risk and illiquidity. For the right client, with the right share of surplus wealth, it is a planning route worth putting on the table.

To talk a client case through, call the RAM Capital team on 020 3006 7530 or email taxsolutions@ramcapital.co.uk.

Important information

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Investments in SEIS-qualifying companies are high risk and illiquid. Investors may lose all the money they invest. Tax reliefs depend on individual circumstances and on companies maintaining qualifying status, and tax rules may change. Business Relief is subject to HMRC agreement on death. Figures are based on our understanding of legislation and HMRC guidance as at October 2026.

Sources: [HMRC technical note: Inheritance Tax on pensions](#) · [HMRC policy paper: unused pension funds and death benefits](#) · [GOV.UK: reliefs threshold to rise to £2.5m](#) · [ICAEW: personal allowance freeze extended](#) · [Royal London: money purchase annual allowance](#) · [The Carry: SEIS and EIS limits for 2026](#)

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