

# 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.

This is just for UK financial advice professionals.

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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S3(3) repealed  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

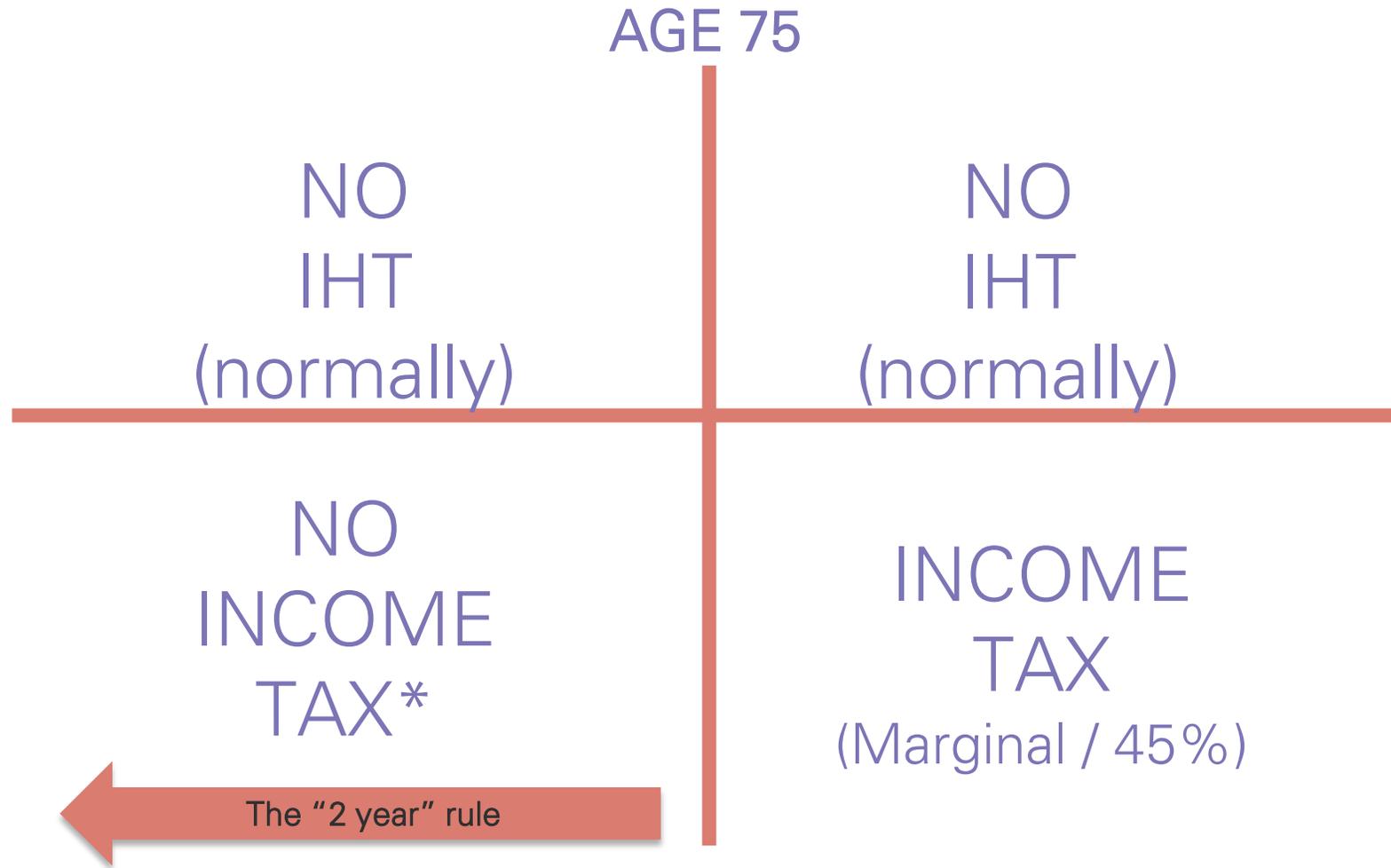
2015  
Nominees /  
Successors  
Introduced

