

### **Pension Death Benefits – new rules from April 2015**

This note refers to Defined Contribution Pensions such as Personal Pensions, SIPP's and SSASs, not Defined Benefit Schemes.

The 55% 'death charge' on pension funds on death post age 75 or in drawdown no longer applies after the 6<sup>th</sup> April 2015.

A summary of death benefits is as follows;

#### Death before 75

- Lump Sum Death Benefit and/or
- Dependent's and/or Nominees Drawdown
- Dependent's annuity

All are free of tax provided benefits paid out within 2 years (unless a Lifetime Allowance Tax charge arises.)

#### Death after 75

- Lump Sum Death Benefit and/or
- Dependent's and/or Nominees Drawdown subject to income tax
- Dependent's annuity

The lump sum would be taxed at 45% although the government have said they aim to reduce this to the recipient's rate of income tax from 2016. The drawdown or dependent's annuity would be subject to income tax.

#### Death of Dependent or Nominee in drawdown

The Dependent or Nominee can nominate a *Successor*.

- Lump Sum Death Benefit and/or
- Dependent's and/or Successor's Drawdown

The tax treatment would be determined by the age of the Dependent or Nominee at death. Pre 75, benefits would be tax free provided they were paid or designated within 2 years of death. On death after 75 they would be subject to income tax in a similar way to if the member had died after 75.

If subsequent successors are nominated and the drawdown fund is not all used up, it could be passed down through generations.

## Annuities

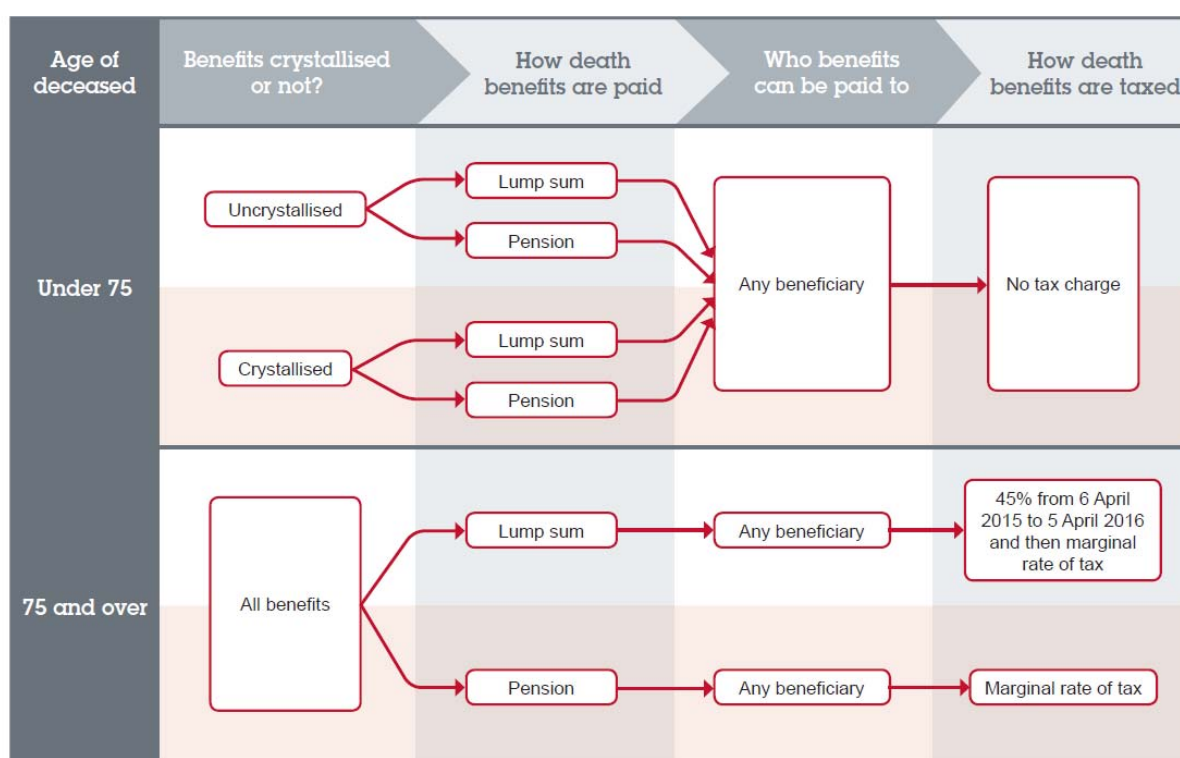
Annuities are still available to dependents (but not non-dependent nominees or successors) and more flexible annuities will be available.

## Lifetime Allowance

If a member were to die before 75 with uncrystallised benefits, paid out within 2 years of death, this would be a 'Benefit Crystallisation Event' and there could be a Lifetime Allowance Tax Charge of 55% if benefits exceeded the Lifetime Allowance (currently £1.25M).

## Summary

The following flow chart summarises the position (assuming no Lifetime Allowance Charges apply);



Source: AJ Bell

(NB the lump sum taxation from April 2016 is still to be confirmed).

### **Important Note**

This information is a summary only, based on our current understanding of the pension changes which may be subject to change. It is not advice. Tax rules can change and tax treatment depends on your individual circumstances. The value of investments and income from them can go down as well as up and you may not get back your original investment.

For specific advice please contact Hart Greaves on 01225 316416 or [info@hartgreaves.co.uk](mailto:info@hartgreaves.co.uk).