Thompson Taraz Rand
Chartered Accountants | Registered Auditors

Full of
bright ideas.

A look at...

Pensions

2017

PENSIONS

CONTENTS

Occupational Pension Schemes: Trustees' Responsibilities p. 3-6

Auto-enrolment p.7-10

Tax Reliefs p.11-15

Tax Treatment on Death p. 16-17

OCCUPATIONAL PENSION SCHEMES: TRUSTEES' RESPONSIBILITIES

Many employers offer their staff an opportunity to save for their retirement through an occupational (or company) pension scheme.
Those employees who join the scheme need to have confidence that the scheme is being well run.
The role of pension scheme trustees is very important in ensuring that the scheme is run honestly and efficiently and in the best interests of the members.
We outline in this factsheet the main responsibilities of occupational pension scheme trustees.

Background

The Pensions Act 1995 (the Act) brought about a number of major changes to the way occupational pension schemes are run. The 2004 Pensions Act brought about further change and introduced, in April 2005, The Pensions Regulator (TPR) as the UK regulator of work-based pension schemes.
TPR has an important role in the pension sector. Its objectives, as set out in legislation, are to:

- protect the benefits of members of work-based pension schemes
- protect the benefits of members of personal pension schemes (where there is a direct payment arrangement)
- promote, and to improve understanding of the good administration of work-based pension schemes
- reduce the risk of situations arising which may lead to claims for compensation being payable from the Pension Protection Fund
- maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008
- minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pension Act 2014). This new objective on sustainable growth came into force on 14 July 2014.

TPR has three core powers that underpin its regulatory approach:

- investigating schemes by gathering information that helps them identify and monitor risks
- putting things right where problems have been identified
- acting against avoidance to ensure that employers do not sidestep their pension obligations.

In fulfilling its role, TPR produces important guidance for those involved with pension schemes including trustees as well as auditors and actuaries. This guidance is available from TPR's website www.thepensionsregulator.gov.uk.
The latest reforms, introduced under Pensions Act 2008, have brought about a new requirement on UK employers to automatically enrol all employees in a 'qualifying auto-enrolment pension scheme' and to make contributions to that scheme on their behalf. Enrolment may be either into an occupational pension scheme or a contract based scheme.
Many contract based schemes are group personal pensions where an employer appoints a pension provider, often an insurance company, to run the scheme.
The National Employment Savings Trust (NEST) is a government backed pension scheme that employers can use for auto enrolling employees.

Compliance with the new regulations started from 2012 for the largest employers. The deadline for being compliant (an employer's 'staging date') is determined by the number of people in their PAYE scheme and for smaller employers is between 2012 and 2018. Further information is available at www.tpr.gov.uk/autoenrolment.

Pension scheme classification

Employers can help promote retirement benefits for their employees in a number of ways including:

- occupational schemes
- group personal pension schemes
- stakeholder schemes.

Group personal pension schemes and stakeholder schemes are personal plans in individual member's names, where the employer simply acts as an administrator. There are no accounting or audit requirements for these types of schemes. An occupational pension is an arrangement an employer can use to provide benefits for their employees when they leave or retire.
There are two main types of occupational pension scheme in the UK:

- salary-related schemes
- money purchase schemes.

Whatever the type of scheme, it will usually have trustees.

The role of trustees

Most company pension schemes in the UK are set up as trusts. There are two main reasons for this:

- it is necessary in order to gain most of the tax advantages
- it makes sure that the assets of the pension scheme are kept separate from those of the employer.

A trustee is a person or company, acting separately from an employer, who holds assets for the beneficiaries of the pension scheme. Trustees are responsible for ensuring that the pension scheme is run properly and that members' benefits are secure.
In fulfilling their role, trustees must be aware of their legal duties and responsibilities. From April 2006 the law requires trustees to have knowledge and understanding of, amongst other things, the law relating to pensions and trusts, the funding of pension schemes and the investment of scheme assets.
The law also requires trustees to be familiar with:

- certain pension scheme documents including the trust deed and rules
- the statements of investment principles and funding principles.

A code of practice has been issued by TPR explaining what trustees need to do in order to comply with the law in this area. Trustees should arrange appropriate training as soon as they are appointed and should then continue with their learning to keep their knowledge up to date. New trustees have six months from their appointment date to comply with this requirement.