Vested v Unvested

2023  
LTA abolished

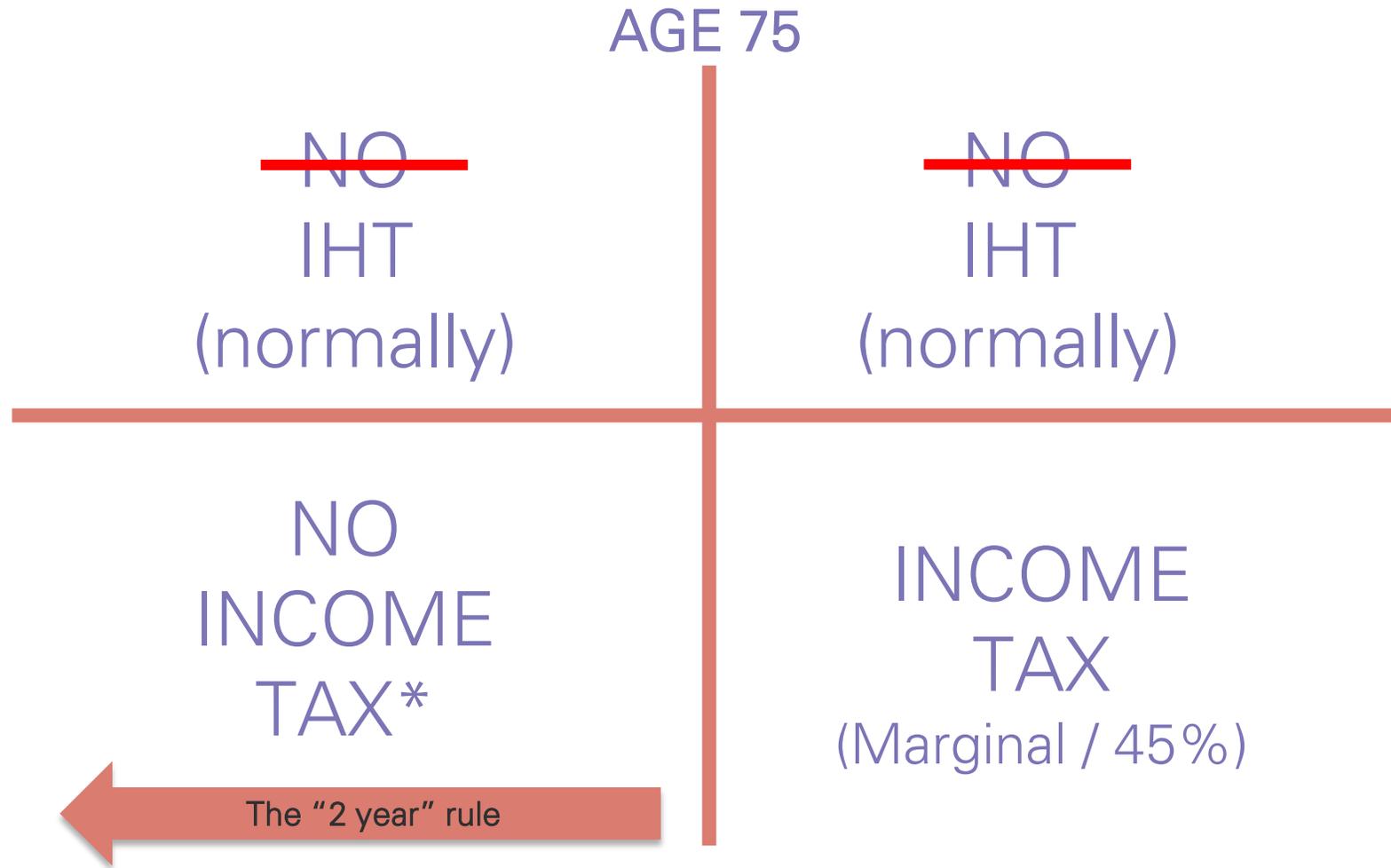
Pre 75 v Post 75

# 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



Within estate

General power of disposal



Within estate

New rules



~~Outside estate~~

Within estate

Distribution Arrangements Unchanged

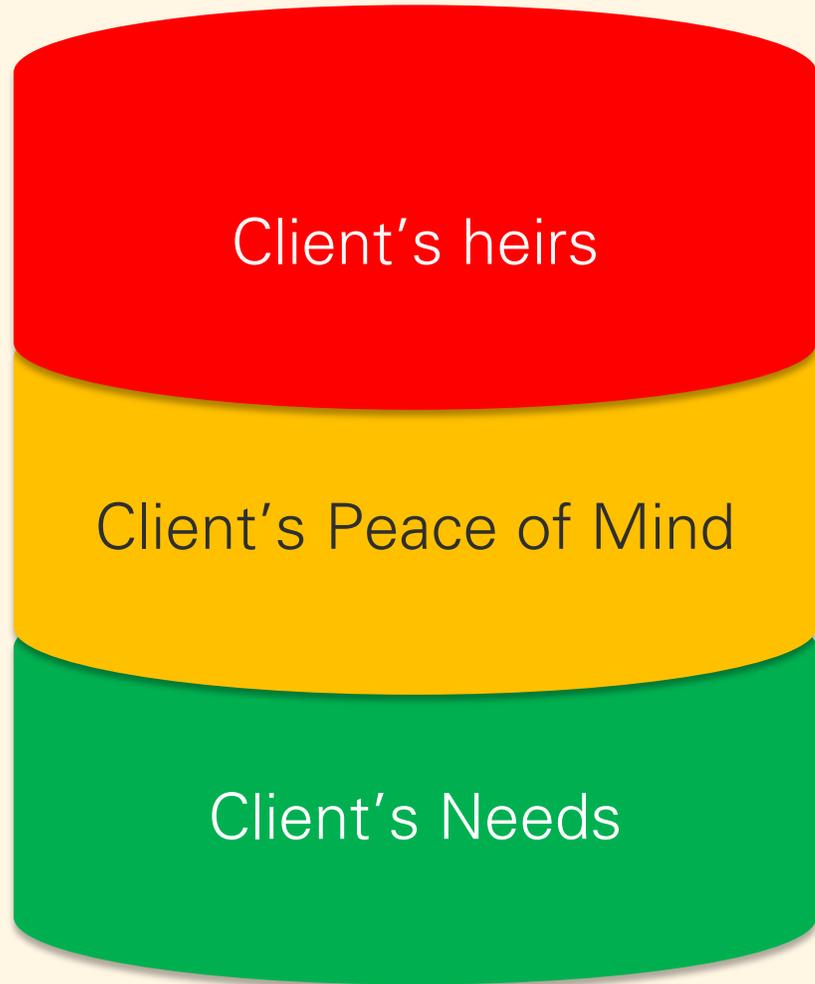
At Autumn Budget 2024, the government announced several measures to reform Inheritance Tax. This included a measure to bring most **unused pension funds and death benefits within the value of a person's estate** for Inheritance Tax purposes from **6 April 2027**.

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.

# INHERITANCE TAX PLANNING

A person in a purple jacket stands on a grassy mountain peak, looking out over a vast, hazy mountain range at sunrise. The sun is low on the horizon, casting a warm glow over the landscape. The sky is a mix of blue and orange, with wispy clouds. The mountains are layered, creating a sense of depth and scale. The overall mood is serene and contemplative.

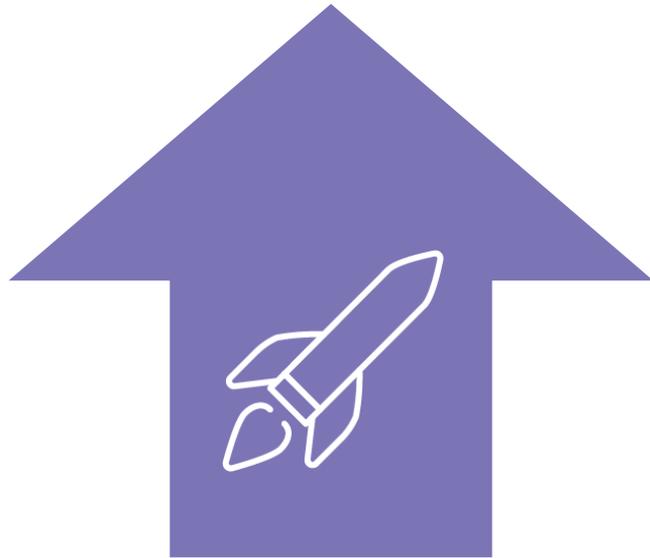
# Segmenting pensions



The background features a series of thin, parallel diagonal lines on the left side, transitioning into a solid yellow diagonal band on the right. Below the yellow band, there are overlapping geometric shapes in olive green, teal, and salmon, all set against a white background.

# IHT matters

“A voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue...”



RECEIPTS



ESTATES

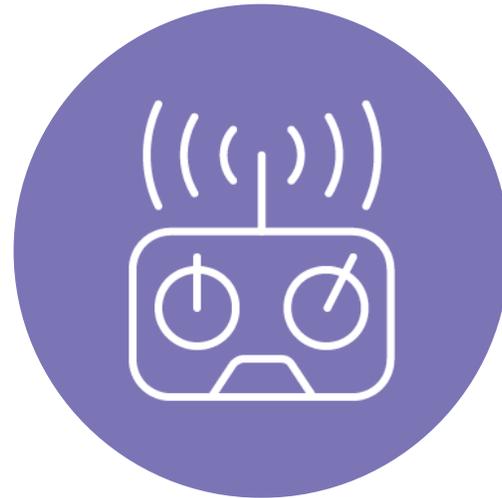
# IHT planning hasn't changed



**Access**

Your client

Their beneficiaries



**Control**

Owning directly

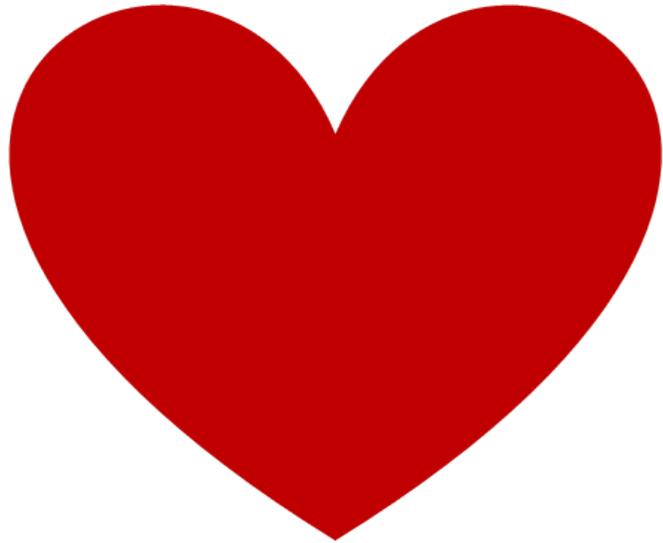
"Trusteeship"



**Tax**

It follows!

