

ASSESSING THE IMPACT OF THE 2023 BUDGET CHANGES



LIFETIME ALLOWANCE - INHERITANCE TAX PLANNING

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Many people are blissfully unaware of what a powerful Inheritance Tax (IHT) planning vehicle a Self-Invested Personal Pension (SIPP) can be. Since April 2015, all death benefits, whether held in a pension which is uncrystallized or in drawdown have been available to leave to beneficiaries on death.

These inheritable sums are normally free from income tax for the beneficiaries, provided that the deceased is under 75 years of age and the election is made within two years of death being notified.

For those who die after age 75, pension monies can still be left to beneficiaries, though your beneficiaries may be liable to income tax at their own marginal rate on any sums drawn.

Regardless of whether income tax applies, death benefits paid from a SIPP are usually paid free from inheritance tax. This makes a SIPP a very effective inheritance tax planning tool.

One caveat however was that until April 2023, an Lifetime Allowance (LTA) charge applied on any pension benefits which exceeded the LTA (£1,073,100 in 2023/24). This charge could be as high as 55% if the death benefits were taken as a lump sum.

Jim's pension currently has a value of £2,000,000, and he does not benefit from any transitional protections. With the LTA charge scrapped from April 2023, Jim's beneficiaries will no longer face a hefty LTA charge (in addition to any income tax that may apply) when he passes away.

The budget is therefore good news for anyone who has a SIPP. The LTA itself is to be removed completely from April 2024 which will increase the attractiveness of the SIPP for those looking for a tax efficient home for their investments.

“ Thinking about your SIPP as a key part of your inheritance planning is important – these days pensions aren't only a vehicle to save for your own retirement income. In fact, for those looking to leave a legacy to children or other beneficiaries, your pension monies might actually be one of the last places you spend from. The removal of the LTA charge is a game changer for those with more sizeable assets; and means that the role of your SIPP might be worth another look within your financial plan. ”

– Rachel Meadows, Managing Director IFGL Pensions



For more information please contact pensions@ifglpensions.com