



PML GROUP

Pensions Management
& Financial Services

Welcome to Bulletin 109 | May 2021

We're back for the first time since July 2020

Summer solstice, on 21st June, marks not only this year's longest day – but of equal, if not greater importance... its Freedom Day! A day and a date we're unlikely to forget... the end (all being well) of a 455-day extraordinary period in our lives, when so little happened – but so much changed.

What hasn't changed throughout the pandemic has been the presence, purpose and needs of self-administered pension schemes – and at a time when doubt and uncertainty abounded, the permanence, clarity and control inherent within 'self-administration' will, we hope, have brought some small measure of comfort.

PML's monthly bulletins have provided reliable pension information, guidance and comment for nearly 10 years now. The emergency stop called by the pandemic interrupted many things - and along the way, our bulletins became casualties of the conflict. But now we're back - fighting fit and 'raring to go' with our first new Bulletin of the year.

The Chancellor's 2021 March Budget came and went with barely a murmur; no mean feat considering the scheduled 30% increase in the main rate of Corporation Tax, the freezing of all personal income tax allowances and the continuation of Inheritance Tax thresholds that have, for many, remained unchanged for the last 12 years. Yes, in 2015, we had David Cameron's face-saving efforts to limit the burden of IHT on the family home – and for some, the IHT 'main residence nil-rate band' is of real value – but for others its misleading and potentially worthless. Let me explain. The 2015 IHT additional main residence nil-rate band (RNRB), which maxed-out this year at £175,000 has the potential to lift the taxable value

of an average family home out of the deceased estate – but beware, this additional relief is progressively clawed back where the total assessable estate exceeds £2million – and reduces to zero where the estate assessable value tops £2.35M.

When calculating "assessable value" of the deceased estate's, important existing reliefs, such as Business Property Relief and Agricultural Relief are ignored. What's more RNRB will only apply where the inheriting beneficiary of the property is a direct descendent of the deceased - i.e child or step-child – or their linear descendants. Certain limited extensions to 'linear descendants' apply – most interestingly that of foster children – but many potential beneficiaries, including brothers, sisters, nephews, nieces and all non-linear descendants (including intended beneficiaries of a discretionary will trust) will be excluded.

In sharp contrast to the rigid capital taxation structure of Inheritance Tax, pension fund death benefits are a beacon of hope – even where the source of such death benefit is the residual value of a deceased's Member Account following death after age 75.

Upon death prior to age 75, the trustees' discretionary distribution of a members death benefit has the capacity to avoid all taxation – irrespective of the identity of the beneficiaries or when benefits are paid. Where death occurs beyond age 75, the trustees discretionary position enables them to distribute the SSAS members unspent drawdown account in acknowledgement of the deceased members 'expressed wishes'. The trustee's distribution of these unspent pension funds thus avoids aggregation with the deceased member's personal assets.

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Post age 75 pension death benefits settled upon beneficiaries retain their tax-sheltered pension fund status whilst assets remain in the pension scheme and have the capacity to continue in this form for as long as the recipient chooses. When monies are eventually uplifted by the recipient, normal 'pension drawdown' taxation rules apply – i.e., monies withdrawn are taxed to income in the year they are taken. Further tax-planning opportunities abound here – especially where the recipient of the pension fund is either a none – or a lower rate taxpayer.

For more information on the taxation structures surrounding pension fund death benefit settlement, both pre and post age 75, go to www.pensionsmanagementltd.co.uk/bulletins/bulletin-102-june-2019/ and follow the link to

www.pensionsmanagementltd.co.uk/pension-information-sheet-1/

But a few words of caution: The efficient functioning of these important death benefit structures are dependant upon up-to-date member instructions being held by scheme trustees. Is your 'expression of wish' notification fully up-to-date and reflect your current directions? For confirmation of this, to make any changes or to just check it out, simply contact us.

Geoffrey Stait
May 2020

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