# IHT is a tax on gifts



More mitigation options



1<sup>st</sup> death or 2<sup>nd</sup> death

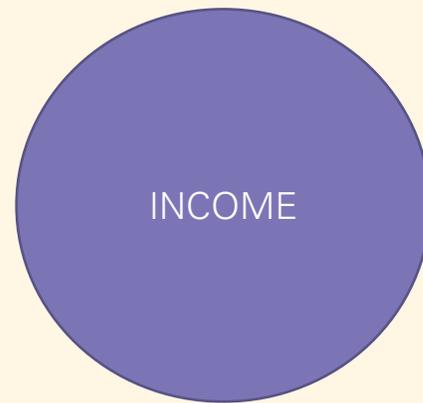
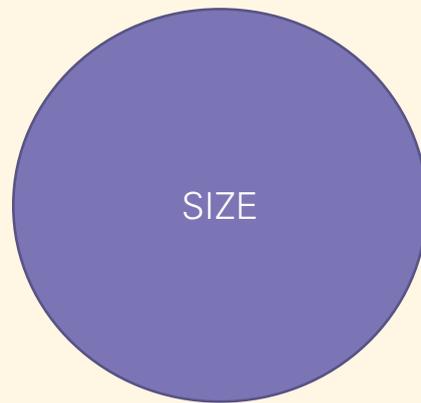
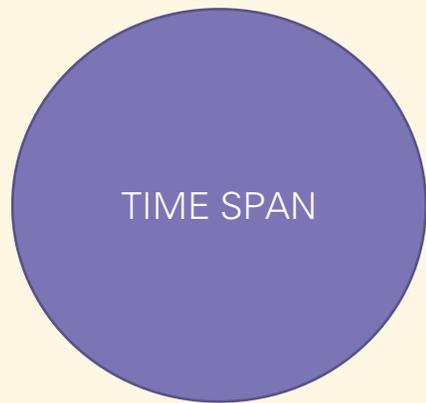
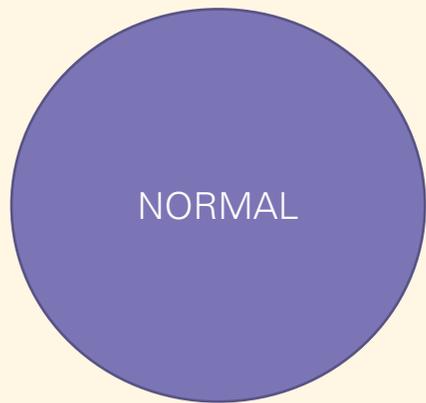
When to gift?

# What's the plan?



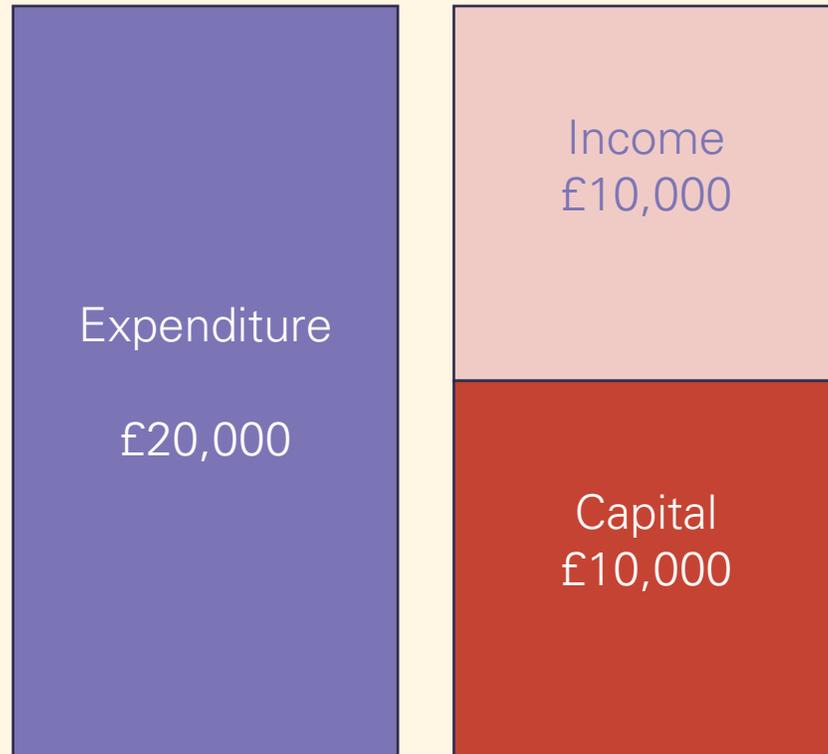
# Normal Expenditure Out of Income

5 things you need to know



Drawdown Income, PCLS and UFPLS are income

# Excess Income



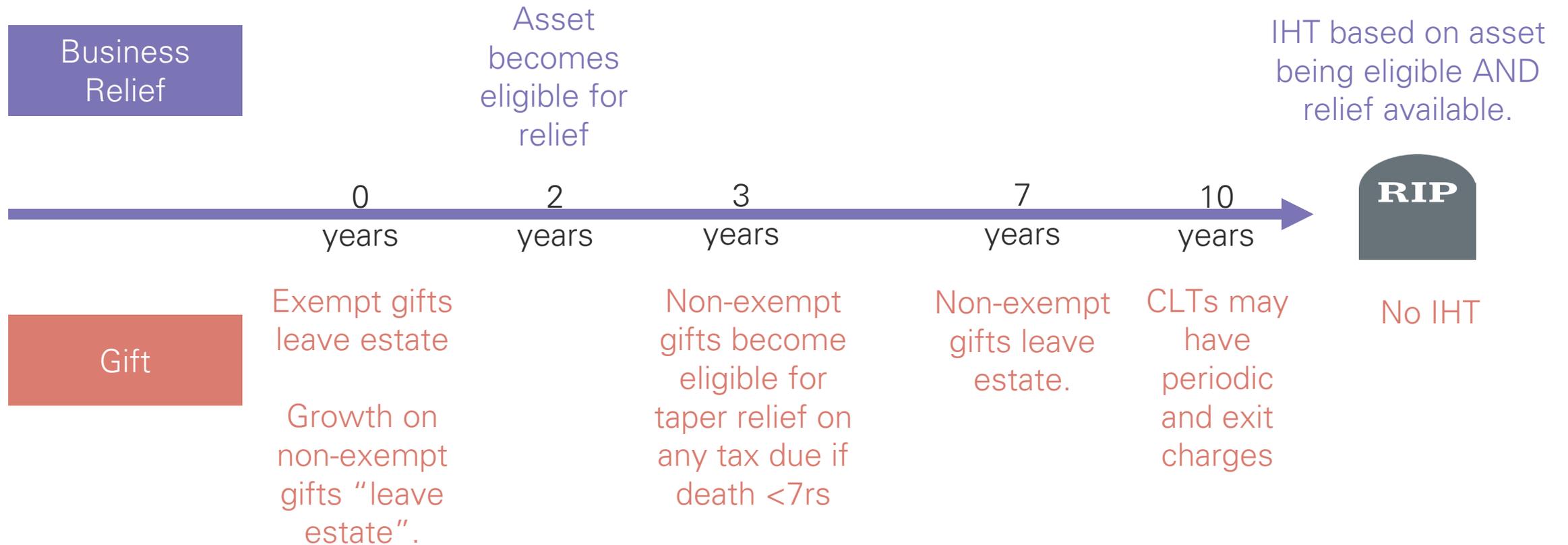
Income below expenditure  
No Surplus (£10,000 - £20,000)

