INHERITANCE PLANNING COMPANY

How to Protect Your Pension Death Benefits from Inheritance Tax

Pension death benefits are a powerful tool for passing wealth to your loved ones while minimising inheritance tax (IHT). However, without proper planning, these benefits can become part of the beneficiaries' estates, exposing them to unnecessary taxes or financial risks. By structuring your pension benefits correctly, you can ensure they are distributed tax efficiently and securely.

What Are Pension Death Benefits?

Pension death benefits refer to the remaining funds in your defined contribution (or money purchase) pension plan at the time of your death. These benefits can be left to your beneficiaries, often free of IHT, making them a valuable estate planning asset.

Key Inheritance Tax Rules

Death Before Age 75

- Pension death benefits are passed to beneficiaries tax-free, regardless of the amount.

Death After Age 75

- The benefits are subject to income tax at the beneficiary's marginal tax rate when withdrawn.
- While not subject to IHT when passed directly, they can become part of the beneficiary's estate and be taxed later.

Defined Benefit Pensions

- Also known as final salary pensions, these typically provide a lump sum or income for dependants, but they do not offer the same tax advantages as defined contribution pensions.

Why Use a Trust?

Placing your pension death benefits into a trust offers additional protection and ensures your wealth is distributed according to your wishes:

Protection from Inheritance Tax
Assets in a trust do not form part of the beneficiary's estate, shielding them from IHT.

Safeguard Against Creditors
Funds in a trust are protected from creditors or divorce settlements, ensuring they remain secure.

Control Over Distribution
Trusts allow you to set terms for how and when the funds are distributed, making them ideal for young or vulnerable beneficiaries.

The Benefits of a Pension Trust

David's Legacy:
David, a retired professional, passed away at 78 with a £500,000 pension pot. By placing his pension death benefits in a trust, David ensured his grandchildren received the funds in tax efficient instalments. Without the trust, the funds would have become part of his children's estates, subject to 40% IHT upon their deaths.

How to Protect Your Pension Benefits

Designate a Trust as the Beneficiary:

Instead of naming individuals, list your trust as the beneficiary of your pension death benefits.

Update Your Pension Nomination Form:

Ensure your pension provider has the trust listed as the designated recipient.

Seek Expert Advice:

Work with an estate planning professional to structure your trust and ensure compliance with HMRC regulations.

How We Can Help

At the Inheritance Planning Company, we specialise in safeguarding pension death benefits through tailored estate planning solutions. Our services include:

- Setting up trusts to protect your pension benefits.
- insuring tax-efficient distribution to beneficiaries.
- Providing personalised advice to suit your unique circumstances.

Secure Your Pension Legacy Today

Contact us now to discuss how to protect your pension death benefits from inheritance tax and other risks.

Disclaimer:

This information is correct as of September 2024. Legal updates or changes may have occurred since then. For the most current advice, please contact **Inheritance Planning Company Ltd** at:

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