Trustees' duties and responsibilities

Trustees have a number of very important duties and responsibilities, which include:

- acting impartially, prudently, responsibly and honestly and in the best interests of scheme beneficiaries
- acting in line with the trust deed, scheme rules and the legal framework surrounding pensions.

In addition to these general duties, trustees also have a number of specific duties and tasks that they must carry out.

The main tasks are to ensure the following happen.

Contributions

- The employer accurately pays over contributions on time. There are strict rules covering this area.

Financial records and requirements

- The right benefits are paid out on time.
- An annual report is prepared (see annual report below).
- An auditor's statement is obtained confirming details of the payment of contributions to the scheme and, if required, an audit of the scheme accounts is arranged.

Investment

- The pension fund is properly invested in line with the scheme's investment principles and relevant law.

Professional advisers

- Suitable professional advisers are appointed as running a pension scheme is complicated and often specialist advice will be needed.

Pension scheme records

- Full and accurate accounting records are kept, which include records of past and present members, transactions into, and out of, the scheme and written records of trustees' meetings.

Members

- Members and others are provided with information about the scheme and their personal benefits.

Registration, the scheme return and collecting the levy

- TPR is provided with information required by law for the register, that the scheme's annual return is completed and the annual levy for the scheme is paid.

Related matters

Reporting to TPR

Where a breach of law takes place and it is likely to be materially significant to TPR, trustees and indeed others involved in running the scheme have a legal duty to report the breach to the regulator. Code of practice 01, 'Reporting breaches of the law' provides guidance on the factors that should be considered when deciding to make a report.
In addition, trustees also have to notify TPR when particular scheme-related events happen. These are known as 'notifiable events', also the subject of a code of practice.

The annual report

The trustees of most schemes must make an annual report available within seven months of the scheme year end. The report usually includes:

- a trustees report, containing investment, legal and administrative information about the scheme
- actuarial information, if applicable
- governance information, if applicable
- the audited accounts and audit report.

Trustees' liability

If something does go wrong with the pension scheme, trustees may be held personally liable for any loss caused as a

result of a breach of trust. This could happen when, for example:

- a trustee carried out an act which is not authorised under the trust deed and scheme rules
- a trustee fails to do something that should have been done under the trust deed and scheme rules
- a trustee does not perform one or more of their duties under trust law or pension legislation or does not perform them with sufficient care.

The rules of the pension scheme might protect trustees from personal liability for a loss caused by breach of trust, except where it is due to their own actual fraud. In some cases, the employer may provide indemnity insurance for the trustees.

How we can help

We would be pleased to discuss your role as a company pension scheme trustee in more detail. We are also able to advise on the accounting and audit requirements of your scheme. Please contact us for further information.

AUTOMATIC ENROLMENT

What is automatic enrolment?

Automatic enrolment places duties on employers to automatically enrol 'workers' into a work based pension scheme. The main duties are:

- assess the types of workers in the business
- provide a qualifying automatic enrolment pension scheme for the relevant workers
- write to most of their workers explaining what automatic enrolment into a workplace pension means for them
- automatically enrol all 'eligible jobholders' into the scheme and pay employer contributions
- complete the declaration of compliance and keep records.

Assessing the types of workers in the business

Whether this is an easy or difficult task depends on the type of business. A business which uses the services of casual workers, very young or very old workers will need to spend some time in analysing its workforce. A business which only employs salaried staff will have an easier task.
A 'worker' is:

- an employee or
- a person who has a contract to provide work or services personally and is not undertaking the work as part of their own business.

The second category is defined in the same way as a 'worker' in employment law. Such people, although not employees, are entitled to core employment rights such as the National Minimum Wage. Individuals in this category include some agency workers and some short-term casual workers.
There are three categories of workers: eligible jobholders; non-eligible jobholders; and entitled workers.
An 'eligible jobholder' is a worker who is:

- aged between 22 years and the State Pension Age
- earning over the minimum earnings threshold (£10,000 for 2016/17 and 2017/18).
- working or ordinarily working in the UK
- not already in a qualifying pension scheme.

Most workers will be eligible jobholders unless the employer already has a qualifying pension scheme. These are the workers for which automatic enrolment will be required.
Other workers (non-eligible jobholders) may have the right to either 'opt in' (i.e. join a scheme) and therefore to be treated as eligible jobholders. 'Entitled workers' are entitled to join the scheme but there is no requirement on the employer to make employer contributions in respect of these workers.
The categorisation of workers can be difficult in some circumstances. Please contact us if you are unsure of how to assess the types of workers you have.

