Pension Death Benefits – you can take it or leave it!

Those looking to pass on their pension fund received have a boost when the Government confirmed they're following through on their promise to scrap the current 55% tax charge on death. This means the tax system will no longer penalise those who draw sensibly on their pension fund, making pensions a very attractive wealth transfer wrapper.

What's changing?

Your age at death will still determine how your pension death benefits are treated. The age 75 threshold remains, but with some very welcome amendments:

- Death before 75 – The pension fund can be taken tax free, at any time, whether in instalments, or as a one-off lump sum. This will apply to both crystallised and uncrystallised funds, which means those in drawdown will see their potential tax charge on death cut from 55% to zero overnight. Using the fund to provide beneficiaries with a sustainable stream of income allows it to potentially grow tax free, while remaining outside their estate for IHT

- Death after 75 – Defined Contribution Pension savers will be able to nominate who ‘inherits' their remaining pension fund. This fund can then be taken under the new pension flexibility and will be taxed at the beneficiary's marginal rate as they draw income from it. Alternatively, they'll be able to take it as a lump sum less a 45% tax charge

These new rules will apply to payments made on or after 6th April 2015 rather than the date of death. So where payment of death benefits can be delayed until after 5th April 2015, the beneficiaries will be able to take advantage of the new rules.

The changes can be summarised as follows:

Death pre 75

	Old rules	New rules
Lump sum	• Uncrystallised funds – tax free • Crystallised funds – 55% tax	• All tax free
Income	• Option only available to dependents • Taxed as income	• Tax free if taken via new flexible income • Option available to any beneficiary

Death post 75

	Old rules	New rules
Lump sum	• Subject to 55% tax	• Subject to 45% tax*
Income	• Taxed as income • Option only available to dependents	• Taxed as income • Option available to any beneficiary

- To April 2016 at which point the tax drops to your marginal tax rate

Do not act on this information alone!

For further information please contact:

jch: pension management
1 Henley Way
Doddington Road
Lincoln
LN6 3QR

t. 01522 697310
f. 01522 697350

enquiries@jchpm.co.uk

www.jchpm.co.uk