

Pensions, death and tax

where we've been, where we are, where we're going.

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

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Learning Objectives

By the end of this session, you will be able to:

Describe the tax treatment of pension schemes on death

Explain the key elements of creating an IHT plan

Evaluate potential solutions for individuals whose pensions may be caught up in the IHT net



Where we've been...

2011
"Age 75"
goes

35% / 45% / 55%

S3(3) repealed
2011/2014

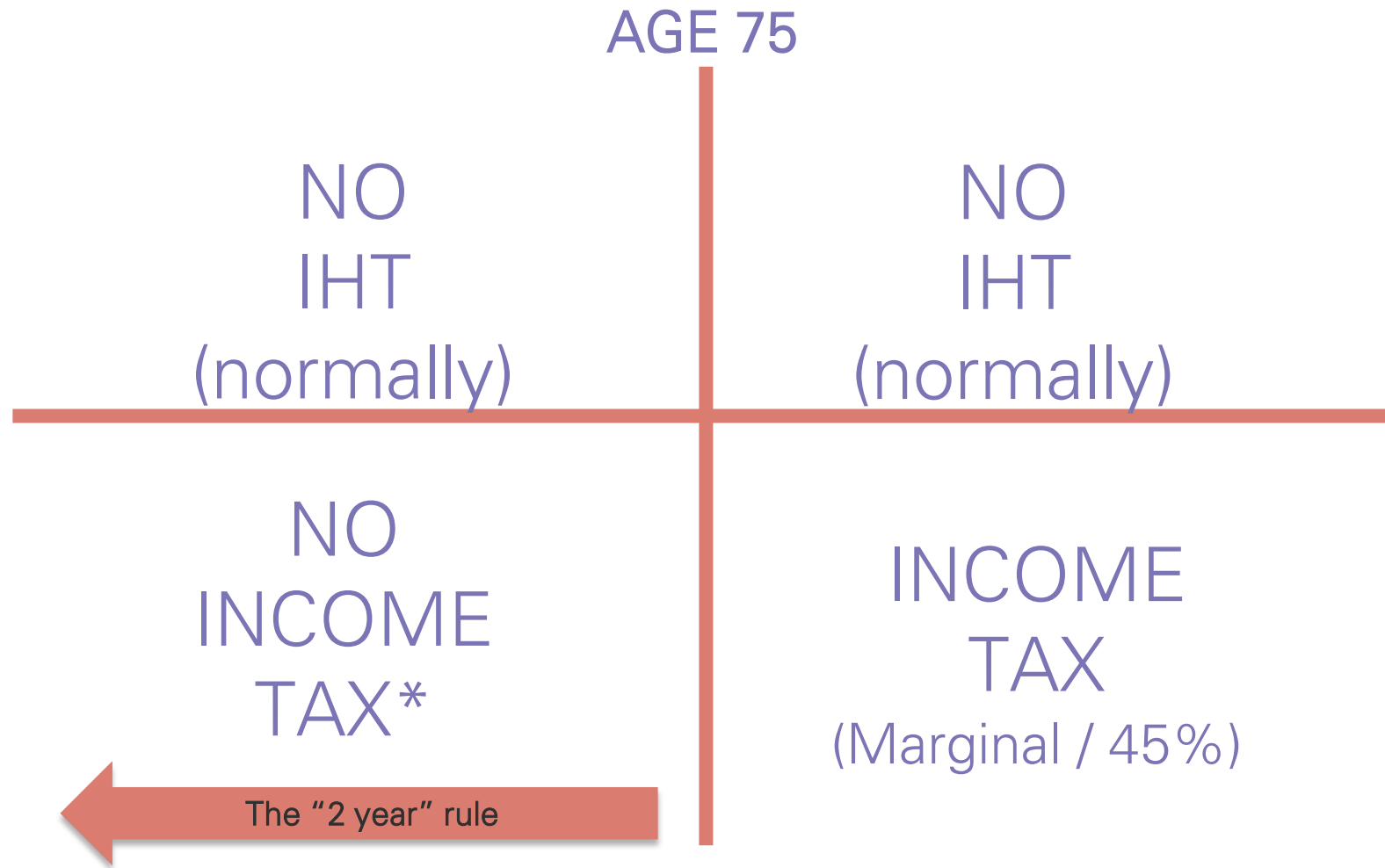
2015
Nominees /
Successors
Introduced

Vested v Unvested

2023
LTA abolished

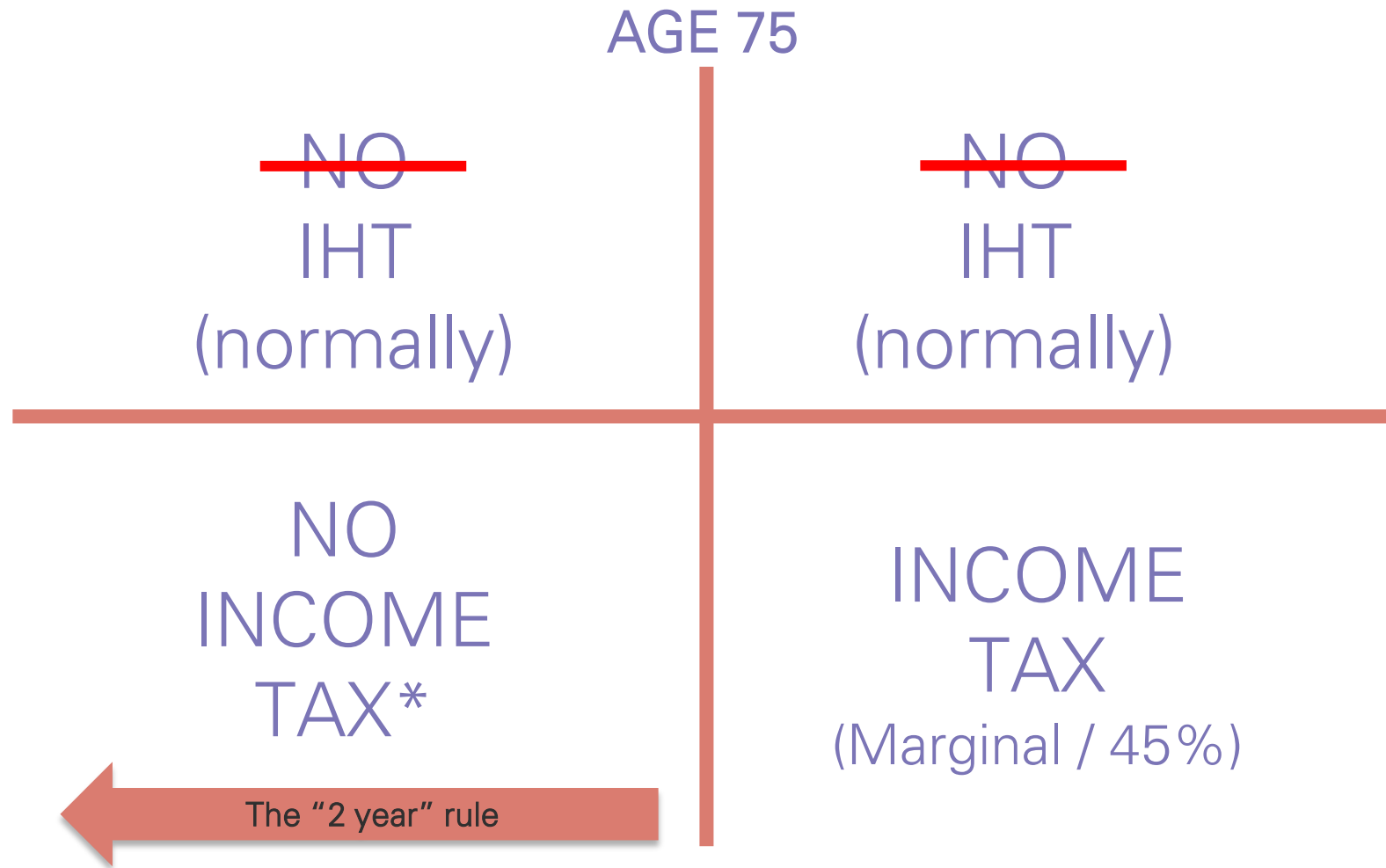
Pre 75 v Post 75

Where we are until 2027



* DB income is taxable

Where we're going