What is a qualifying automatic enrolment pension scheme?

Employers are able to comply with their new obligations by using an existing qualifying pension scheme, setting up a new scheme or using the government low cost scheme - the National Employment Savings Trust (NEST).
It is important that the pension scheme chosen will deliver good outcomes for the employee's retirement savings. This

may mean that an existing employer's scheme may not be appropriate as it may have been designed for the needs of higher paid and more senior employees. This may mean that NEST for example may be an appropriate scheme for employees who are not currently entitled to be a member of an existing employer scheme.

To be a qualifying automatic enrolment scheme, a scheme must meet the qualifying criteria and the automatic enrolment criteria.

The main part of the qualifying criteria requires the pension scheme to meet certain minimum standards, which differ according to the type of pension scheme. Most employers will want to offer a defined contribution pension scheme. The minimum requirements for such schemes are a minimum total contribution based on qualifying earnings, of which a specified amount must come from the employer.

To be an automatic enrolment scheme, the scheme must not contain any provisions that:

- prevent the employer from making the required arrangements to automatically enrol, opt in or re-enrol a 'jobholder'
- require the jobholder to express a choice in relation to any matter, or to provide any information, in order to remain an active member of the pension scheme.

The second point above means, for example, that the pension scheme has a default fund into which the pension contributions attributable to the jobholder will be invested. The jobholder should however have a choice of other funds if they want.

We may be able to advise you on an appropriate route to take. Please contact us.

When does automatic enrolment apply to an employer?

The law came into force for very large employers on 1 October 2012 and has been rolled out with staggered implementation dates by reference to the number of employees. For payrolls which have been set up since 1 October 2012 the implementation date may not yet have taken place.

An employer can find out their staging at www.thepensionsregulator.gov.uk.

Communicating with your workers

Employers are required to write to all workers (except those aged under 16, or 75 and over) explaining what automatic enrolment into a workplace pension means for them.

There are different information requirements for each category of worker. For an eligible jobholder, the letter must include details of how the employee can opt out of the scheme if they wish. The letter must not, however, encourage the employee to opt out.

The Pensions Regulator has developed a set of letter templates to help you when writing to your employees.

Automatic enrolment of eligible jobholders and payment of contributions

As part of the automatic enrolment process, employers will need to make contributions to the pension scheme for eligible jobholders. In principle, contributions will be due from the staging date but it is possible to postpone automatic enrolment for some or all employees for a period of up to three months. This may, for example, be used to avoid calculation of contributions on part-period earnings.

All businesses will need to contribute at least 3% on the 'qualifying pensionable earnings' for eligible jobholders. However, to help employers adjust,

compulsory contributions will be phased in, starting at 1% before eventually rising to 3%.
There will also be a total minimum contribution which will need to be paid by employees if the employer does not meet the total minimum contributions. If the employer only pays the employer's minimum contribution, employees' contributions will start at 1% of their salary, before eventually rising to 4%. An additional 1% in the form of tax relief will mean that there is a minimum 8% contribution rate.

Period	Duration	Employer minimum	Total minimum contribution
1	Employer's staging date to 5 April 2018	1%	2%
2	6 April 2018 to 5 April 2019	2%	5%
6 April 2019 onwards		3%	8%

What are qualifying pensionable earnings

Earnings cover cash elements of pay including overtime and bonuses (gross) but minimum contributions are not calculated on all the earnings. Contributions will be payable on earnings between the lower threshold of £5,876 and the higher threshold of £45,000 for 2017/18. The earnings between these amounts are called qualifying earnings. The thresholds are reviewed by the government each tax year.

If we do your payroll, we can help you make these calculations and tell you the deductions from pay and the payments required to the pension scheme.

Declaration of Compliance and keeping records

The Pensions Regulator was established to regulate work-based pensions.
An employer must complete the declaration of compliance within five months of the staging date. In essence the declaration of compliance process requires the employer to:

- confirm the correct auto enrolment procedures have been followed and
- provide various pieces of information such as the number of eligible jobholders enrolled.

Finally, an employer must keep records which will enable them to prove that they have complied with their duties. Keeping accurate records also makes good business sense because it can help an employer to:

- avoid or resolve potential disputes with employees
- help check or reconcile contributions made to the pension scheme.

Pensions Regulator guidance for small businesses

TPR guidance is available for small businesses preparing and complying with their automatic enrolment duties on their website.
www.thepensionsregulator.gov.uk/automatic-enrolment.aspx
Using the guidance employers can follow a step by step process to comply with their duties. The guidance also includes links to tools and resources to help employers meet their duties.

