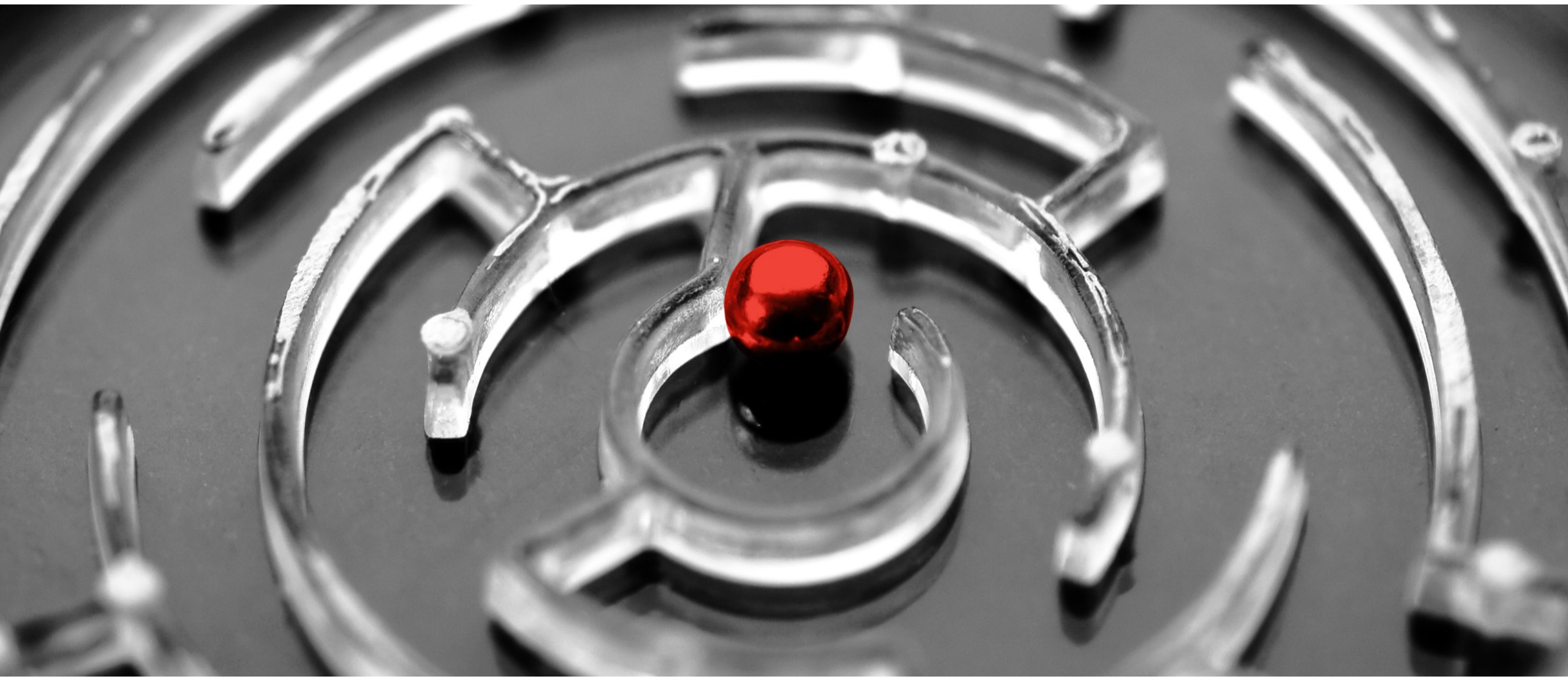

Pensions: a game changer

The Government's announcement on pensions is groundbreaking, making pensions arguably the most tax efficient investment of all, especially if used in conjunction with your investment, business and tax strategies. To benefit you will require a pension plan that can accommodate the new rules. It is therefore essential that you review your pension plans.

The main changes are:

The removal of income limits from defined contribution (DC) schemes

- Use your pension like a bank account by drawing any amount, over any period and take 25% of the fund as a tax-free lump sum with the remainder taken as a taxable income.
- Consider withdrawing tax efficient pension income, using your personal allowance or splitting withdrawals over multiple tax years, and using partial tax-free lump sum distributions each year to save income tax.

A reduced annual allowance for those using new flexibilities

- Retain the £40,000 annual pension contribution allowance by withdrawing income within set maximum limits or taking a tax-free lump sum only.
- Consider converting a nominal amount of pension value into a single capped drawdown plan to preserve your £40,000 annual contribution allowance.
- Make use of your annual pension contribution allowance for 2014/15 and save income tax.
- Carry forward unused annual pension contribution allowances from earlier years. Act before 5 April 2015 to use your 2011/12 allowance.
- Consider setting up a pension before 5 April to allow contributions in future tax years to be carried forward.
- Make a larger pension contribution by altering your pension input period to use next year's annual allowance.
- Consider making a pension contribution for your spouse and children if they have no earnings and obtain tax relief.
- Make a pension contribution through your employer to obtain immediate tax and national insurance relief.
- Consider employer pension contributions, during the financial year, deducted from company profits for corporation tax purposes, and benefit from tax relief. Act quickly before corporation tax rates reduce.

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A reduction in the tax charge on lump sum death benefits where the member was in drawdown or over 75

- The old tax distinction between crystallised and uncrystallised pots in flexible DC schemes is going and the sole determinant of tax treatment will be the deceased's age at death.
- Consider delaying payment of death benefits until after 5 April 2015 so that beneficiaries will be able to take advantage of the new rules.

Death before 75

- Use your pension fund to provide beneficiaries with a sustainable stream of income through drawdown allowing the fund to potentially grow tax free, while remaining outside your estate for IHT.
- Build your pension value, to mitigate up to £1m inheritance tax (IHT) for a couple, and pass the value on to your beneficiaries IHT free.
- Decide who you designate as your pension beneficiary as funds can be taken tax free, in instalments or as a one-off lump sum, so long as the benefits are paid or designated for drawdown within two years of death.
- Consider the financial position of the beneficiary of your survivors' annuity as this will now be paid tax free if purchased within two years of death or an existing joint life annuity is in payment.

Death after 75

- Consider the financial position of the beneficiary as pension funds taken in instalments will be taxed at the beneficiary's marginal rate as they draw income from it.
- A lump sum can be paid less a 45% tax charge (this will become your marginal rate from 2016/17). Similarly, beneficiaries' annuities will taxed at their marginal rate.

A ban on transfers from unfunded defined benefit (DB) to defined contribution (DC) schemes

- Most DB members are likely to be best served by sticking with what they've got. However, there will be members whose needs will be better met by moving to the new flexibility but they will need to act before 6 April 2015.
- Pre-retirement DB members will be allowed to transfer to DC schemes to access the new income flexibility if they want to - but only if they've taken advice from an independent FCA-regulated professional. An exemption from the advice requirement applies for those with specific scheme transfer rights worth less than £30,000.
- If a DB pension is in payment, it won't be possible to transfer to access the new income flexibility.
- Members of unfunded public sector DB schemes won't be able to transfer to DC schemes.

If you would like to take advantage of the new pension flexibility rules, please contact **Sam Whybrow** (**samwhybrow@lfwm.co.uk**) or **Neville Pereira** (**nevillepereira@lfwm.co.uk**).

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