* DB income is taxable

Both taxes will apply

IHT on pension schemes

Beneficially Entitled

Estate entitled

Within estate

General power of disposal

Power of Disposal
(with some exceptions)

Within estate

New rules

Discretionary Disposal

~~Outside estate~~

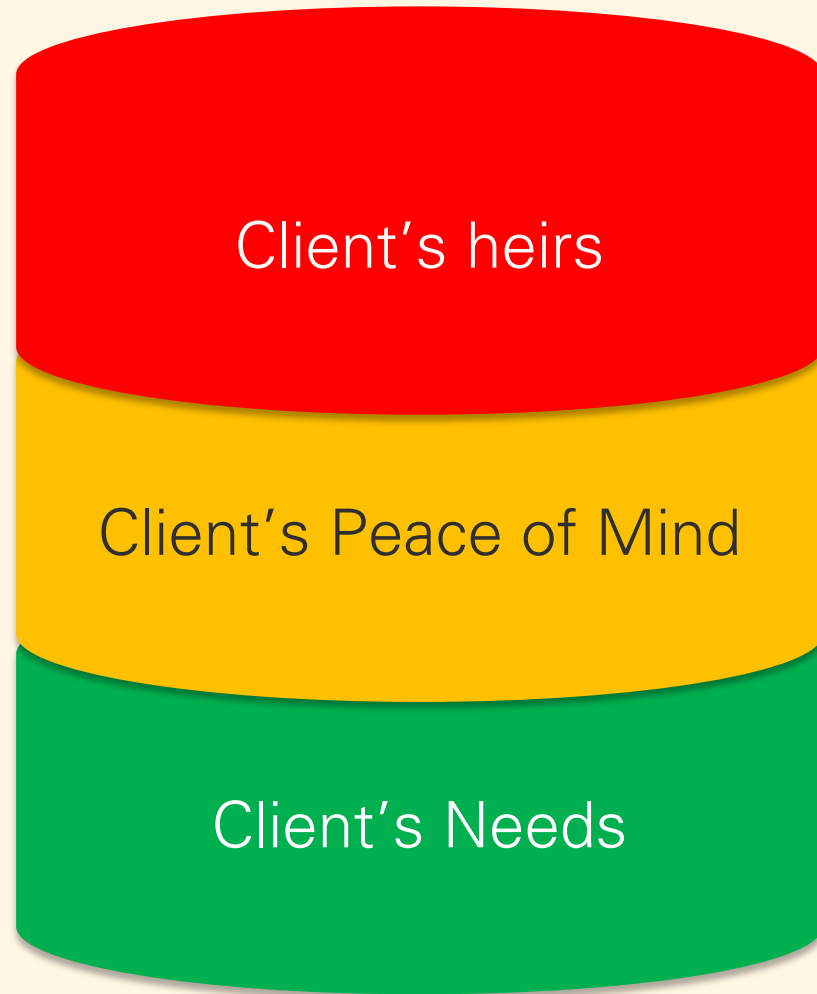
Within estate

Distribution Arrangements Unchanged

At Autumn Budget 2024, the government announced several measures to reform Inheritance Tax. This included a measure to bring most **unused pension funds and death benefits within the value of a person's estate** for Inheritance Tax purposes from **6 April 2027**.

As part of these changes, **pension scheme administrators (PSAs)** will become liable for reporting and paying any Inheritance Tax due on unused pension funds and death benefits.

