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HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

Welcome to the

Sheffield City Region Breakfast Club

Tuesday 16th June 2015

Europa Link, Sheffield Business Park, Sheffield, S9 1XU

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An update on the changes in Pension Legislation effective from 6th April 2015 and what action may need to be taken

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Agenda

- Old rules vs new rules
- What the changes mean to people in or at retirement?
- Changes to pension death benefits
- Important “need to knows”

The Freedom and Choice agenda

Common preconceptions of pensions

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- I can’t take out what I want, when I want!
- Annuity Rates are too low
- Death Benefits are limited
- The State will provide

A negative view of saving through pensions

Old Rules - Taking pension benefits pre 6th April 2015

- **Defined Benefit (final salary) Pension Schemes**
  - Can only provide a pension in the form of Secured Scheme Pension – there is no other option other than to transfer

- **Money Purchase Pension Schemes –**
  - Secured Pension Income - Annuity or Scheme Pension
  - Income Drawdown – either capped or flexible

Both options offer the potential for Tax Free Cash Entitlement

Old world – old perceptions?

New Rules - Taking pension benefits post 6th April 2015

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6th April 2015 has marked the biggest change in pension legislation **EVER!**

- The Introduction of Flexi-Access Drawdown
  - Full and open access to your accumulated pension savings
  - Entitlement to 25% Tax Free Cash remains
  - All other withdrawals taxed at the pensioner's marginal rate for income tax

– **New world - new outlook - different choices & decisions**

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What the changes mean to people at or in Retirement?

Problems?

or

Flexibility and great planning options?

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GREAT! I'm going to buy a Lamborghini!

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Mr Smith, aged 61, has a pension fund valued at £500,000, and decides to withdraw the whole amount to buy a Lamborghini…

- £125,000 (25%) is paid as a Tax Free Lump Sum
- Assuming Mr Smith has no other sources of income, the remaining £375,000 is subject to income tax at his Marginal Rate

– Taxable income in excess of £121,200 means that Mr Smith will lose his Personal Allowance for income tax, therefore…

Income Tax Band (2015-16)	Income Tax Payable
£0 - £31,785 taxed at 20%	£6,357
£31,786 - £150,000 at 40%	£47,286
£150,001 - £375,000 at 45%	£101,250
TOTAL INCOME RECEIVED £220,107 + £125,000 = £345,107	**TOTAL TAX PAID** £154,893

Show me the money!

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Food for thought…

Instead of drawing funds from the pension, why not take money from your ISA instead?

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Changes to Pension Death Benefits

Inheritance Tax Planning and the preservation of wealth

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Pension Death Benefits: Old Rules

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Pre:

Non-Drawdown
- Paid as a tax free lump sum

In-Drawdown Pension
- Taxed at 55%

  OR
- Spouse's Pension

Age

75

Post:

Taxed at 55%

OR

Spouse's

Restrictive with little scope for planning?

Pension Death Benefits: New Rules

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Pre:

Tax Free
Open Access

- as either

Income
OR
A Lump Sum

Age
75

Post:

Taxed at the beneficiaries marginal rate

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Wait a minute – what does this mean?

- This means that for some clients Pensions could offer useful IHT advantages?

Developing this IHT theme further….

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Reasons to leave Death Benefits within the pension rather than drawing the fund as a tax free lump sum:

- Gross Investment Returns
- Outside of Estate for IHT
- Can continue to be passed to future generations
- Beneficiaries can make their own investment decisions and nominations

<u>However</u>:- Government is concerned about pensions being used for IHT avoidance, and this could change.

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And another step…

Death Benefits Post Age 75:

- Taxable at the beneficiaries Marginal Rate
- Can be passed, in part or in full, to children or grandchildren
- If the Beneficiary then dies pre-75, the fund refers back to being Tax Free

Passing the baton through the generations … with good planning

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Important Need to Knows

Things to Remember

- Withdrawals from pension funds are likely to be taxed at an emergency rate of income tax

- The new rules (access & death benefits) only apply to new style pension contracts
  - Self Invested Personal Pensions (SIPP's),
  - Small Self Administered Schemes (SSAS's)

- Old-Style Contracts, such as Personal Pensions, Stakeholder, Group, and Occupational…
  - Cannot accommodate the new pension income flexibility
  - Continue to pay death benefits under the old pre/post 75 pension rules
  - Will therefore need to be transferred to a flexible pension arrangement in order to take advantage of the new rules

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Summary

- Flexi-Access Drawdown
  - Full and open access to your accumulated pension savings
  - Can be dangerous without proper advice
  - Tax planning opportunities in utilising Personal Allowances
- Enhanced Death Benefits
  - No longer have to be taken as a lump sum
  - Can be passed from Generation to Generation (unless government decides to restrict IHT advntages)

These benefits can only be facilitated via updated pension contracts

– Sounds simple …

– but a profound impact on the planning for our clients

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