

Pension Drawdown into EIS

From April 2027, pensions fall into the IHT net — ascension.vc

Client Scenario

Your client has a substantial pension pot and is concerned about what happens to it on death. From April 2027, pensions will fall into the IHT net for the first time. Combined with beneficiary income tax on drawdown, the effective rate on inherited pension wealth could reach 67%. Drawing down and investing into EIS removes the funds from the estate via 100% BPR — while still gaining 30% income tax relief on the EIS subscription.

Up to 67%

Effective tax on
inherited pensions

40%

IHT on
pension pots

45%

Beneficiary
income tax

The Strategy

Draw down, invest in EIS, remove from estate

Your client draws down from their pension (paying income tax at their marginal rate) and subscribes the net proceeds into EIS-qualifying shares. The 30% income tax relief on the EIS subscription effectively offsets a portion of the income tax paid on drawdown. After 2 years, the EIS holding qualifies for 100% Business Property Relief, removing it from the estate for IHT purposes. The result: funds that would have been taxed at up to 67% on death are now outside the estate entirely, with the client having received income tax relief along the way.

How It Works

- 1 Client draws down from pension**
Income tax is paid at the client's marginal rate (20%, 40%, or 45%). This is the cost of getting the funds out of the pension wrapper. Careful planning around tax bands can reduce the rate paid.
- 2 Net proceeds invested into EIS**
The after-tax amount is subscribed into EIS-qualifying shares. 30% income tax relief is received, offsetting part of the drawdown tax. If drawn down at 45% and relief at 30%, the net tax cost of extraction is effectively 15%.
- 3 After 2 years: outside the estate**
EIS shares qualify for 100% Business Property Relief (within £2.5m per estate). The funds are now outside the IHT estate. On death, beneficiaries inherit the EIS shares IHT-free — compared to up to 67% effective tax if the funds had remained in the pension.
- 4 Ongoing: tax-free growth potential**
If held for 3+ years, any gains on EIS shares are tax-free. The client has turned a heavily-taxed pension inheritance into a tax-efficient, IHT-free holding.

Key Numbers

- Pension IHT: 40% from April 2027 (currently exempt)
- Beneficiary income tax on pension drawdown: up to 45%
- Combined effective rate: up to 67%
- EIS income tax relief: 30% on subscription
- EIS BPR: 100% after 2-year hold (within £2.5m)
- EIS gains: tax-free after 3-year hold
- Net tax cost of drawdown + EIS: as low as 15% for a 45% taxpayer

Suitability

May be suitable if:

- Client has a substantial pension pot (beyond what they need for retirement income)
- Client's estate will exceed the IHT nil rate band
- Client is concerned about pension IHT changes from April 2027
- Client has capacity to absorb EIS venture capital risk
- Client can commit drawn-down funds for 2+ years
- Professional advice obtained on both pension and EIS aspects

Key risks:

- Capital loss — EIS is genuinely high-risk
- Illiquidity — no secondary market
- Income tax payable on pension drawdown (irreversible)
- Pension tax rules may change before April 2027
- BPR only after 2-year hold; capped at £2.5m per estate
- Reducing pension pot reduces retirement income security
- No FSCS protection

Important: This document is for illustrative purposes only and does not constitute financial, tax or investment advice. Figures are hypothetical and based on simplified assumptions and current tax legislation (2025/26). Tax treatment depends on individual circumstances and may change. EIS investments carry significant risk of total capital loss. They are illiquid, with no secondary market, and expected holding periods of 5–10 years or longer. EIS investments are not protected by the FSCS. Past performance is not a guide to future performance.

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