## Extra Income

£10,000  
Income equals expenditure  
No Surplus (£20,000 - £20,000)

£20,000  
Income exceeds expenditure  
Surplus £10,000 (£30,000 - £20,000)

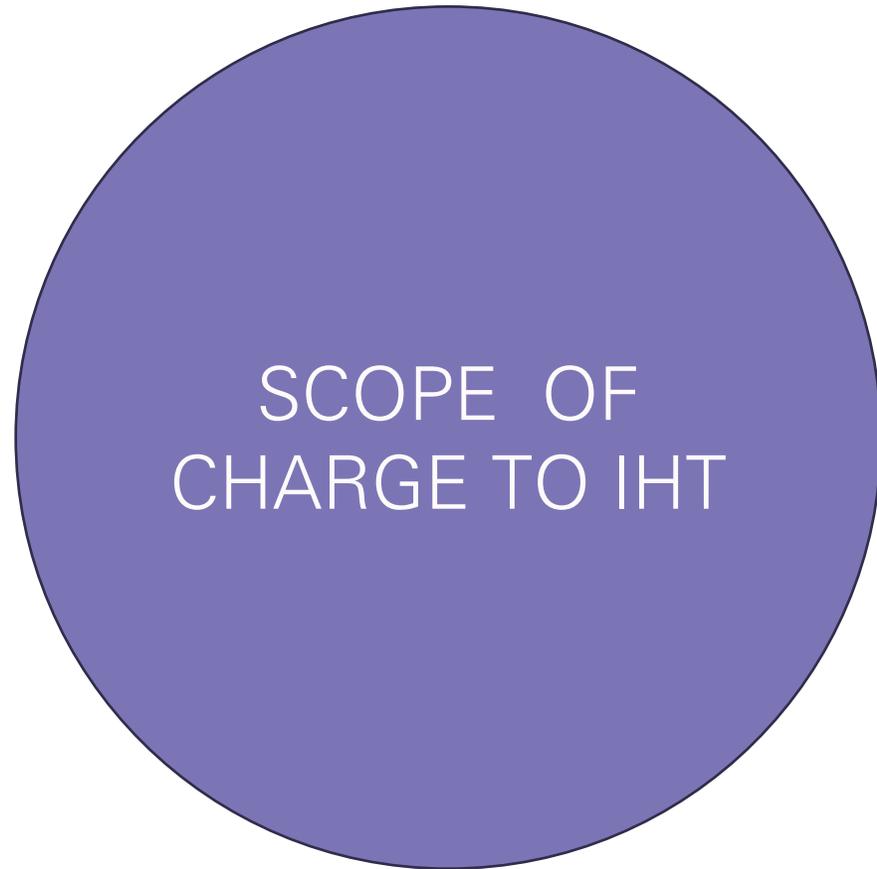
# Reliefs v gifting



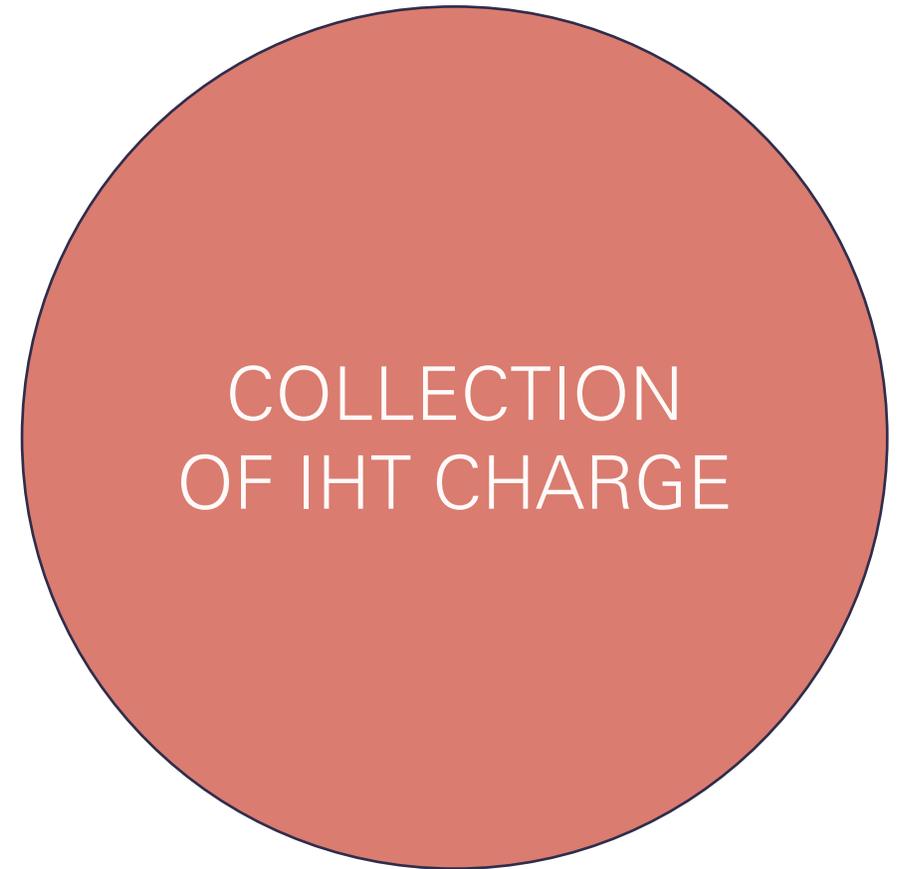
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# Consultation matters