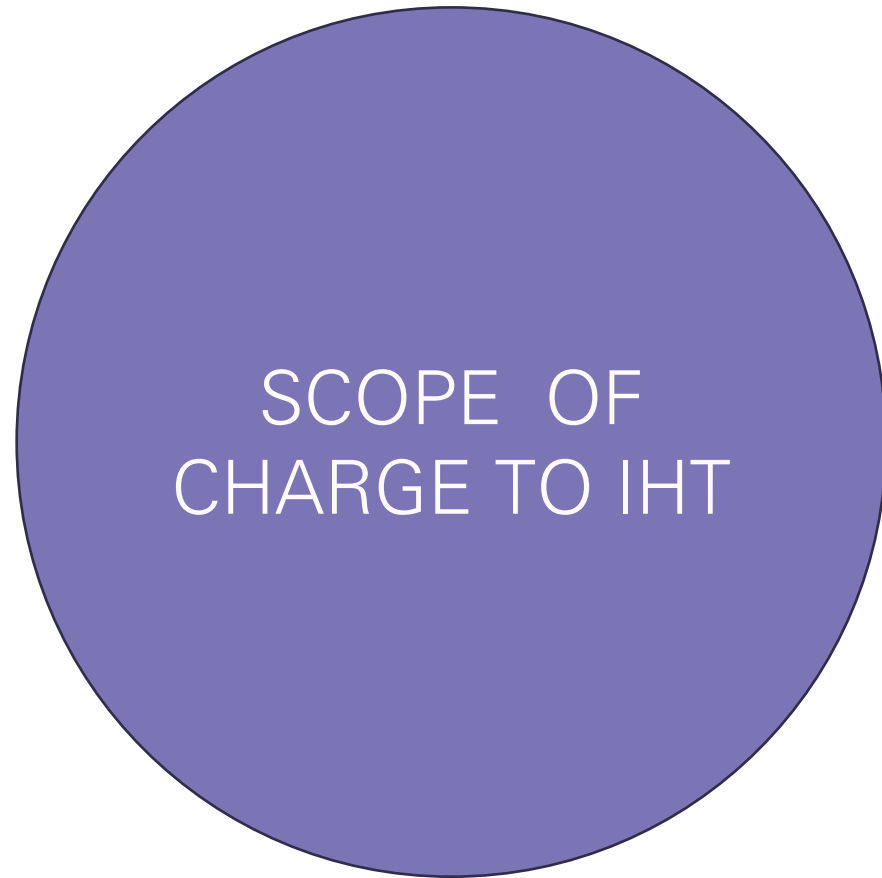
Segmenting pensions



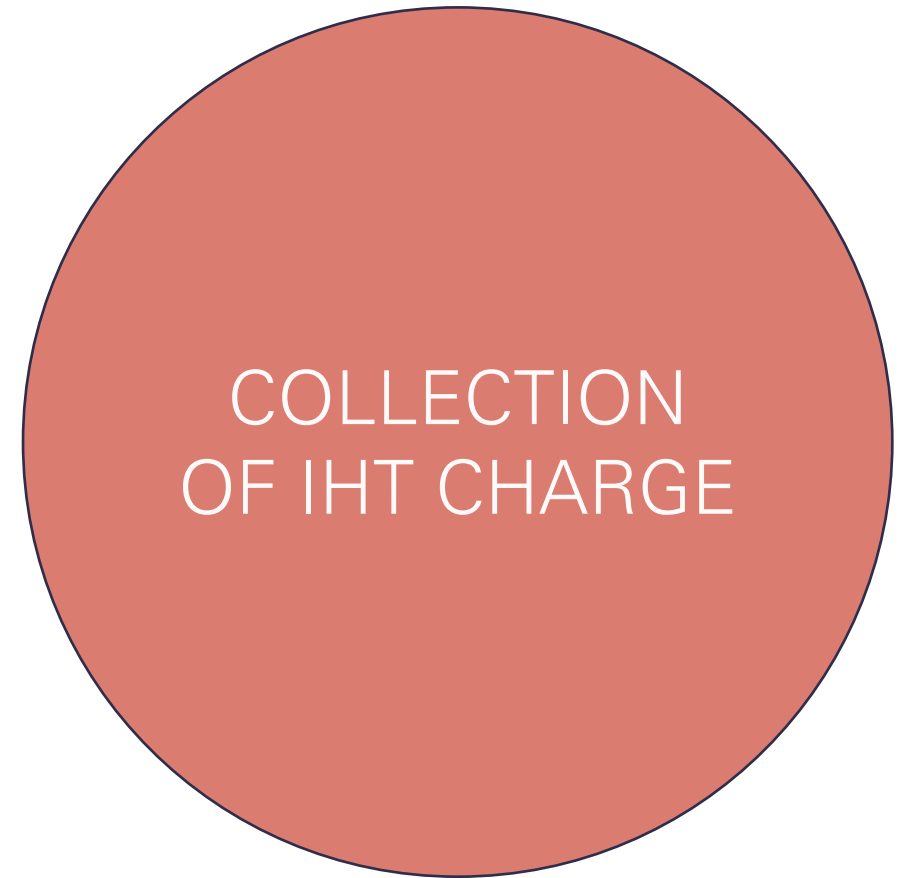
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Consultation matters

