

# METCALF MOAT UPDATE

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## **Directors**

Colin Moat  
John Riley  
Lee Taylor



**METCALF MOAT**  
IFA LIMITED

*'Growing by  
recommendation'*

YOUR FIRST CALL FOR INDEPENDENT FINANCIAL ADVICE

## **When I'm 55!**

### **Why?**

"This government believes in the principle of freedom. Individuals who have worked hard and saved responsibly throughout their adult life should be trusted to make their own decisions with their pension savings and the reforms I announced at the Budget will deliver that".

**George Osbourne**

**Chancellor of the Exchequer.**

**Freedom and Choice in pensions:  
government response to the consultation -  
July 2014**

### **What's New Post 6th April 2015?**

#### **Flexi-access Drawdown**

Flexi-access Drawdown (FAD) is being introduced to replace both Capped and Flexible Drawdown.

If currently within a Capped Drawdown plan, an individual will have two options; remain within Capped Drawdown and retain their income within GAD (Government Actuaries Department) limitations - currently 150% or convert to Flexi-access Drawdown, either by advising the administrators or by withdrawing income in excess of the GAD limit.

Although this may be beneficial, it will result in their Annual Allowance (amount each tax year which can be contributed to a Money Purchase pension) being reduced from the current level of £40,000 to £10,000. A new allowance has been created, the Money Purchase Annual Allowance (MPAA). Also, once a conversion to Flexi-access Drawdown has occurred the conversion cannot be reversed. The option to convert any uncrystallised\* fund into Capped Drawdown is available only until 5th April 2015. However, should Capped Drawdown be established before this deadline, additional uncrystallised funds can be moved into Capped Drawdown at a later date.

As previously stated, Flexi-access will also replace Flexible Drawdown and unlike Capped Drawdown, all existing Flexible Drawdown plans will be converted to Flexi-access Drawdown.

Two major differences to Flexible Drawdown are that there will no longer be any Qualifying Minimum Income Requirement - currently £12,000 and there will now be the ability to contribute further to a pension plan.

With Flexible Drawdown individuals lost 100% of their Annual Allowance, but with Flexi-access Drawdown £10,000 has been re-instated in the shape of the MPAA, described earlier.

As with current Capped Drawdown and Flexible Drawdown, 25% of the Flexi-access Drawdown can be withdrawn tax-free as a Pension Commencement Lump Sum (PCLS). The remaining 75% of the fund can be taken as a regular income or on an ad hoc basis. As previously mentioned, the amounts withdrawn are not subject to income limitations, but will be subject to tax at an individual's Marginal Rate\*\*.

#### **Uncrystallised Fund Pension Lump Sum (UFPLS)**

The Uncrystallised Fund Pension Lump Sum has been designed in order to allow individuals the ability to access their Money Purchase fund flexibly, without having to move their fund into Flexi-access Drawdown.

Accessing a fund via UFPLS will result in an individual having their future pension contributions into a money purchase pension restricted to the MPAA allowance of £10,000.

The main difference between this option and Flexi-access Drawdown, is that it **does not** create a crystallised fund. Therefore, this option is available to scheme providers who are unable to offer their clients Flexi-access Drawdown. 25% of the fund is available tax-free, but **is not** a PCLS.

The remaining 75% of the fund will be accessible with the proceeds being taxed at an individual's marginal rate.

**Please note, the proceeds of a UFPLS can only be paid to a member of a scheme and not a dependent.**

\* A Benefit Crystallisation Event (BCE) occurs when the pension rights that an individual has built up in a registered pension scheme are accessed, most commonly through commencement of pension benefit or when a lump sum is paid.

\*\* Marginal Rate of tax is the % of tax applied (e.g. 20%, 40% or 45%) to an income, for each tax bracket in which an individual qualifies. In other words, the Marginal Rate is the % deducted from the next pound of taxable income above a certain level.

**Cardinal House, 27 Station Square, Petts Wood,  
Orpington, Kent, BR5 1LZ**

**Tel: 01689 891919 Fax: 01689 819191**

**[www.metcalfmoat.co.uk](http://www.metcalfmoat.co.uk) [administrator@metcalfmoat.co.uk](mailto:administrator@metcalfmoat.co.uk)**

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## What about tax on death benefits?

