May 2015

Bulletin

Pension Changes

The recent Budget confirmed the proposed radical pension flexibility changes and these came into effect on 6th April 2015:

Death Benefits

The flexible access to funds has 'made the headlines' but many will find the massive changes to the tax treatment of pensions upon death of more significance. All pension funds left by those aged under 75 can now be passed onto their beneficiaries entirely tax free. This immediately improves the benefits for anyone who is currently in an Income Drawdown plan where previously a spouse's pension was the most likely option. A Discretionary or 'Spousal By-Pass Trust' still needs to be considered for those with large funds that could otherwise create an IHT liability for the surviving spouse.

The 55% tax rate on death benefits for those over 75 has been abolished and again persons other than the spouse can benefit from the fund. Any beneficiary can draw income from the fund, subject to their marginal income tax rate.

Tax planning opportunities abound! The pension is not part of your Estate and the possibility of nominating grandchildren or other non-tax payers as beneficiaries is very attractive.

Pension funds are now a key part of Inheritance tax planning and the 'Expression of Wish form' is a very important document alongside your Will. It is important that the Will does **not** leave your pension to anyone, as the Expression of Wish covers this.

Flexible Access

The main focus has been on the new flexible access that will be permitted for over 55 year olds – 'The Pension Bank Account'. So people are permitted to cash-in all or part of their pensions, but will it be sensible for them to do so and can the pension providers facilitate partial encashments?

In many cases the answer to both these questions will be NO and these are the reasons:

- Anything taken out, above the 25% tax free limit, will be liable for income tax at the marginal rate, which for modest sized pension pots is likely to be 40%.
- Any withdrawals made will immediately reduce your annual allowance by 75%.
- The pension fund is likely to be outside your Estate, so it may be unwise to bring it back into the IHT regime.
- Any alternative investment is likely to be much less tax efficient.
- Your pension savings are there to provide income where you are no longer earning!
- Pension policies that commenced several years ago are likely to be held on older systems and the provider, in many cases, cannot split them.
- You may be directed to an IFA for advice on transferring to a flexible access plan but in some instances you will not be able to find an adviser that will deal with a small fund size.

However, the legislation offers very attractive tax planning opportunities for those with larger pots, funds available to invest and undoubtedly some people will benefit by accessing more of their pension pot sooner.

The next steps:

1. Plan ahead for the best nomination of your Death Benefits and revisit any previous nominations.
2. If you or your clients are tempted to access your pension fund, because you can, please seek appropriate advice first.

Call us now to discuss the options for you and your clients.

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