June 2016

MJBulletin

Pension Freedom

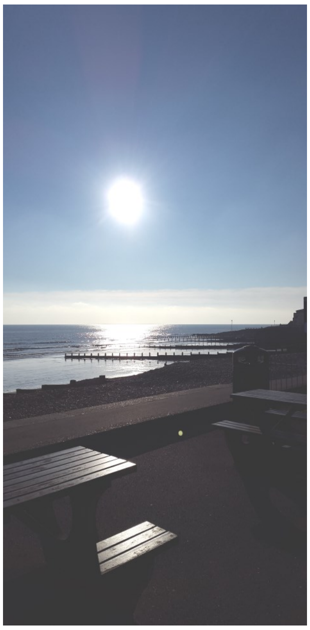
The world of personal pensions changed dramatically in April 2015 so just over a year on we look at the main changes and how they have influenced clients and advice.

Flexible Access

The main focus has been on the flexible access that is now available to all those over 55 years old who can now take out as much as they want at any time from their pension.

A few clients with modest pots have requested withdrawals, but normally only the tax free element (25% of the fund). Very few have asked for significantly more than this. We make them aware of the following:

- 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 such withdrawals made will immediately reduce your annual allowance by 75%, (to £10,000).
- 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.



However, the legislation offers very attractive tax planning opportunities for those with larger pots, or funds available to invest. Pension contributions for those approaching retirement will attract tax relief and if this is at 40% a significant tax saving may be made when withdrawals are made after earnings have ceased.

Death Benefits

The next steps:

1. Plan ahead for the best nomination of your Death Benefits and revisit any previous nominations.
2. Consider additional contributions as you approach retirement.
3. If you or your client are tempted to access your pension fund, because you can, please seek appropriate advice first.

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 now persons other than the spouse can benefit from the fund. Any beneficiary can draw income, subject to their marginal Income tax rate, from the fund. As 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.

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

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