# Rumsfelding

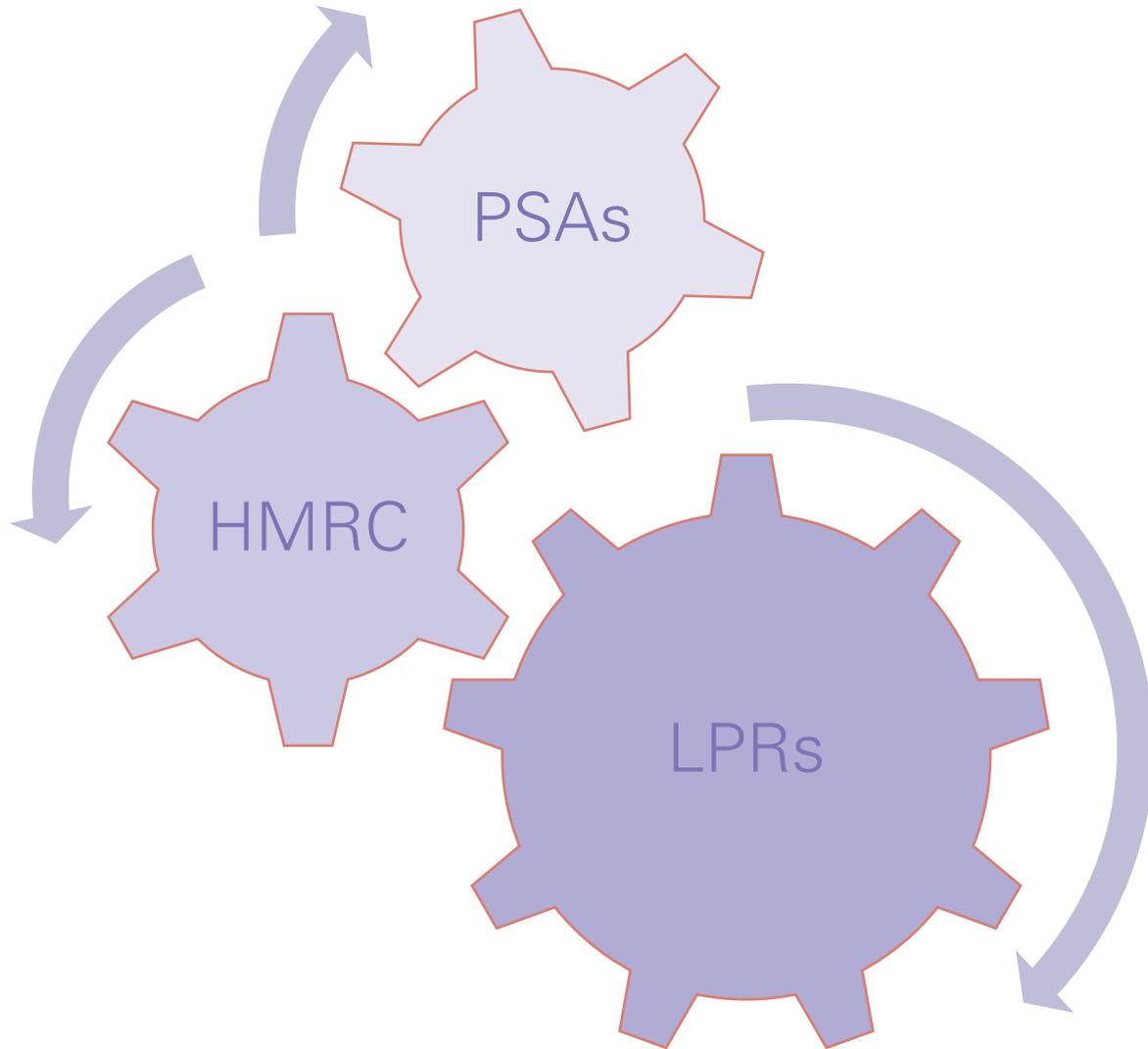


NO CONSULTATION



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

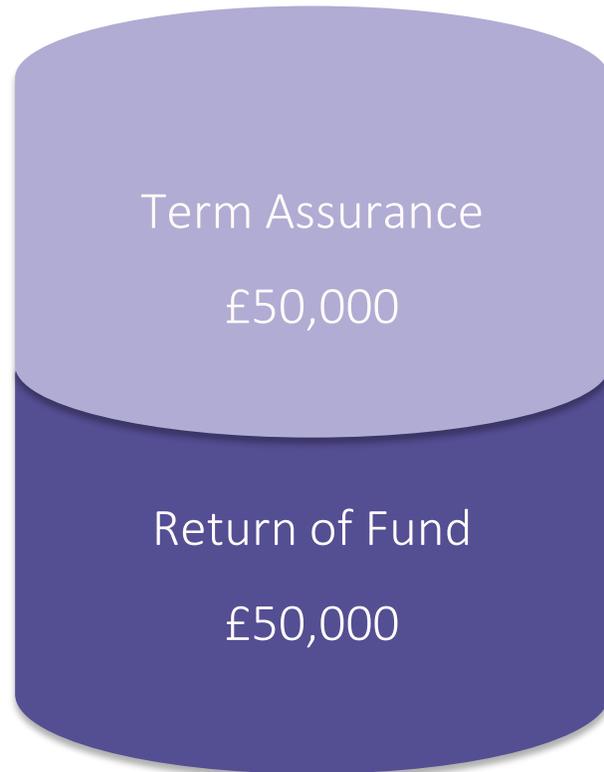
# “Risk Benefits”

