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PENSION DEATH TAX CHARGE ABOLISHED

New simplify the existing regime from April 2015

The Chancellor, George Osborne, has brought forward the expected announcement on the tax charge that applies to certain individuals' pensions on their death. The new rules will simplify the existing regime and come into force from 6 April 2015, abolishing the 55% tax that applies to untouched defined contribution pension pots of people aged 75 or over, and to pensions from which money has already been withdrawn.

DRAWING PENSION MONEY

This means that from 6 April 2015, if a person who dies is 75 or over, the person who receives the pension pot will only pay their marginal tax rate as they draw money from the pension. If someone aged under 75 dies, the person who receives the pot is able to take money from the pension without paying any tax. Beneficiaries will be able to access pension funds at any age and the lifetime allowance, currently £1.25 million, will still apply.

PASSED PENSION BENEFITS

Those who are passed pensions from anyone who died before 6 April 2015 can still benefit so long as payment is delayed until after that point. The change is a positive move for UK savers, building on the flexibility outlined in Budget 2014 and giving people another avenue of financial planning using their pension pots.

MORE APPEALING TRANSFERS

The change should make transfers from defined benefit (DB) to defined contribution (DC) schemes more appealing for those with ill health, as well as for people who will see their pension more as part of their family wealth. But there do still remain risks for the elderly, which need to be thought through. If they look to use the new flexible opportunities to draw down benefits rather than take out an annuity, they could be at risk of breaching the lifetime allowance when they are older and suddenly suffering a 55% tax rate which they cannot then avoid. There still needs to be a review of unintended consequences.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of and reliefs from taxation are subject to change.

Tax treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, Goldmine Media cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

In the light of this announcement, it makes sense to review your pension provision and assess how the changes could affect you and your beneficiaries. To discuss your particular requirements or for further information, please contact us.