Rumsfelding

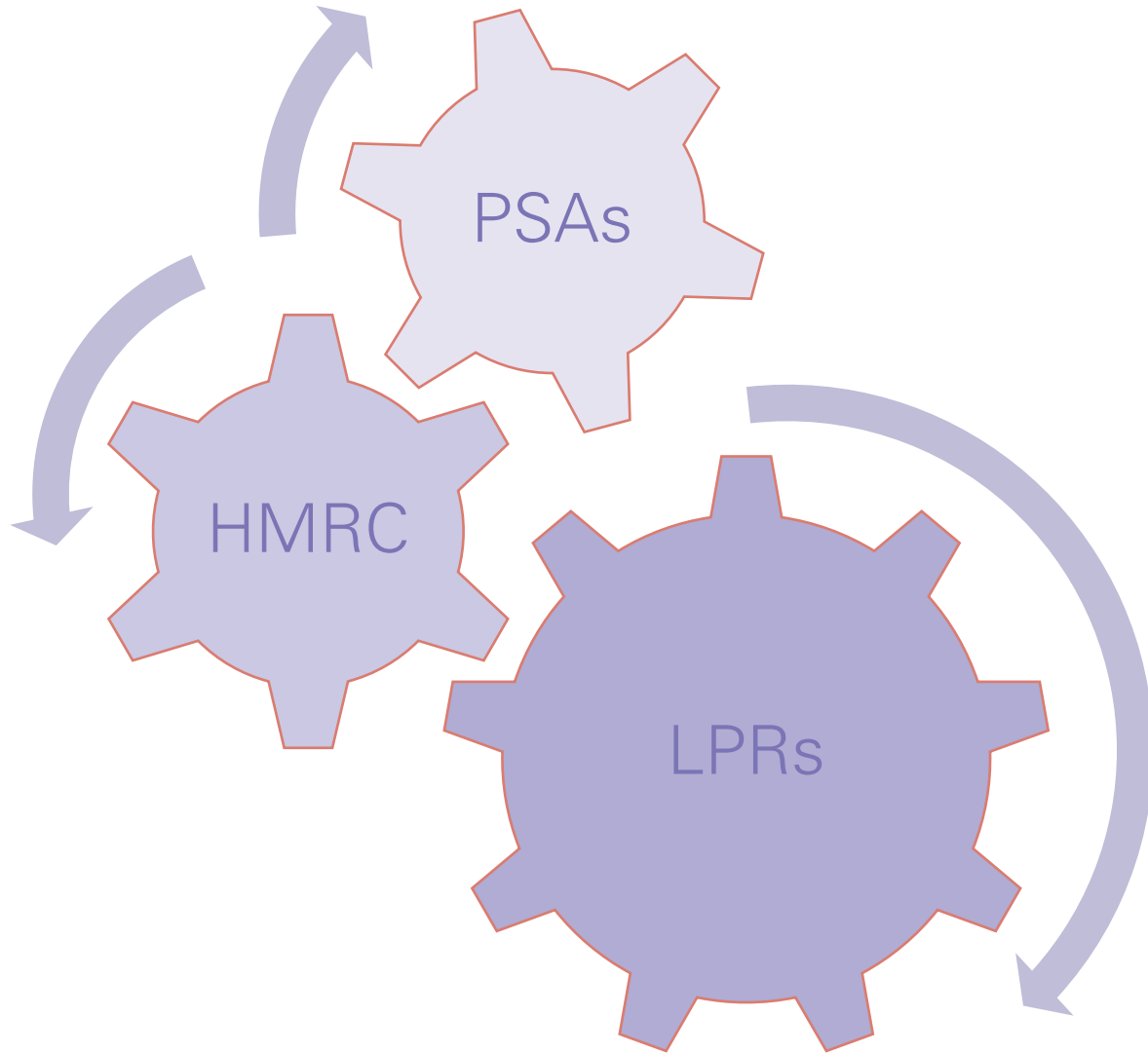


NO CONSULTATION



CONSULTATION

Issues, in a nutshell



No pension / non pension estate interaction



"You must pay Inheritance Tax by the end of the sixth month after the person died."
HMRC

Amend deadlines / payment on account

Annuities

Single life

Joint Life
non spouse/civil partner

Guarantee period
Estate "disposal"

Joint Life
spouse/civil partner

Guarantee period
Discretionary "disposal"

Value Protection Lump Sums
Estate "disposal"

Value Protection Lump Sums
Discretionary "disposal"

Remember there's no annuity in a Fixed Term Annuity

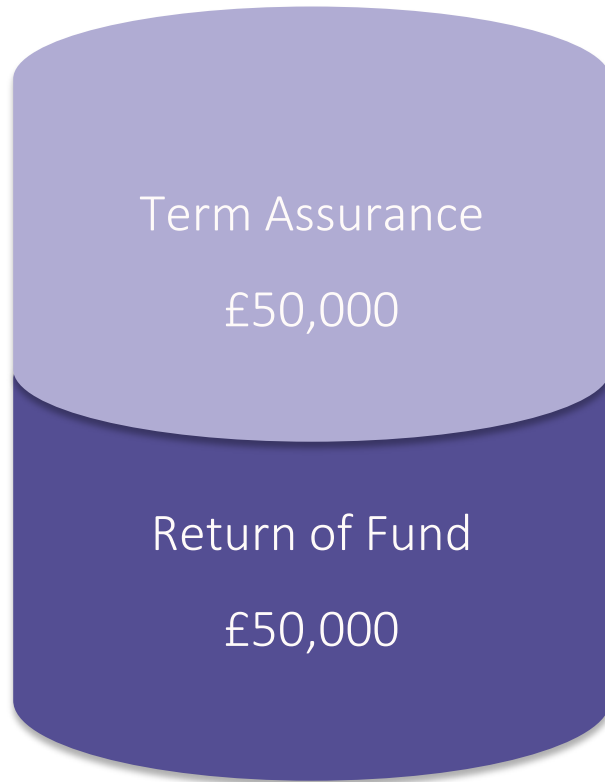
“Risk Benefits”

All life policy products purchased with pension funds or alongside them as part of a pension package offered by an employer are not in scope of the changes in this consultation document.

