FACTSHEET RETIREMENT

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MINIMISING POTENTIAL TAXES AND DUTIES ON YOUR DEATH

IMMEDIATE ACCESS TO YOUR PENSION FUNDS, ALLOWING YOU TO TAKE OUT WHAT YOU WANT, WHEN YOU WANT IT

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As your wealth grows, it is inevitable that your estate becomes more complex. With over 400,000 people now expected to reach age 75 each year [1], more and more people could be faced with a 55 per cent tax charge on any money left in their pension fund when they die.

Free of any death tax

Money saved via a pension can be passed on to a loved one, usually outside their estate and free of any death tax, provided the pension fund has not been touched and they die before age 75. People fortunate enough not to need immediate access to their personal pension may therefore decide not to touch those savings for as long as possible.

However, once someone reaches age 75, the death benefit rules change dramatically and their entire pension fund may become subject to a 55 per cent tax charge on death. This means it can become a race against time for many individuals to reduce the impact of this charge.

Flexible drawdown lifeline

It can take years to move money out of the 55 per cent death tax environment using capped income withdrawals due to the set limits on the amount that can be withdrawn each year. A lifeline can, however, come in the form of flexible drawdown. Flexible drawdown can provide people with immediate access to their pension funds, allowing them to take out what they want, when they want it. Flexible drawdown is only available to people who are already receiving £20,000 p.a. minimum guaranteed pension income – which can include their state pension entitlement.

For individuals who wish to leave as much as possible to their beneficiaries, taking income from their pension and gifting it to their beneficiaries under the 'normal expenditure' rules will allow certain amounts of money to be passed to their beneficiaries outside their estate.

Passing money outside the estate

This may be more tax-efficient than suffering the 55 per cent death tax charge, or the 40 per cent Inheritance Tax charge if the money is simply brought into their estate. Any money taken out under flexible drawdown will be subject to income tax, so higher rate tax payers need to be careful to ensure the money is either passed on outside their estate tax-effectively or that their estate is within the annual IHT allowance of £325,000 (2013/14).

This may be particularly relevant for people who are approaching, or who have already reached, their 75th birthday, especially as many older pension arrangements will not allow pension savings to continue to be held beyond that date.

Younger people who have accessed their pension fund, even if it's just to take the lump sum cash, could also be at risk of the 55 per cent death tax, and could benefit from moving funds out of this environment as efficiently as possible.

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Want to investigate the opportunities available to you?

The benefits of flexible drawdown should not be underestimated. Putting off accessing your pension income could store up problems when you reach age 75. But once someone does access their pension fund, regardless of age, flexible drawdown can dramatically help with estate planning. To investigate the opportunities available to you, please contact us today.

Source
[1] Office of National Statistics, figures from 2011 Census.