How we can help

As you can see pensions automatic enrolment is not a straightforward business. Please do contact us for help and advice. We can help you to manage the road to automatic enrolment and help you to comply with the requirements when you are in automatic enrolment.

TAX RELIEFS

Types of pension schemes

There are two broad types of pension schemes from which an individual may eventually be in receipt of a pension:

- Workplace pension schemes
- Personal Pension schemes.

A Workplace pension scheme may either be a defined benefit scheme or a money purchase scheme.
A defined benefit scheme pays a retirement income related to the amount of your earnings, while a money purchase scheme instead reflects the amount invested and the underlying investment fund performance.
The number of defined benefit pension schemes has declined in recent years in part due to the regulations imposed upon the schemes and the cost of such schemes to the employer.
All employers will soon need to provide a workplace pension scheme due to auto-enrolment legislation and these are likely to be money purchase schemes.
A Personal Pension scheme is a privately funded pension plan but can also be funded by an employer. These are also money purchase schemes. Self-employed individuals can have a Personal Pension.
We set out below the tax reliefs available to members of a money purchase Workplace scheme or a Personal Pension scheme.
It is important that professional advice is sought on pension issues relevant to your personal circumstances.

What are the tax breaks and controls on the tax breaks?

To benefit from tax privileges all pension schemes must be registered with HMRC. For a Personal Pension scheme, registration will be organised by the pension provider.

A money purchase scheme allows the member to obtain tax relief on contributions into the scheme and tax free growth of the fund. If an employer contributes into the scheme on behalf of an employee, there is, generally no tax charge on the member and the employer will obtain a deduction from their taxable profits.
When the 'new' pension regime was introduced from 6 April 2006 no limits were set on either the maximum amount which could be invested in a pension scheme in a year or on the total value within pension funds. However two controls were put in place in 2006 to control the amount of tax relief which was available to the member and the tax free growth in the fund.
Firstly, a lifetime limit was established which set the maximum figure for tax-relieved savings in the fund(s) and has to be considered when key events happen such as when a pension is taken for the first time.
Secondly, an annual allowance sets the maximum amount which can be invested with tax relief into a pension fund. The allowance applies to the combined contributions of an employee and employer. Amounts in excess of this allowance trigger a charge.
There are other longer established restrictions on contributions from members of money purchase schemes (see below).

Key features of money purchase pensions

- Contributions are invested for long-term growth up to the selected retirement age.
- At retirement which may be any time from the age of 55 the accumulated fund is generally turned into retirement benefits - an income and a tax-free lump sum.

- Personal contributions are payable net of basic rate tax relief, leaving the provider to claim the tax back from HMRC.
- Higher and additional rate relief is given as a reduction in the taxpayer's tax bill. This is normally dealt with by claiming tax relief through the self assessment system.
- Employer contributions are payable gross direct to the pension provider.

Persons eligible

All UK residents may have a money purchase pension. This includes non-taxpayers such as children and non-earning adults. However, they will only be entitled to tax relief on gross contributions of up to £3,600 per annum.

Relief for individuals' contributions

An individual is entitled to make contributions and receive tax relief on the higher of £3,600 or 100% of earnings in any given tax year. However tax relief will generally be restricted for contributions in excess of the annual allowance.

Methods of giving tax relief

Tax relief on contributions are given at the individual's marginal rate of tax.
An individual may obtain tax relief on contributions made to a money purchase scheme in one of two ways:

- a net of basic rate tax contribution is paid by the member with higher rate relief claimed through the self assessment system
- a net of basic rate tax contribution is paid by an employer to the scheme. The contribution is deducted from net pay of the employee. Higher rate relief is claimed through the self assessment system.

In both cases the basic rate is claimed back from HMRC by the pension provider.
A more effective route for an employee may be to enter a salary sacrifice arrangement with an employer. The employer will make a gross contribution to the pension provider and the employee's gross salary is reduced. This will give the employer full income tax relief (by reducing PAYE) but also reducing National Insurance Contributions.
There are special rules if contributions are made to a retirement annuity contract. (These are old schemes started before the introduction of personal pensions).