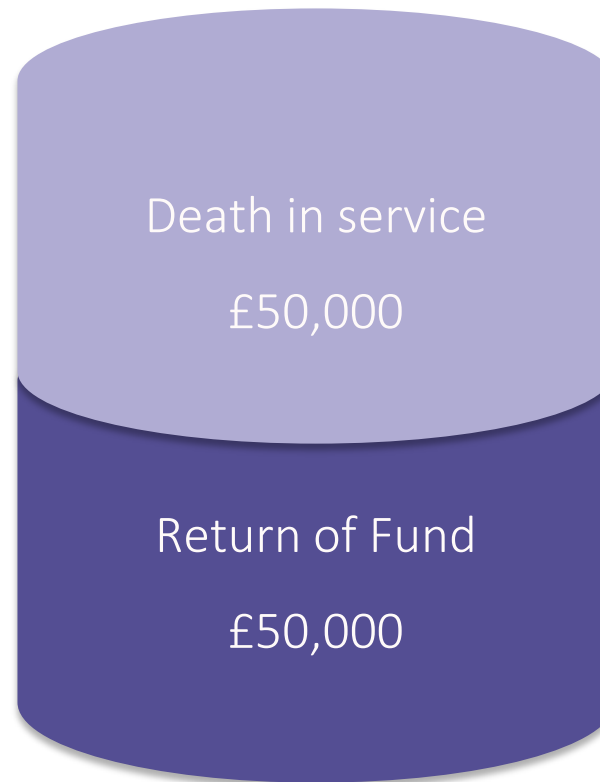
HMRC consultation

“Risk Benefits” examples

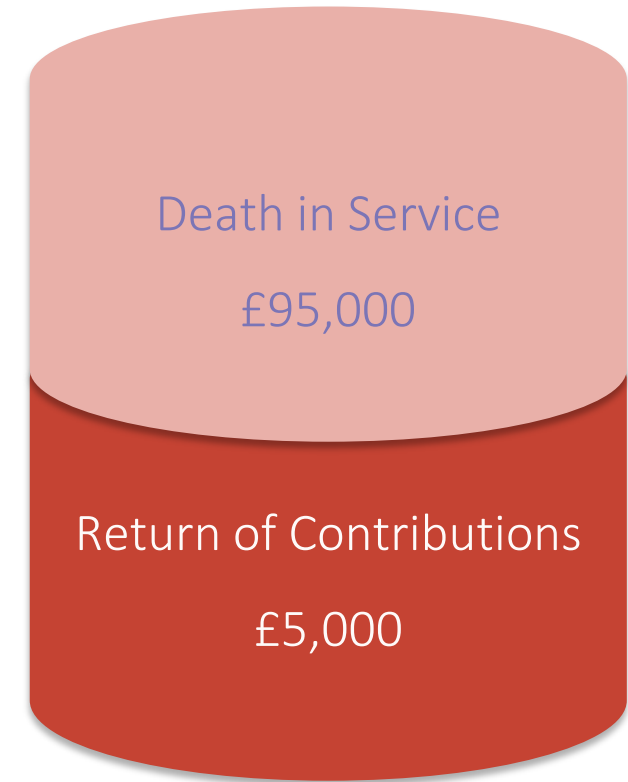
Personal Pensions



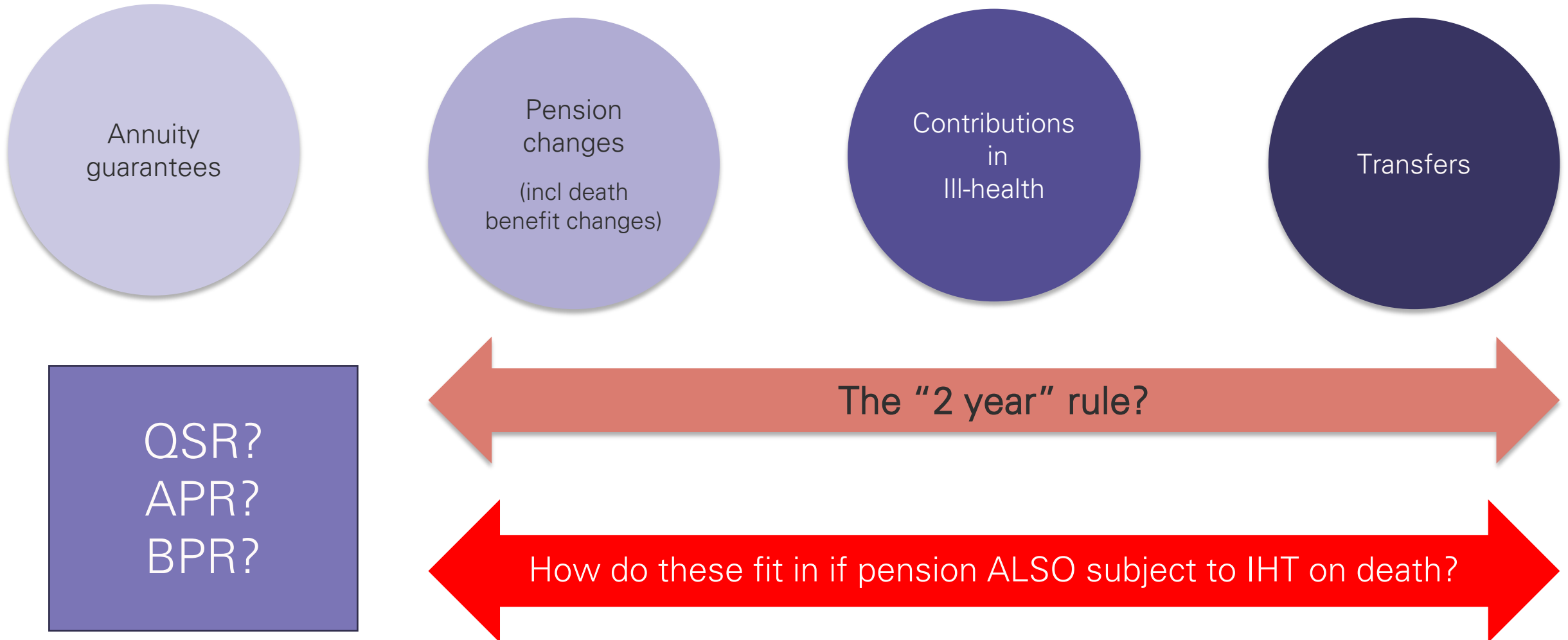
Money Purchase OPS



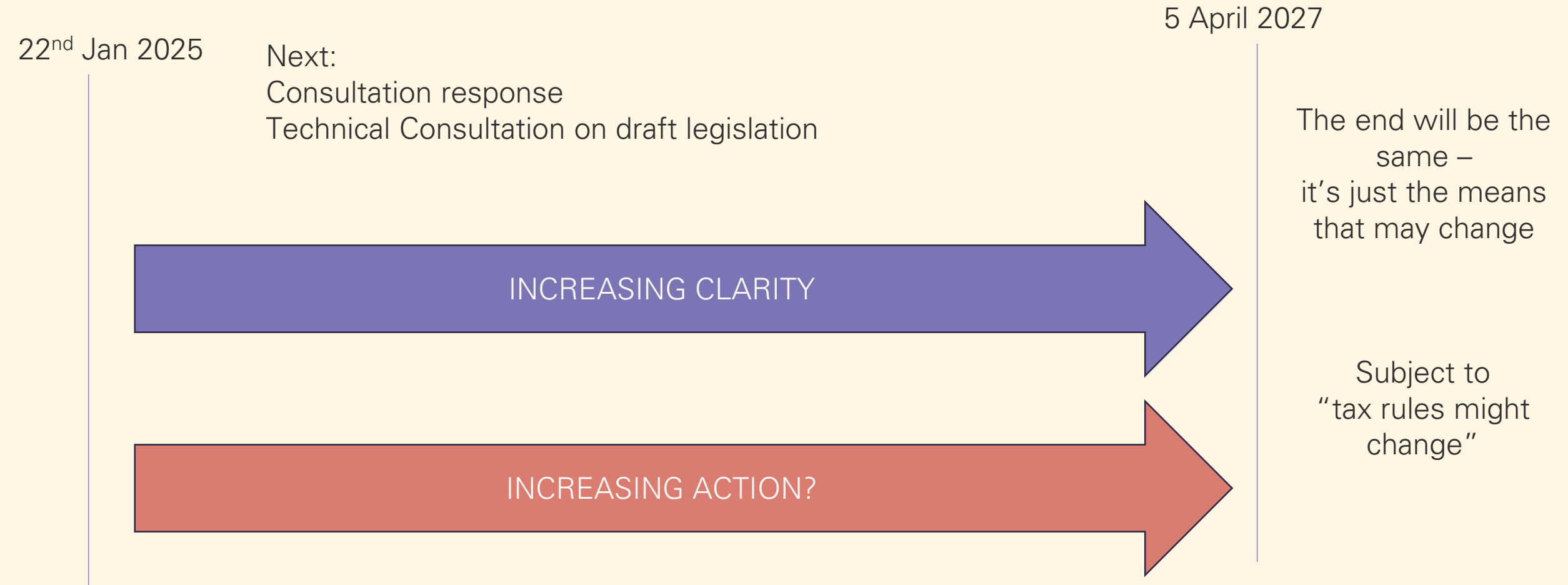
Defined Benefit OPS



Pensions – IHT events



Ready, steady, wait...?

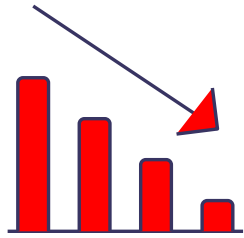


But what if they die before April 2027 and/or before age 75?



Planning matters

Does it matter?