Prior to the proposed changes by the Chancellor, the taxation of death benefits is as follows:

Plan	Tax
Personal Pension Fund (100% Uncrystallised)	Tax Free
Drawdown Fund (Uncrystallised)	55% Tax Charge
(Drawdown Fund (Crystallised)	55% Tax Charge
Drawdown Spouse's Income	Taxed at Marginal Rate
Annuity Spouse's Income	Taxed at Marginal Rate
Annuity Guaranteed Term Income	Taxed at Marginal Rate

The proposed tax changes are radical and effectively allow for the cascading down of pension benefits to future beneficiaries.

### Uncrystallised Funds Pension Lump Sum (UFPLS)

Although already stated, it is important to reaffirm that there is **no** dependent's benefit payable from a UFPLS on a member's benefit.

#### Capped Drawdown - Death of member prior to age 75

Both crystallised and uncrystallised funds will be payable to beneficiaries free from tax.

A spouse's/dependent's Drawdown income will also become tax free.

#### Capped Drawdown - Death of member on or after age 75

Uncrystallised and crystallised benefits payable as a lump sum will be subject to a Special Lump Sum Death Benefit Charge (45% if paid on or after April 6th 2015). For lump sums paid on or after April 6th 2016 the charge will be levied at the beneficiary's marginal rate of tax.

A dependent's Drawdown income will continue to be charged at their marginal rate.

#### Flexi-access Drawdown - Death of member prior to age 75

Uncrystallised and crystallised funds can be paid tax-free to beneficiaries - please see "what happens when the beneficiary dies?"

#### Flexi-access Drawdown - Death of member on or after age 75

Uncrystallised and crystallised benefits payable as a lump sum will be treated in the same way as Capped Drawdown (see above), as will a dependent's income.

### What happens when the beneficiary dies?

Following the death of the recipient's predecessor (the original beneficiary) and where the remaining fund is paid as a lump sum, there is no tax payable, assuming the predecessor was under the age of 75 when they died.

No tax would be payable upon any income designated by the predecessor, to the recipient, again if the predecessor was under the age of 75 when they died.

If the predecessor was aged over 75 when they died any designated income would be payable to the recipient at their marginal rate of tax.

The tax treatment of death benefits payable upon the death of the recipient and subsequent deaths, will be governed by the same rules.

### What about Annuities?

Insurance companies will no longer be required to offer members the opportunity to select an insurance company to provide an Annuity; this option is known as an Open Market Option (OMO).

It will be possible to obtain an Annuity income which reduces, as well as increases and the maximum guarantee period of 10 years will be removed. Dependent's / beneficiary's payments will be treated in tax terms, as those provided by Drawdown providers; with income from an annuitant who, died before age 75 being tax free to spouses / beneficiaries, Income from annuitants who, died on or after age 75 will be being taxed at the spouse's / beneficiary's marginal rate.

### Lump Sums Paid 2 Years After The Date of Death

Please note, currently if lump sum benefits are not paid within 2 years of either the scheme administrator of the scheme becoming aware of the member's death or the date the scheme administrator could first reasonably have expected to have known of it, there is a tax charge to the recipient.

### When you are 55!

This is a very brief overview of the **proposed** changes as we understand them.

Please also note, that many of the death benefits mentioned in this article will be tested against an individual's Lifetime Allowance (limit on the overall benefits available to an individual from their pension schemes).

Also, it **will not** be mandatory for schemes to offer members the new flexible options. Our advice is to seek independent advice before taking benefits from a Money Purchase / Defined Contribution Pension.

*John Riley, Director*

The value of an investment, and any income from it, is not guaranteed and can go up and down depending on investment performance. You may get back less than you invested.

The value of tax savings and eligibility will depend on individual circumstances, and all tax rules may change in the future.

Past performance is not necessarily a guide to future performance.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Our charges for mortgage advice are usually £395.

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