The annual allowance

The level of the annual allowance for 2015/16 was increased from £40,000 to £80,000 for 'pension input periods' ending in, or contributions paid from, 6 April 2015 to 8 July 2015. This was as a result of changes made to pension input periods in the Summer Budget 2015. The annual allowance for contributions from 9 July 2015 to 5 April 2016 is the balance of the unused allowance of £80,000 with an overriding cap of £40,000. For 2016/17 and 2017/18 the annual allowance is £40,000.
Any contributions in excess of the £40,000 annual allowance are potentially charged to tax on the individual as their top slice of income. Contributions include contributions made by an employer.
The stated purpose of the charging regime is to discourage pension saving in tax registered pensions beyond the annual allowance. Most individuals and employers actively seek to reduce pension saving below the annual allowance, rather than fall within the charging regime.

Individuals who are eligible to take amounts out of their pension funds under the flexibilities introduced from 6 April 2015 but who continue to make contributions into their schemes may trigger other restrictions in the available annual allowance.This is explained later in this factsheet in 'Money Purchase Annual Allowance'.

Changes from April 2016

From April 2016 a taper has been introduced which restricts the annual allowance available for those with 'adjusted annual incomes' over £150,000. Adjusted income means, broadly, a person's net income and pension contributions made by an employer. For every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000.
To ensure the measure works as intended, pension input periods are to be aligned with the tax year (rather than the complex rules which applied before 9 July 2015).

The rate of charge if annual allowance is exceeded

The charge is levied on the excess above the annual allowance at the appropriate rate in respect of the total pension savings. There is no blanket exemption from this charge in the year that benefits are taken. There are, however, exemptions from the charge in the case of serious ill health as well as death.
The appropriate rate will broadly be the top rate of income tax that you pay on your income.

Example

Anthony, who is employed, has taxable income of £120,000 in 2016/17. He makes personal pension contributions of £50,000 net in March 2017. He has made similar contributions in the previous three tax years.
He will be entitled to a maximum £40,000 annual allowance for 2016/17. The charge will be:

Gross pension contribution	£62,500
Less annual allowance	(£40,000)
Excess	£22,500 taxable at 40% = £9,000

Anthony will have had tax relief on his pension contributions of £25,000 (£62,500 x 40%) and now effectively has £9,000 clawed back. The tax adjustments will be made as part of the self assessment tax return process.

Carry forward of unused annual allowance

To allow for individuals who may have a significant amount of pension savings in a tax year but smaller amounts in other tax years, a carry forward of unused annual allowance is available.
The carry forward rules apply if the individual's pension savings exceed the annual allowance for the tax year. The annual allowance for the current tax year is used before any unused allowance brought forward. The earliest year unused allowance is then used before a later year.
Unused annual allowance carried forward is the amount by which the annual allowance for that tax year exceeded the total pension savings for that tax year.
This effectively means that the unused annual allowance of up to £40,000

(2013/14 and prior years £50,000) can be carried forward for the next three years. Importantly no carry forward is available in relation to a tax year preceding the current year unless the individual was a member of a registered pension scheme at some time during that tax year.

Example

Assume it is March 2017. Bob is a self employed builder. In the previous three years Bob has made contributions of £30,000, £10,000 and £30,000 to his pension scheme. As he has not used all of the £40,000 (2013/14 and prior years £50,000) annual allowance in earlier years, he has £60,000 unused annual allowance that he can carry forward to 2016/17. Together with his current year annual allowance of £40,000, this means that Bob can make a contribution of £100,000 in 2016/17 without having to pay any extra tax charge.

The lifetime limit

The lifetime limit sets the maximum figure for tax-relieved savings in the fund at £1 million for 2016/17. The limit will then be indexed annually in line with CPI from 6 April 2018.
If the value of the scheme(s) exceeds the limit when benefits are drawn there is a tax charge of 55% of the excess if taken as a lump sum and 25% if taken as a pension.

Accessing your pension - freedom

The government have amended the rules for how individuals use their pensions savings. In 2014, George Osborne announced 'pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want'. The changes came into effect on 6 April 2015 for individuals who have money purchase pension funds.

Under the previous system, there was some flexibility in accessing a pension fund from the age of 55:

- tax free lump sum of 25% of fund value
- purchase of an annuity with the remaining fund, or
- income drawdown.

For income drawdown there were limits, in most cases, on how much people could draw each year.
An annuity is taxable income in the year of receipt. Similarly any monies received from the income drawdown fund are taxable income in the year of receipt.
From 6 April 2015, the ability to take a tax free lump sum and a lifetime annuity remains but some of the restrictions on a lifetime annuity have been removed to allow more choice on the type of annuity taken out.
The rules involving drawdown have changed.