*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.*

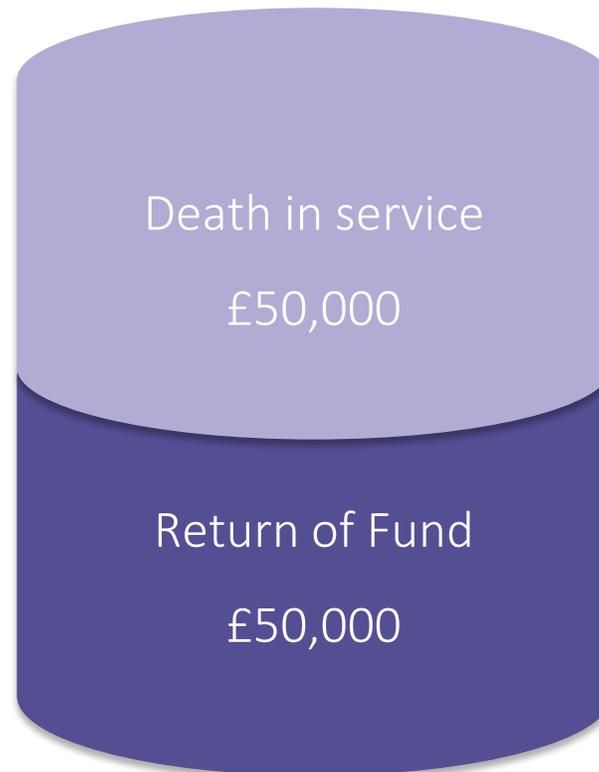
HMRC consultation

# “Risk Benefits” examples

Personal Pensions



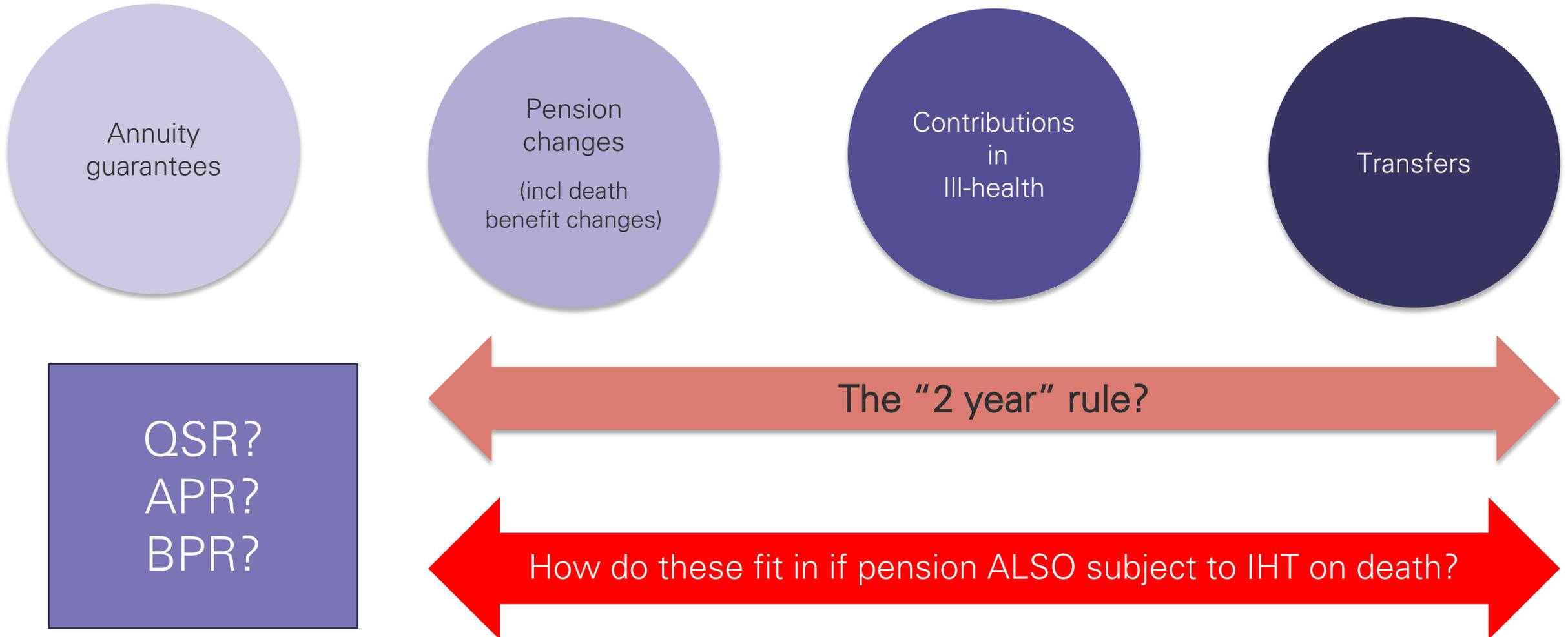
Money Purchase OPS



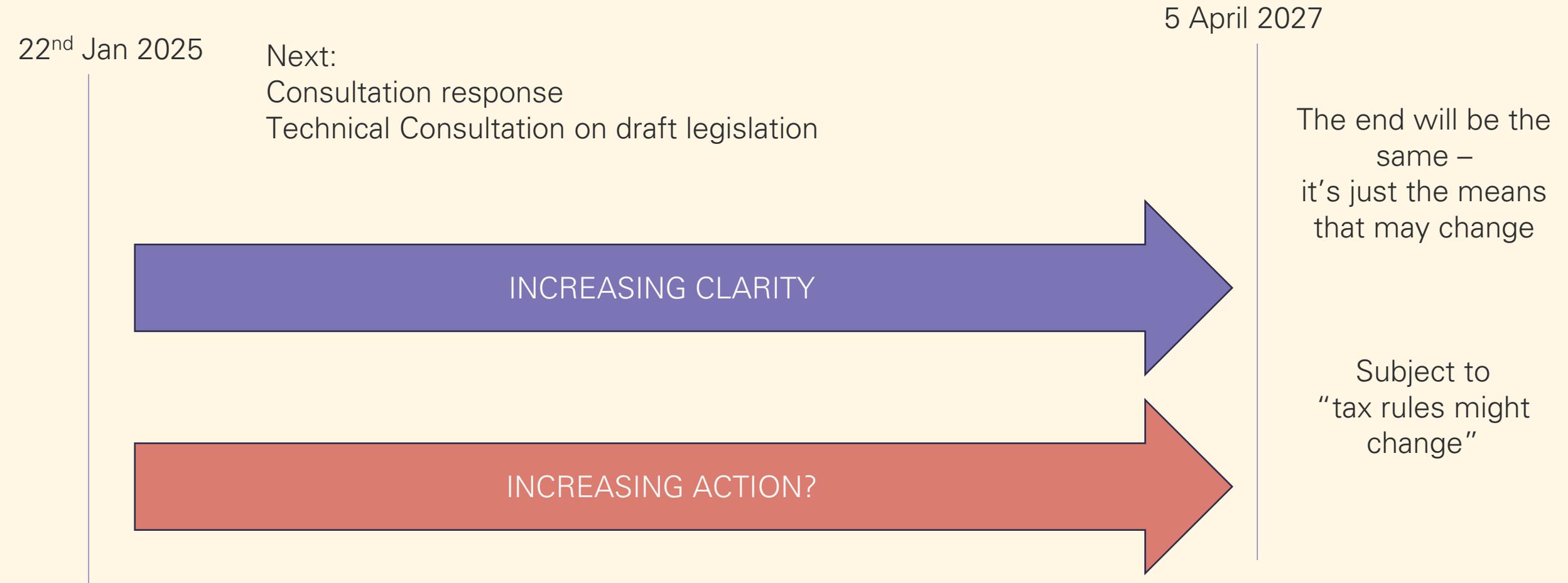
Defined Benefit OPS



# Pensions – IHT events



# Ready, steady, wait...?

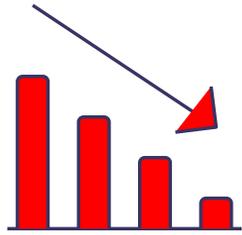


But what if they die before April 2027 and/or before age 75?

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# Planning matters

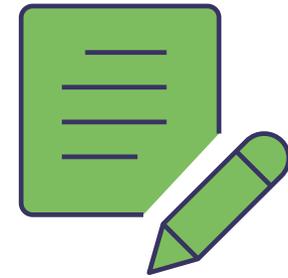
# Does it matter?



