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Dear Client

"A brave new world" – Pensions after The Chancellor's Autumn Statement

This Statement confirmed radical changes to the pension tax regime. Some of these appear to be subject to all Party agreement – but others remain controversial. **The result is that pension schemes are reinforced as the most flexible and tax efficient savings "cupboard" for an individual and for those who benefit on his/her death.**

The governing legislation for the new changes is contained in the Taxation of Pensions Bill, currently before Parliament. This is intended to be enacted early in 2015 and is scheduled to come into effect on 6th April 2015. (Clearly if this Bill did not pass, as currently drafted, The Chancellor's Statement will be negated and our conclusions and comments will alter!)

The principal changes that are being introduced may be summarised simply as follows:

A. Additional drawing flexibility for members of SSASs, SIPPs and some other money purchase schemes with unrestricted access to all funds – subject to Income Tax.

B. Dramatic reductions in the tax on death benefits from such schemes – including a fall to **zero** tax in some circumstances.

C. Considerably increased flexibility in distributing death benefits – with the new option of leaving a continuing tax exempt pension fund to all desired beneficiaries - not just "financial dependants".

D. The chance to pay pension contributions when in Flexible Drawdown - but reduced maximum contributions in drawdown, where this commences after 5th April 2015.

We comment on key features of the proposed changes in the Appendix attached. **As a result of the proposals and other matters, there is an urgent need for detailed pre April 2015 planning.** Major points to consider include a) whether to draw tax free cash early; b) whether to defer the payment of death benefits until after 5th April 2015, where a death has already occurred and c) in these cases a review of how benefits are paid and to whom. We will be very pleased to assist you in optimising your position.

Best wishes for a very happy festive season and a healthy, peaceful and prosperous 2015.

Yours sincerely

Nigel Sloam + Co

NIGEL SLOAM & CO

APPENDIX

THE PROPOSED NEW PENSIONS TAX REGIME WITH OUR COMMENTS

1. Additional Lifetime Flexibility

- If the scheme rules permit, eligible pension scheme members with "Secured Pension Income" of £12,000 per annum, who have switched to Flexible Drawdown, can currently draw what sums they like - when they like - from their money purchase pension plans. Such drawings are subject to the applicable marginal rate of Income Tax.

- After 6 April 2015, under the new **Flexi Access Drawdown** (FAD) system, **any** member aged over 55 in a money purchase pension plan, will be able to draw on their pension fund at will – again subject to Income Tax.

- For members <u>who commence</u> pension drawdown after 6 April 2015, the maximum tax relief on contributions to **money purchase pension schemes** will reduce to £10,000 per annum.

- For those already on Flexible Drawdown the maximum tax relieved pension contribution to **money purchase schemes** will increase to £10,000 from the current zero limit.

- For pensioners who commence drawdown under the Capped Drawdown system on or before 5 April 2015, but who do not take advantage of flexible drawdown or flexi access drawdown the current £40,000 limit on contributions to money purchase pension schemes will be maintained.

- The "old" flexible drawdown system which has been in existence since 2011 which required a minimum Secured Pension Income is being abolished and replaced by FAD - which requires no minimum pension income. Everyone commencing drawdown after 5 April 2015 will draw pension under FAD - unless a "Scheme Pension" is provided.

- The Government has confirmed that it will continue to debar those aged over 75 from making tax relieved pension contributions.

- Different and higher contribution levels apply to those fortunate enough to be a member of a defined benefit SSAS!

2. Improvements to the tax treatment of death benefits from money purchase pension schemes

- In the event of death of a scheme member prior to age 75 - whether the member had commenced benefits or otherwise - then death benefits if granted after 6 April 2015 **can be paid tax free to anyone.** This is provided that such benefits are designated within 2 years of the notification of the member's death.

- The special Income Tax rate (there is no IHT) on lump sum death benefits, for members who are aged over 75 at death **reduces from 55% to 45%**.

- The Government indicates that the 45% rate will drop in 2016/2017 to the recipient's marginal rate of Income Tax – subject to future legislation.

- From 6 April 2015 **anyone**, not just a "financial dependant" will be able to receive beneficiary's pension payments following the death of a member. Such payments will be subject to Income Tax at the marginal rate of the recipient if the member died after age 75.

- If funds remain following the death of a dependant or beneficiary then alternative beneficiaries can be nominated to continue drawing on the fund. After 5 April 2015, **it will be possible to leave "shares of a pension fund**" to selected beneficiaries. They will be able to draw benefits under FAD, subject to the appropriate tax rates - which could be their marginal Income Tax or even zero, depending on circumstances.

3. Benefit Planning

Every individual case is different and we are unable to offer individually applicable advice through a general circular. Nonetheless, there are certain key areas that ought to be discussed:

a) The continuation of the present system permitting tax free pension commencement lump sums is by no means guaranteed after the next General Election. Some political parties have indicated their wish that such sums be in the future should be wholly or partially subjected to tax. **In the light of this, those eligible to draw tax free pension commencement lump sums should now consider with their advisors the desirability of drawing such lump sums before the election on 7 May - or possibly within the current fiscal year.** Although drawing lump sum benefits will swell such member's personal Estate, the impact on the taxation of death benefits on residual funds remaining in the pension scheme after lump sum drawdown will be zero - and will not trigger an automatically high rate of tax on death.

b) For those who have not yet drawn benefits and may wish in the near future to both draw pension, yet carry on contributing, **there is a further advantage to drawing benefits prior to 6 April 2015.**

c) There are differences between SSASs and SIPPS and the effect on future contributions of deferring benefits post 6 April 2015 - and you should speak to your consultant regarding these.

d) **In many cases, where a death occurs or has occurred, there may be considerable advantages to defer allocating death benefits until after 6 April 2015.**

e) There is some discrepancy between i) Government Statements, ii) the current wording of the Taxation of Pensions Bill and iii) industry interpretations as to whether existing dependants' pensions and annuities in payment will after 6 April 2015 be paid tax free.

f) Dependants, receiving scheme pension, will not be able to benefit from the new changes, although unallocated death benefits following the death of a member on scheme pension will benefit from the changes.

4. Some Conclusions

Pension funds may now be viewed as tax exempt vehicles, outside of a member's Estate, which if structured properly will remain under the member's control for the whole of their lifetime and which may be drawn on at will, subject only to Income Tax.

If at the time of a member's death the funds are not exhausted they can be left tax free – provided such death occurs prior to age 75. In other circumstances residual funds may be left, without applicable Inheritance Tax, as ongoing tax exempted funds to nominated individuals who may drawdown on such funds at will, subject to Income Tax. This can continue over several generations.

Pension funds thus compare favourably with either taxed discretionary trusts, subject to periodic and exit charges, or other trusts where there is an Inheritance Tax charge following the end of an interest in possession. In such funds anyway, investment accruals are taxed, whereas there is exemption in a pension scheme.

Warning

The information contained in this letter and Appendix are intended as general comment and are not designed to provide specific advice to any individual or pension scheme. The above is based on our understanding of Government proposals as are contained in The Chancellor's Autumn Statement 2014 and The Taxation of Pensions Bill, now before Parliament. If the Bill is amended or not passed then our comments will alter accordingly.

We believe that each client should take individual and specific advice from us and from their other professional advisors on what course of action, if any, should be incepted now. We look forward to being in contact with you in the near future.