

Far-reaching consequences for retirement planning

A new era for pension funds following a significant shift in tax policy

The Autumn Budget Statement 2024 has introduced a significant shift in tax policy, with future pension funds now being subject to Inheritance Tax (IHT). Although this development is expected to impact a minority of individuals, it could have far-reaching consequences for retirement planning. To maintain tax efficiency, those affected may need to reassess their financial strategies comprehensively.

Understanding the new IHT landscape

The proposed changes, which will take effect on 6 April 2027, will include unused pension funds and death benefits in a person's estate for IHT purposes. This alteration is anticipated to affect around 8% of estates annually. Historically, pension savings have been a strategic tool for reducing IHT liabilities, a practice that may now require reconsideration.

Navigating the complexities of IHT

IHT only becomes payable when an estate surpasses a certain threshold. In the 2024/25 tax year, estates can pass on up to £325,000 without incurring IHT, thanks to the "nil-rate band." Beyond this, a 40% tax rate may apply, although various exemptions can mitigate the tax burden. For instance, assets bequeathed

to a spouse or civil partner are exempt from IHT. Additionally, any unused nil-rate band can be transferred between spouses, enhancing the potential to pass on wealth tax-free.

Exemptions and strategic considerations

A further exemption applies if a primary residence is included in the estate, providing an additional £175,000 nil-rate band per individual. Consequently, a couple could potentially transfer up to £1 million without IHT, provided they inherit an unused nil-rate band and own a qualifying residence. Pensions traditionally offer an IHT-free inheritance route, as they lie outside the estate for tax purposes. However, with the

impending changes, existing retirement strategies may need adjustment.

Rethinking retirement income sources

Many individuals have optimised their retirement income by drawing from ISAs or other savings before tapping into pension funds, thus preserving pensions for future generations free from IHT. The upcoming reforms challenge this approach, prompting a potential reallocation of assets and income sources to manage tax liabilities effectively.

Exploring gift allowances and tax planning

Tax regulations provide valuable allowances and exemptions that can diminish IHT



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exposure. Individuals can make gifts without triggering IHT, provided they live for seven years after the gift. Should death occur within this period, a decreasing tax rate applies, beginning at 40% and reducing over time. Additionally, annual gift exemptions allow £3,000 to be given away tax-free, with the possibility of carrying over unused allowances from the previous year for a total gift of £6,000.

Making the most of gifting opportunities

Smaller gifts of £250 per person annually, are also exempt, although they cannot be combined with larger annual exemptions. Special allowances exist for wedding gifts, with £1,000 available for any recipient, £2,500 for grandchildren, and £5,000 for children, all provided before the ceremony. Furthermore, contributions towards a child's living costs during full-time education are permissible, ensuring adequate support without breaching IHT regulations.

Strategic income gifting

Regular gifts from surplus income, covering salaries, rental income, and investment returns, remain outside IHT considerations, provided they don't deplete the giver's standard of living. With no upper limit, this exemption offers a strategic avenue for wealth transfer without incurring tax liabilities.

Seeking professional advice

Due to these changes, individuals are advised to reassess their estate planning and retirement strategies. Obtaining professional financial advice will offer clarity and guidance in navigating the evolving tax landscape, ensuring that your retirement plans align with personal goals and tax obligations.

For those seeking further information or personalised advice on how these tax changes might affect your retirement planning, please contact us to optimise your estate and retirement strategy and safeguard your financial future. ■

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A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

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