Access a pension fund from the age of 55

Access to the fund will be achieved in one of two ways:

- allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken over whatever period the person decides
- taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

When an allocation of funds into a flexi-access account is made the member typically will take the opportunity of taking a tax free lump sum from the fund (as under the previous rules).
The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will

count as taxable income in the year of receipt.
Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum. The tax effect will be:

- 25% is tax free
- the remainder is taxable as income.

Plans to introduce a market for secondary annuities scrapped

The government has cancelled plans to create a market for secondary annuities. Following a consultation with industry, financial regulators and consumer groups, the government has decided not to take forward plans to introduce a market for secondary annuities as the consumer protections required may have undermined the market's development.

Money Purchase Annual Allowance

The government is alive to the possibility of people taking advantage of the flexibilities by 'recycling' their earned income into pensions and then immediately taking out amounts from their pension funds. Without further controls being put into place an individual would obtain tax relief on the pension contributions but only be taxed on 75% of the funds immediately withdrawn.
The 'annual allowance' sets the maximum amount of tax efficient contributions. Under the rules from 6 April 2015, the annual allowance for contributions to money purchase schemes was reduced to £10,000 in certain scenarios. There is no carry forward of any of the £10,000 to a later year if it is not used in the year.
The main scenarios in which the reduced annual allowance is triggered is if:

- any income is taken from a flexi-access drawdown account, or
- an uncrystallised funds pension lump sum is received.

However just taking a tax-free lump sum when funds are transferred into a flexi-access account will not trigger the £10,000 rule.
The Chancellor announced in the Autumn Statement 2016 that the allowance will be reduced from £10,000 to £4,000 from April 2017.

How we can help

This information sheet provides general information on the making of pension provision. Please contact us for more detailed advice if you are interested in making provision for a pension.

TAX TREATMENT ON DEATH

Alongside the changes from April 2015 to the access of pension funds, significant changes were made to the tax treatment of pension funds on death. This factsheet summarises the rules which may allow a pension fund to pass free of all taxes on the estate of the deceased and free of all taxes on the beneficiaries of the pension fund.

IHT and pension funds

If an individual has not bought an annuity, a defined contribution pension fund remains available to pass on to selected beneficiaries. Inheritance tax (IHT) can be avoided by making a 'letter of wishes' to the pension provider suggesting to whom the funds should be paid. If an individual's intention has not been expressed the funds may be paid to the individual's estate resulting in a potential IHT liability.

Other tax charges on pension funds

Prior to 6 April 2015, there were other tax charges on death to reflect the principle that income tax relief would have been given on contributions into the pension fund and therefore some tax should be payable when the fund is paid out. For example:

- if the fund was paid as a lump sum to a beneficiary, tax at 55% of the fund value was payable
- if the fund was placed in a drawdown account to provide income to a 'dependant' (for example a spouse), the income drawn down was taxed at the dependant's marginal rate of income tax.

There were some exceptions from the 55% charge. It was (and still is) possible to pass on a pension fund as a tax free lump sum where the individual has not taken any tax free cash or income from the fund and they die under the age of 75.

Other tax charges on pension funds

The government has introduced significant exceptions from the tax charges for benefits first paid on or after 6 April 2015.
Under the revised rules, anyone who dies under the age of 75 will be able to give their remaining defined contribution pension fund to anyone completely tax free, whether it is in a drawdown account or untouched.
The fund can be paid out as a lump sum to a beneficiary or taken out by the beneficiary through a 'flexi-access drawdown account'.
Those aged 75 or over when they die will be able to pass their defined contribution pension fund to any beneficiary who will then be able to draw down on it as income at their marginal rate of income tax.
Beneficiaries will also have the option of receiving the pension as a lump sum payment, subject to a tax charge of 45%. From 6 April 2016 the lump sum will be charged to tax at the recipient's marginal rate of income tax.
The new tax treatment does not apply to the extent that the pension fund exceeds the Lifetime Allowance (£1 million from 6 April 2016).

Tax treatment of inherited annuities

Beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity will be able to receive any future payments from such policies tax free. The tax rules will also be changed to allow joint life annuities to be passed on to any beneficiary.

How we can help

These changes may for some turn traditional IHT planning on its head. Please do contact us for guidance on the options available and the effect on your current IHT plans.

For information of users: *This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.*