ACCEPT

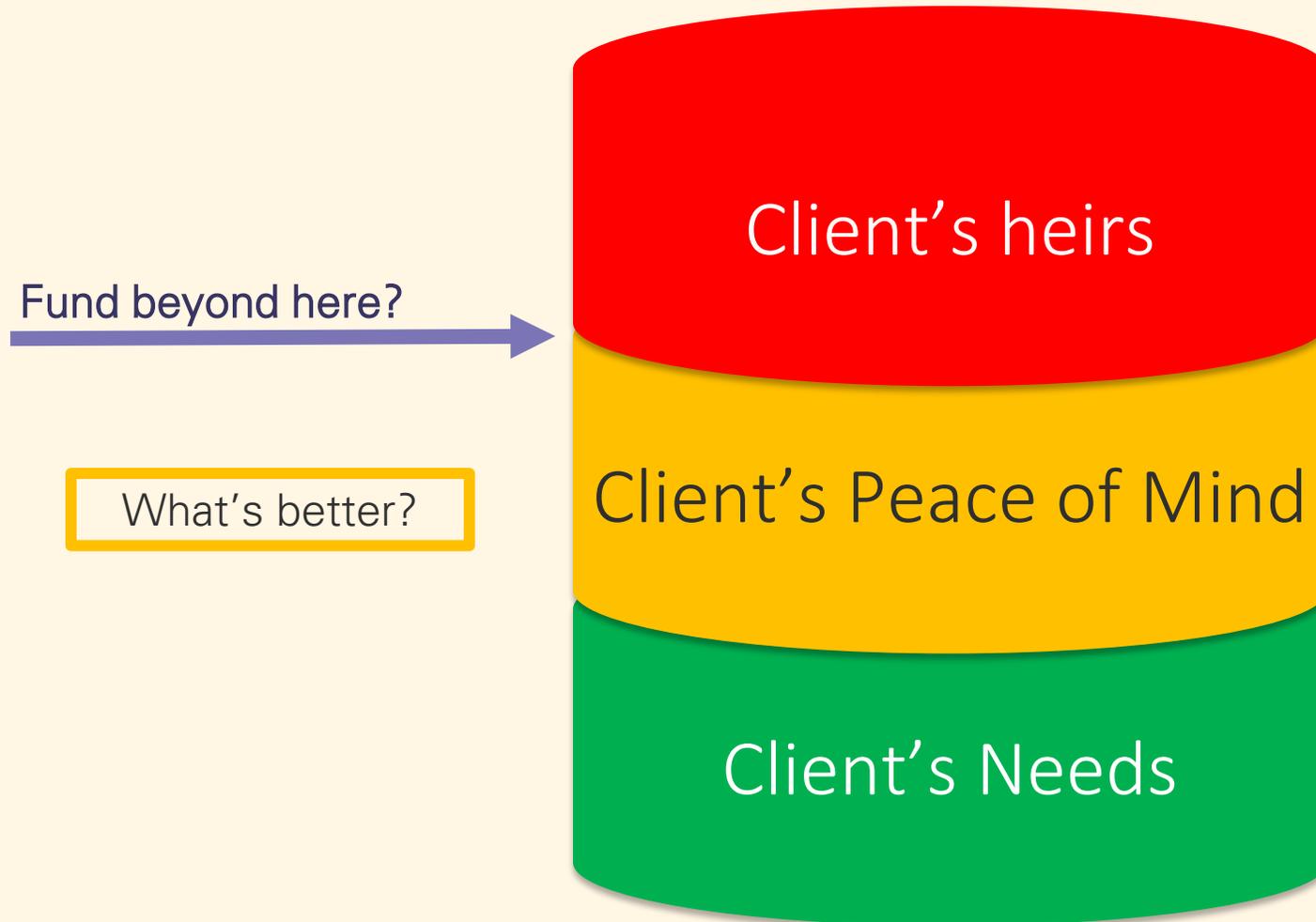


INSURE



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

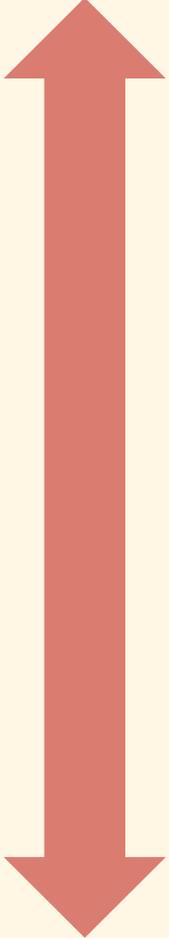
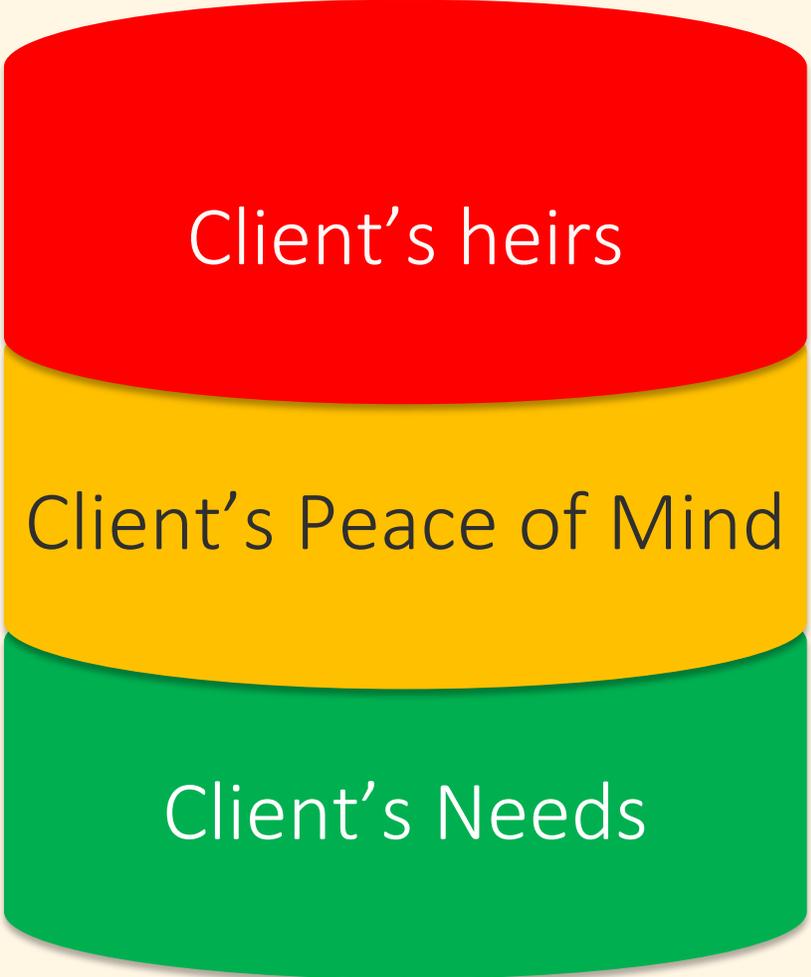
IHT

0% or 6% or 40% world

Income / Gains

0% to 45%  
growth & income only

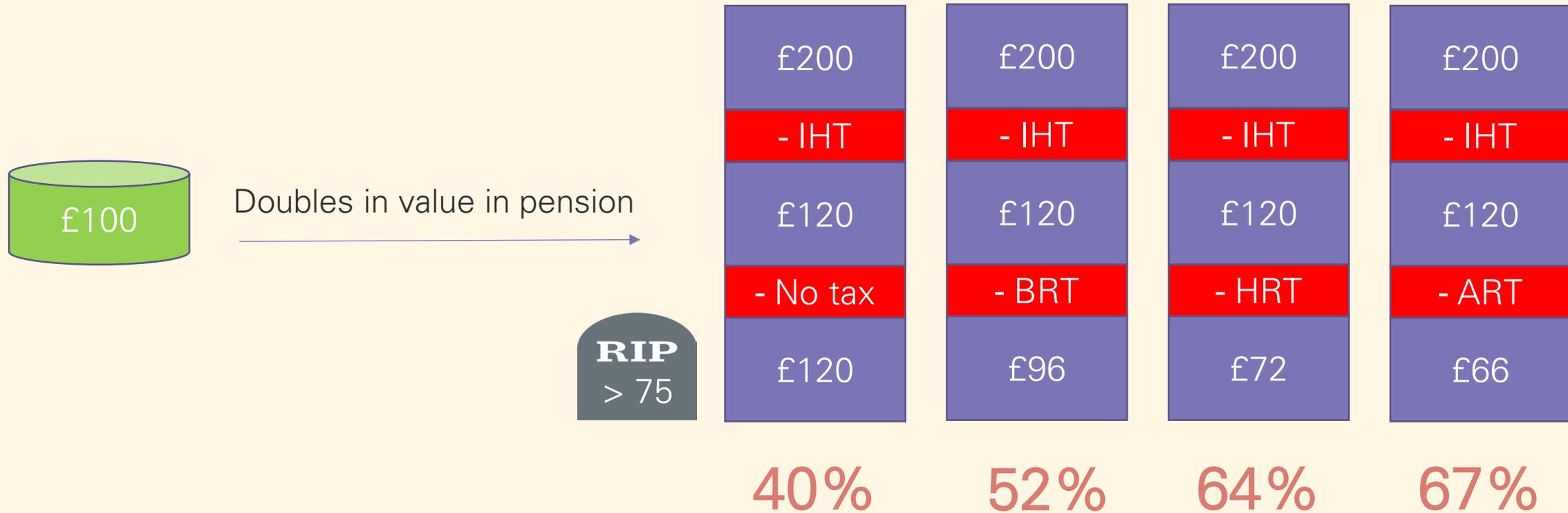
# Clients pension pot



How much tax free access?

Beneficiary pots or member pot?

# Follow £100

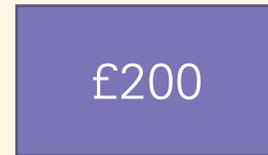


Can you get the pension pot to the next generation with less tax?