ACCEPT

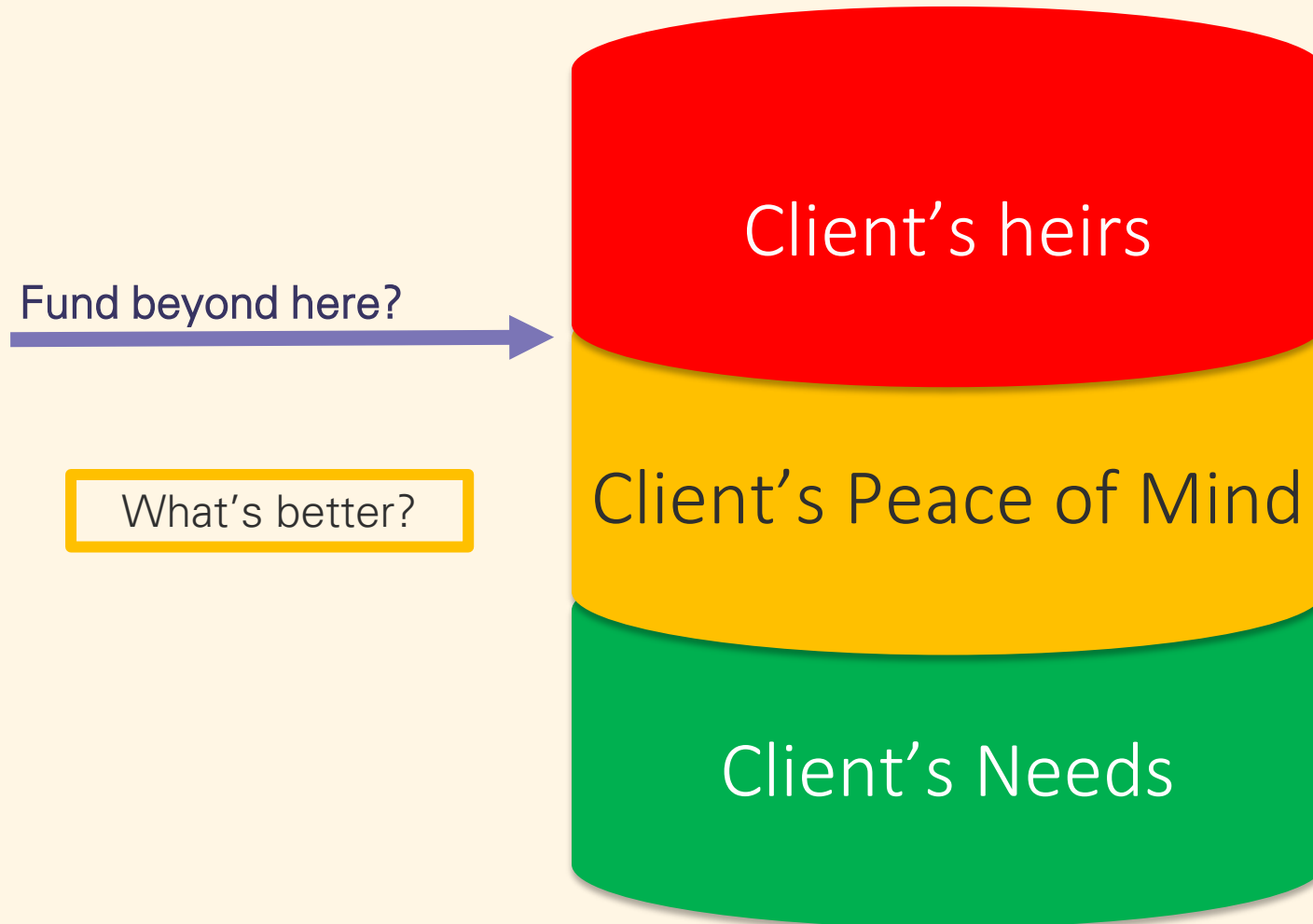


INSURE



PLAN

Continue funding?



Probably less tax efficient overall

Venture Capital Schemes:

- 30% income tax relief?
- Business Relief?

Direct to the next generation:

- Access
- Control

Beneficiary's own pension?

PENSION

40% world
IHT

Marginal rate
INCOME TAX

On total value

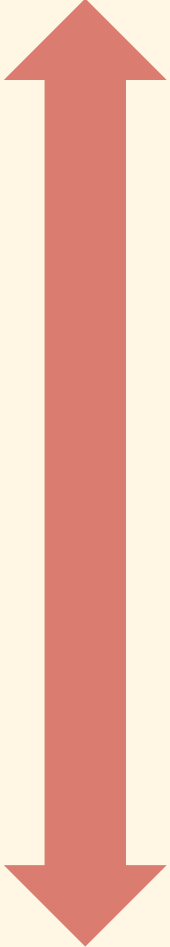
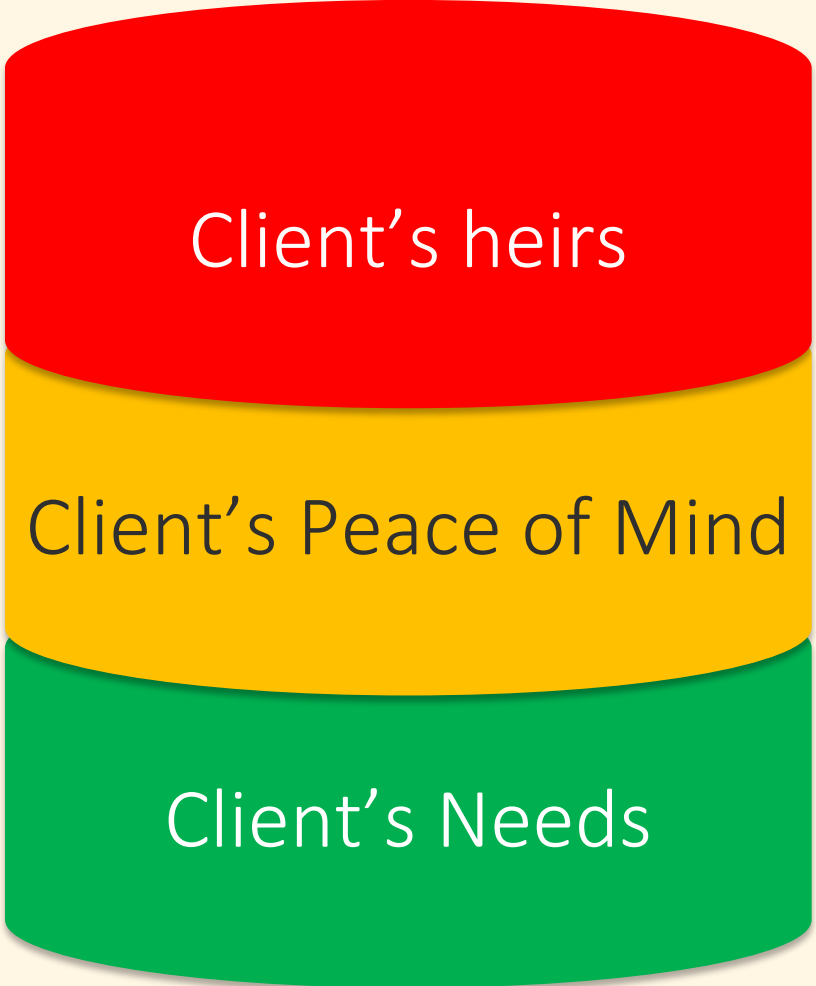
IHT

