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SIPP and SSAS death benefits

Guidance Notes

This document is provided for use by professional advisers in conjunction with products provided by Talbot and Muir. The information in this document is based on our interpretation of the relevant HMRC guidelines, which are subject to change.

Overview

When a pension scheme member dies, HMRC guidance explains how the remaining pension benefits can be paid out. Here we focus on the options available on the death of a member of a SIPP or money purchase SSAS, where the member leaves behind uncrystallised funds, funds in pension drawdown or a combination of both.

The options available will depend on a number of factors, and since 6th April 2015 the most important of these is the age at date of death, either before age 75 or over 75, to determine the amount of tax payable.

Pre 75 benefit options – death of the member

The value of the pension fund at the date of death is payable to the nominated beneficiaries, and this is free of income tax provided they are designated within two years of the member's death. If the designation is made after 2 years any income or lump sum paid will be subject to income tax at the beneficiary's marginal rate.

The beneficiaries can choose how they wish to take the benefits, including a lump sum from the scheme, flexi-access drawdown, an annuity or scheme pension. You should note however that not all schemes will offer all of these options.

It is important to also remember that funds not already crystallised before death will be tested against the member's remaining lifetime allowance. If the value of the death benefits takes them over their remaining lifetime allowance then the beneficiary will need to pay the appropriate lifetime allowance charge. If there is more than one beneficiary the charge is apportioned across the fund they each receive, so one beneficiary isn't burdened with the whole charge.

Post 75 benefit options – death of the member

The value of the pension fund at the date of death is payable to the nominated beneficiaries. Again, the beneficiaries can choose how they wish to take the benefits, including a lump sum from the scheme, flexi-access drawdown, an annuity or scheme pension (where these options are offered by the scheme).

Where, however, the member has died after age 75, death benefit payments from the scheme, whether lump sum or pension income, will be taxed at the recipient's marginal rate of income tax.

Death of a beneficiary

If a beneficiary has chosen to take flexi-access drawdown then on their death there may still be remaining funds in the pension. The beneficiary can name their beneficiaries to receive the remaining funds in much the same way as if they had been their funds originally. Their beneficiaries are called successors and need not be associated in any way with the original member. The tax treatment is determined by the current beneficiary's age when they die. This can continue indefinitely, with a successor leaving the fund to another successor as long as some funds remain.

Inheritance Tax

Pension death benefits will not normally be subject to inheritance tax (IHT) regardless of the age of the scheme member at death. However, if pension benefits have been paid from the scheme by way of a lump sum to the member's beneficiaries those funds form part of the recipient's estate for IHT purposes. If the beneficiary chooses to opt for flexi-access drawdown any funds not yet paid out to the beneficiary will remain part of the pension scheme and still outside their estate on their death.

HM Revenue & Customs reserve the right to subject a pension fund to an IHT charge if they feel it has been used for tax avoidance purposes.

Death benefit nomination forms

With the changes to the death benefit options it is essential that death benefit nomination forms are reviewed frequently and new forms are completed on the death of a member, dependant, nominee or successor to ensure there is always a valid form on file. Should there be no indication of who the scheme administrator should pay the benefits to, this will restrict the options available to any beneficiary who is not deemed to be a dependant of the member.

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