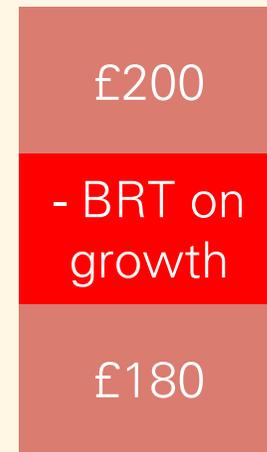
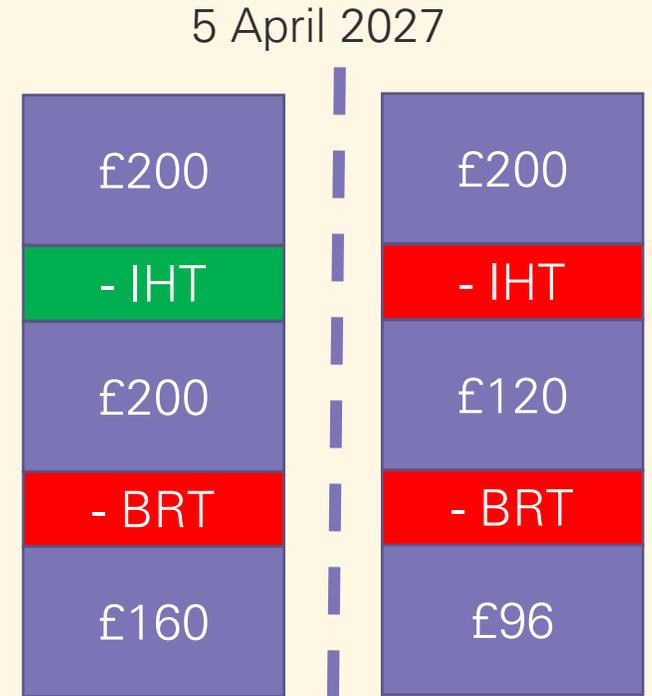
# Follow £100



Doubles in value in pension

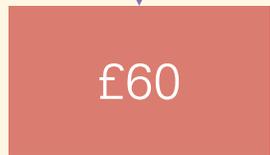


Doubles in value outside pension and outside estate

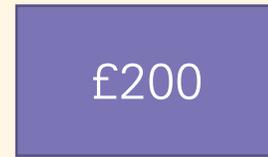


If gift failed it would be 40% IHT on £100 = £40

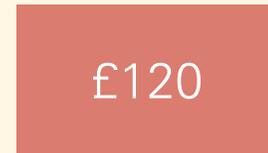
# Follow £100



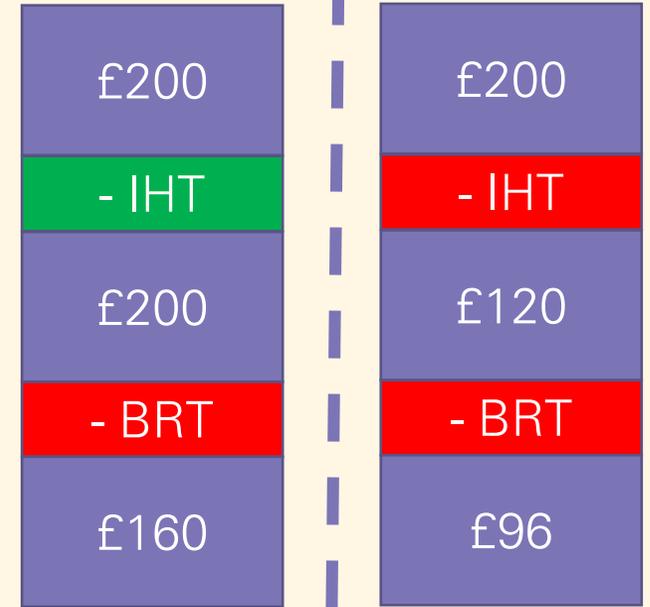
Doubles in value in pension



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 2<sup>nd</sup> death?
- spouse excluded?
- beneficiary access limited?
- leave to those who will exhaust?

Pension included in estate

Leave pension system

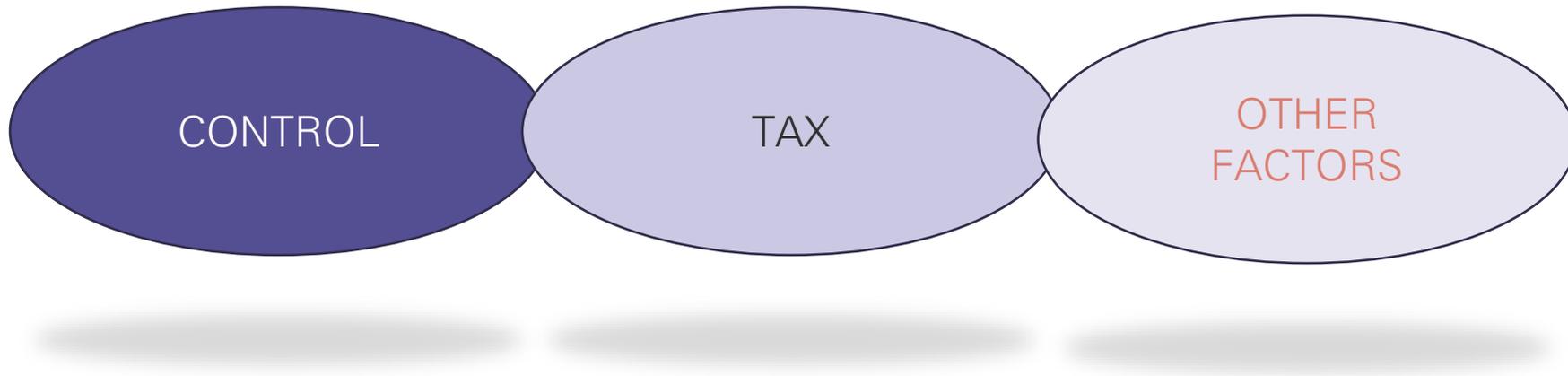
- If beneficiary will have “red funds”?
- Exit may use NRB
- Bypass Trust or Beneficiary?

Stay in pension system

- potential for 40% IHT charge on 2<sup>nd</sup> 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	up to 6% at 10yrly anniversaries	40% on amount over available NRB on death
Income tax	Only on growth or income received	Income tax on value net of IHT (post 75)
Access	Access for all	Access for beneficiary only. Beneficiary access requires gifting
Control	Your trustees	The pension scheme
Admin	Additional paperwork and reporting	No trust related admin

# Nominations?

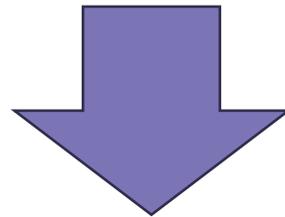


£500k DC pension



£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 1<sup>st</sup> death?

- £500k death benefit avoids 40% IHT where 2<sup>nd</sup> 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 (2<sup>nd</sup> death)

Values	ISA	Pension	ISA	Pension	ISA	Pension
Death	£450,000	£450,000	£300,000	£600,000	£600,000	£300,000
Allocated NRB	£325,000	£325,000	£216,667	£433,333	£433,333	£216,667
Subject to IHT	£125,000	£125,000	£83,333	£166,667	£166,667	£83,333
IHT due	£50,000	£50,000	£33,333	£66,667	£66,667	£33,333
Total IHT	£100,000		£100,000		£100,000	
Post IHT Values	£400,000	£400,000	£266,667	£533,333	£533,333	£266,667
Net of IHT value	£800,000		£800,000		£800,000	
<i>Beneficiary Income tax</i>						
20%	£0	£80,000	£0	£106,667	£0	£53,333
Net proceeds	£720,000		£693,333		£746,667	
40%	£0	£160,000	£0	£213,333	£0	£106,667
Net proceeds	£640,000		£586,667		£693,333	
45%	£0	£180,000	£0	£240,000	£0	£120,000
Net proceeds	£620,000		£560,000		£680,000	

The income taken to get to the death values will impact overall results

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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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