

# October 2014 Newsletter

## A tax-free inheritance!

The curtain has risen on the third act of Chancellor George Osborne's revolutionary pensions changes.

In his Spring Budget, the Chancellor announced the end of the compulsory pension annuity and ushered in the era in which pension savers, if they were mad enough to do so, could blow their savings on buying a Lamborghini.

Before the implications had been fully digested, the second act took the form of an announcement that a new variant of drawdown is to be introduced, bearing the awkward name of Uncrystallised Fund Pension Lump Sum ('UFPLS')

Unlike drawdown as we know it, UFPLS will deny investors the right to draw as a separate lump sum the 25% of tax-free cash available from 'money purchase' pensions, and will require them to combine this with the remaining 75% of the fund to provide the basis for income payments of which 25% will be tax-free.

The attraction of UFPLS was to have been the fact that because the fund as a whole would not have been crystallised, it would avoid the 55% tax charge which would otherwise have been levied on the death of the investor.

The third act in this Whitehall trilogy opened at the end of September with a veritable coup de théâtre. The Government had previously signalled that it intended to review the 55% charge on death, which it regarded as punitively high, but in the event the death charge has been removed altogether.

This means that with effect from 2015, when the changes come into effect, all undrawn pensions pots, whether in flexi-access or UFPLS, will be able to pass to nominated beneficiaries free of tax in the event of the death of the investor before the age of 75. After that age, the recipients will pay income tax on what they receive, at their marginal rate.

The immediate reaction to this news was that this made UFPLS redundant, and indeed it does make flexi-access drawdown even more attractive, because if income is drawn from either flexi-access or UFPLS funds, the annual allowance for additional pension contributions reduces from £40,000pa to £10,000pa. So if a flexi-access investor has drawn his or her tax-free cash but has not started to draw down income from their fund, they will be able to continue to contribute up to £40,000pa.

The remaining attractions of UFPLS are that this will be a cheaper option, which may commend its use for smaller pension pots. It might also be offered by pension providers with lots of old policies on their books, who wish to make the benefits of drawdown available to their policyholders but don't want to have the expense of administering flexi-access drawdown.

What is clear is that the attractions of pension saving have become irresistible. The tax advantages dwarf those available from ISAs, and we may well see people switching their ISAs into pensions (subject to having sufficient earnings on which to base the contributions).

## **Annuities**

For all the flexibility now provided by pension plans, many people will rightly continue to want to ensure a sufficient retirement income which will be unaffected by the fluctuations of the stock market and the low returns available on deposits.

Annuities will therefore continue to have an important role to play in retirement planning and with this in mind the Government plans to remove all the restrictions which have hitherto inhibited the design of innovative annuities, so that the only requirement will be that they should provide a life-long income.

Immediate needs annuities for long term care will continue to be popular, and we can expect additional interesting product developments.

### **More tax crackdowns!**

The mission by HM Revenue and Customs to recover lost revenue is leading to specific groups of taxpayers being targeted, including middle class professionals.

One of the main tools at HMRC's disposal is its Connect computer system, which cost £45 million to develop and is used to collate information collected from a number of sources, including banks, local councils, the Land Registry, the Driver and Vehicle Licensing Agency, hospitals and insurance companies.

The combination of data received from these various sources is analysed and cross-referenced, and the results are compared with individuals' tax returns.

One particular group receiving attention at present are people with multiple sources of income, such as consultants, part-time taxi drivers and car boot traders.

Another group are landlords, including buy-to-let investors. Here, the Connect computer will calculate how many properties a taxpayer owns, the likely level of income receivable, and whether this corresponds with the income declared.

If the evidence points towards underpayment, HMRC writes to the taxpayers involved inviting them to pay whatever appears to be due. If the recipient pays up they can avoid a fine, but if they ignore the letter or challenge the Revenue, further investigation will follow. In the most serious cases, a prison sentence could result.

### **For more information please contact:**

<b>Ipswich:</b>	<b>01473 267000</b> <b>Fitzroy House, Crown Street, Ipswich, Suffolk, IP1 3LG</b>
<b>Neil Hewitt</b>	<b>Neil.hewitt@scruttonbland.co.uk</b>
<b>James Wright</b>	<b>James.wright@scruttonbland.co.uk</b>
<b>Colchester:</b>	<b>01206 838400</b> <b>820 The Crescent, Colchester Business Park, Colchester, Essex, CO4 9YQ</b>
<b>Gary Riches</b>	<b>Gary.riches@scruttonbland.co.uk</b>
<b>Grant Buchanan</b>	<b>Grant.buchanan@scruttonbland.co.uk</b>

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