0% or 6% or 40% world

Income / Gains

0% to 45%
growth & income only

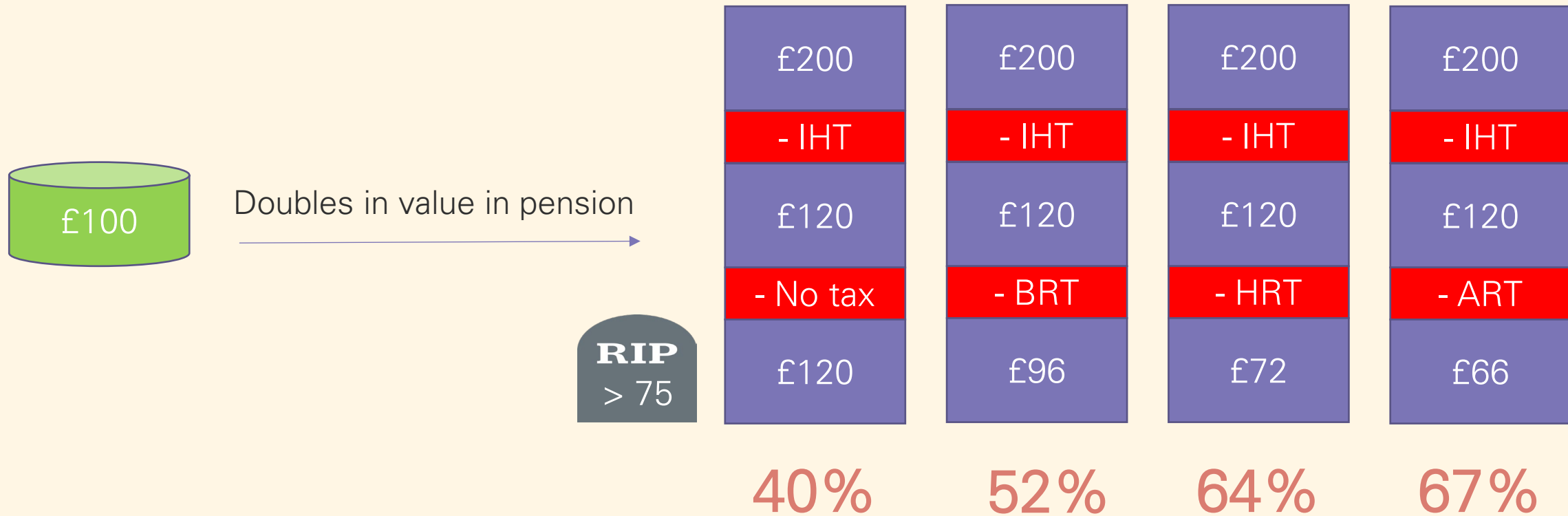
Clients pension pot



How much tax free access?

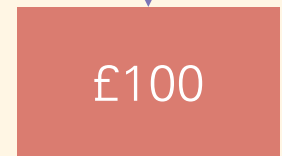
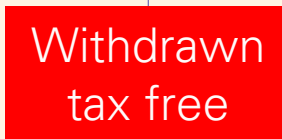
Beneficiary pots or member pot?

Follow £100

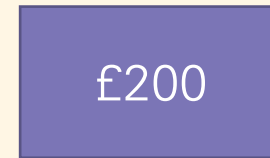


Can you get the pension pot to the next generation with less tax?

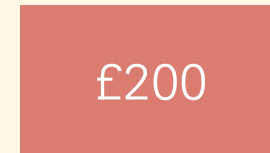
Follow £100



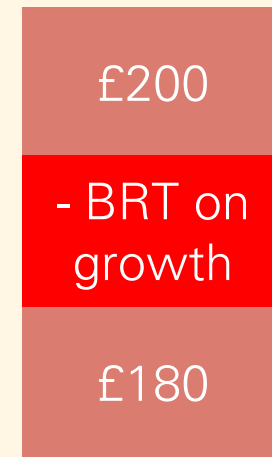
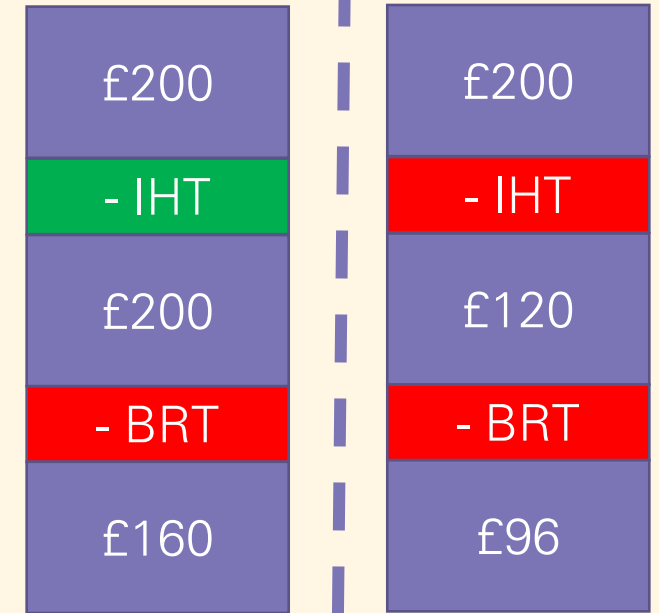
Doubles in value in pension



Doubles in value outside pension and outside estate

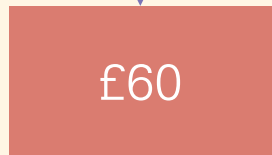
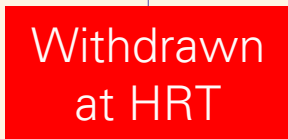


5 April 2027

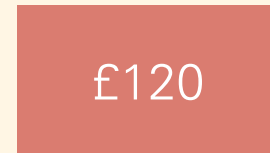
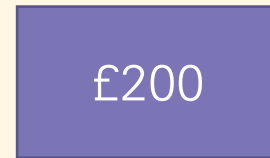


