

55% PENSION 'DEATH TAX' TO BE ABOLISHED

WHAT IS CHANGING

As things stand, it is normally only possible to pass a pension pot on as a tax free lump sum if you die before the age of 75 **and** you have not taken any tax free cash or income from that pot. Otherwise, any lump sum paid from the fund is subject to a penal 55% tax charge. From April 2015, this will change, and the automatic tax charge will be abolished. The tax treatment of any pension you pass on will depend on your age when you die.

If you die before age 75

Your beneficiaries can take the whole pension fund as a tax-free lump sum or draw an income from it, also tax-free, either by using income drawdown or by choosing to buy an annuity.

If you die after age 75

Your beneficiaries have three options:

- Take the whole fund as cash in one go: the pension fund will be subject to 45% tax. However, it has been proposed that this should be changed from 2016/17 to the beneficiary's or beneficiaries' marginal rate of income tax.
- Take a regular income through an annuity or income drawdown: the lump-sum payments will be treated as income, so subject to income tax at your beneficiary's or beneficiaries' marginal rate.
- Take periodical lump sums through income drawdown: the lump-sum payments will be treated as income, so subject to income tax at your beneficiary's or beneficiaries' marginal rate.

WHO WILL BE AFFECTED

Anybody who has a defined contribution pension, e.g. individual or group personal or stakeholder pensions, Self Invested Personal Pensions, and Additional Voluntary Contribution schemes will be affected.

This is a most welcome move. The abolition of the penal 55% pension death tax, together with flexible access to pensions from age 55, means that rigid pensions are a thing of the past and this must surely mean more people will be encouraged to provide for their future.

The new rules taking effect on 6 April 2015 will, as we have described, make pensions more flexible and accessible. From age 55 (57 from 2028), an investor will be able to withdraw what they like, without restriction. 25% will usually be tax-free and the rest taxed as income at the investors marginal rate.

