



# avoiding inheritance tax on lump sum pension death benefits through the use of trusts

## what happens on death before retirement?

Death before retirement will often result in the value of your pension fund, or a significant proportion of it, being repaid by the trustees of your pension fund.

The trustees will usually have discretion to appoint your death benefits in favour of your spouse, other dependants or the executors of your estate.

If you give guidance to the trustees by signing a nomination in favour of those whom you wish to benefit the trustees will usually give effect to that nomination although they have an overall discretion in the matter and are not legally obliged to follow your wishes.

## the tax problem

If no nomination is submitted to the trustees then in most circumstances they will pay the benefits to your spouse if you have one. Many nominations (if made) nominate the spouse as recipient in any event. This is potentially extremely tax inefficient as on your spouse's death up to 40% of the benefits could be subject to Inheritance Tax dependent on your spouse's other assets.

## the tax saving solution

Lump sum benefits should be nominated to a separate discretionary trust under which your spouse can benefit. Utilising a trust in this way can ensure that the capital and income of the Trust Fund is available to your spouse without it forming part of his or her estate for Inheritance Tax purposes

## is any tax payable on the tax saving trust?

If the value of Trust Fund is under £312,000 no Inheritance Tax will be payable.





If you decided to proceed with the scheme then we would give you specific advice on tax implications but you would usually find that the potential tax position would compare extremely favourably with the 40% charge that could arise on your spouse's death if the benefits went entirely to the spouse on your death.

### get in touch

To find out more about what we can do for you please contact:

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