If gift failed it would be 40% IHT on £100 = £40

Follow £100

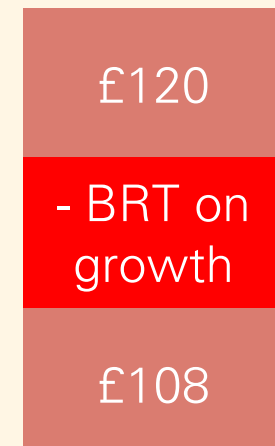
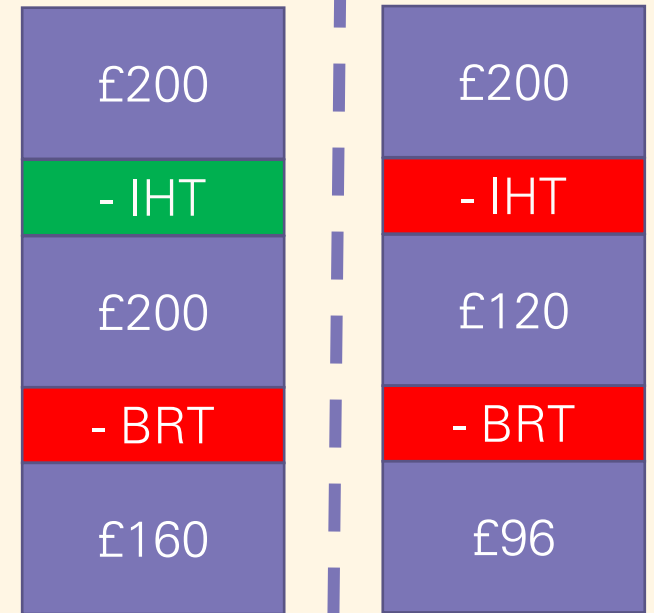


Doubles in value in pension



Doubles in value outside pension and outside estate

5 April 2027



If gift failed it would be 40% IHT on £60 = £24

Expressions of Wish

April 27

Pension not included in estate

Leave pension system

- If beneficiary will have "red funds"?
- Exit with no NRB usage
- Bypass Trust or Beneficiary?

Stay in pension system

- no NRB used
- potential for 40% IHT charge on 2nd death?
- spouse excluded?
- beneficiary access limited?
- leave to those who will exhaust?

Pension included in estate

Leave pension system

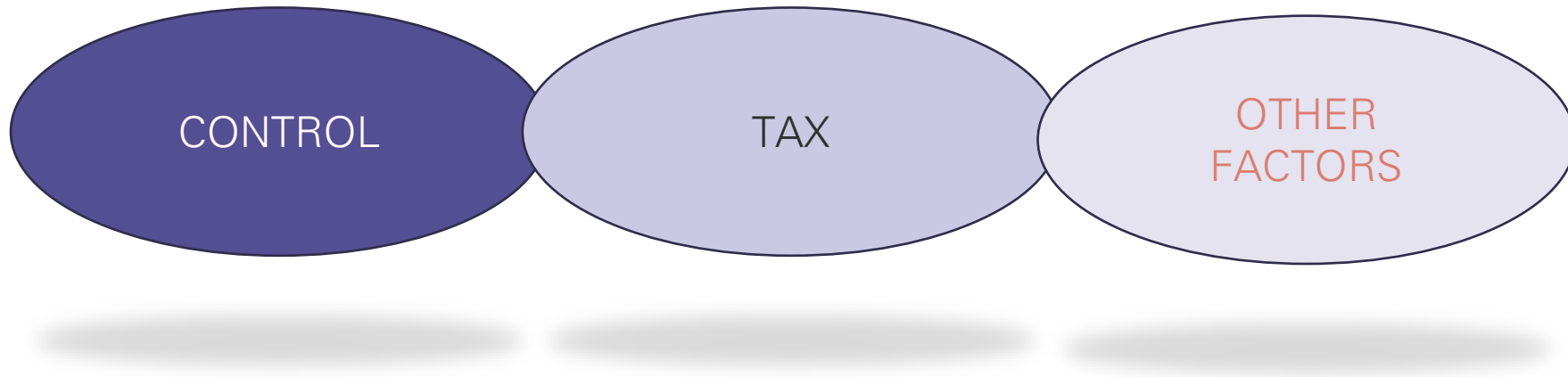
- If beneficiary will have "red funds"?
- Exit may use NRB
- Bypass Trust or Beneficiary?

Stay in pension system

- potential for 40% IHT charge on 2nd death?
- spouse excluded?
- beneficiary access limited?
- leave to those who will exhaust?
- NRB will be used if non-exempt beneficiary

Decide when you want pension to use NRB

Bypass trusts – on the rise?



Will a discretionary bypass trust be a better place than a discretionary pension trust?

Bypass the pension trust?

	Bypass Trust	Pension Trust
IHT		
Income tax		
Access		
Control		
Admin		

Nominations?

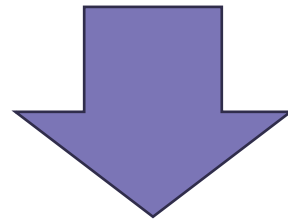


£500k DC pension



£500k DC pension

Pass to spouse



5 April 2027



Nominations?



£1m DC
pension



Death before 5 April 2027

no IHT due

5 April 2027



Death after 5 April 2027

£1m pension in estate for IHT

Nominations (pre 2027 death)



£500k DC
pension

Nominate trust on 1st death?

- £500k death benefit avoids 40% IHT where 2nd death occurs after 5 April 2027
- Subject to 6% every 10 years instead
- Spouse has full access if required
- Trust distributions to next generation as opposed to gifts

Re-assess as April 2027 approaches

First in, last out?

£900,000 Estate (2nd death)

Values	ISA	Pension
Death	£450,000	£450,000
Allocated NRB	£325,000	£325,000
Subject to IHT	£125,000	£125,000
IHT due	£50,000	£50,000
Total IHT	£100,000	
Post IHT Values	£400,000	£400,000
Net of IHT value	£800,000	
<i>Beneficiary Income tax</i>		
20%	£0	£80,000
Net proceeds	£720,000	

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Wrap it up

To act or not to act

Avoiding post 75 income tax disadvantage

Gifting taxed money

Consolidation

Expression of Wish

Divert funding

Annuity Purchase

Segment clients

Business Relief

Learning Objectives

By the end of this session, you will be able to:

Describe the tax treatment of pension schemes on death

Explain the key elements of creating an IHT plan

Evaluate potential solutions for individuals whose pensions may be caught up in the IHT net

QUESTION TIME



Thanks for your time

Get in touch with your usual contact if you need further help.





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