

CASE STUDY

Pensions and the Residence Nil Rate Band



**PUMA
INVESTMENTS**

OVERVIEW

Unspent pension pots will form part of the taxable estate for deaths after April 2027. This will cause investors to revisit estate plans, not only due to the impact of inheritance tax on the pension pot itself, but also due to the impact on other allowances and reliefs.

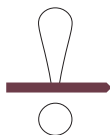
The Residence Nil Rate Band is £175,000 per individual, or £350,000 when transferred between a married couple. It can save up to £140,000 of inheritance tax, but it is tapered away by £1 for every £2 an estate exceeds £2 million, potentially to nothing. The inclusion of pension pots in the estate will make understanding and explaining this outcome relevant to a larger number of clients. For some clients, revisiting estate plans can mitigate the impact of these changes.

For investment professionals only,
not to be read as tax advice.



Meet Susan

Aged 80



The problem

Susan's husband died a few years ago, leaving her all of his assets at a time when their joint estate was worth £2.7 million, of which £1 million is in her pension. Susan expects to benefit from the transferred Nil Rate Band and Residence Nil Rate Band (RNRB), giving a potential £1 million allowance before IHT is payable.

When pensions were excluded from IHT, Susan would only have expected around £300,000 of IHT to be due on her estate. However, it now faces two incremental charges:

- 40% IHT on any pension pot she passes on
- The total loss of the Residence Nil Rate Band

The inheritance tax bill is now expected to be £750,000. This will occur because Susan's taxable estate will now be £2.7 million (rather than £1.7 million without the pension pot), at which level the RNRB will be tapered to nothing. Once income tax payable by her children is factored in, this creates an effective rate of tax of more than 80% if she passes on her pension.

Susan has more capital than she expects to need for the rest of her life, but isn't keen to start giving away material amounts of her wealth yet. Due to the significant level of tax increases her estate now faces, she wants to consider more tax-efficient ways to pass on her wealth, and is comfortable taking more risk to do so.



The solution

Susan's Financial Adviser considers her lifetime financial needs and goals, risk profile and capacity for loss. He suggests she draws down the 25% tax-free lump sum from her pension, benefiting from the income tax-free draw down that her children will not have available to them. The capital drawn down can be invested into a Business Relief qualifying portfolio, which once held for two years will qualify for 100% relief from inheritance tax. He suggests she could sell down a further £250,000 of investments, investing £500,000 in total in BR-qualifying investments.

While this would be a higher risk than her current investments, she has sufficient other wealth to meet her needs, and the future tax burden on her estate will otherwise significantly erode the wealth she wants to leave her family.

Susan will retain access to and control of her investment for as long as she wants, potentially until death. After two years it will qualify for 100% relief from inheritance tax, saving £200,000. If at a later date she feels comfortable gifting her investment to her children, her estate may additionally benefit from the RNRB being partly or completely restored with immediate effect. Unlike making lifetime gifts to reduce the amount of inheritance tax chargeable on the estate, there is no need for seven years to pass before Susan dies for the estate will benefit from an increased RNRB.

With the help of her Financial Adviser, Susan invests £500,000 in a portfolio that qualifies for Business Relief, utilising some of her 100% Business Relief Allowance.

Without BR investment

£2.7m

Susan has £2.7m in assets including a £1m pension pot

Six years later

Susan dies with an estate worth £2.5m after lifetime spending

£100,000

of the maximum £350,000 RNRB is available

£650,000

Nil Rate Band

£720,000

Inheritance tax payable

£1,78m

Passed on

With BR investment

Susan withdraws £250k from pension tax-free and sells down £250k of other investments

Invests

£500,000

into BR-qualifying investment

After two years

Susan's £500k BR investment qualifies for 100% IHT relief, saving £200k if she dies

After five years

Susan gifts her BR-qualifying investments to her children

After six years

Susan dies with an estate worth £2m after lifetime spending and gifting

£350,000

Residence Nil Rate Band available as estate is below taper threshold

£650,000

Nil Rate Band

£400,000

IHT payable

£2.1m

Passed on

+

£112,500

Income tax saved on pension drawdown



The detail provided here is intended to provide a high-level informative summary of inheritance tax liability, and therefore should not be read as advice. Please consult an independent Financial Adviser for personalised advice that takes into account your specific circumstances.

This example is for illustration purposes only and should not be read as advice. No investment growth or losses are assumed, and Susan is assumed to be fully invested in BR-qualifying companies.

Get in touch

We're here to help

Contact us on 0207 468 7900,
email businessdevelopment@pumainvestments.co.uk
or visit www.pumainvestments.co.uk

RISK FACTORS

An investment in Puma Heritage Estate Planning Service carries risk and may not be suitable for all investors. For more information please see below and visit www.pumainvestments.co.uk.

Past performance

Past performance is no indication of future results and share prices and their values can go down as well as up.

Tax reliefs are not guaranteed

Tax reliefs depend on individuals' personal circumstances, minimum holding periods and may be subject to change.

Long-term investment

An investment in the Service should be considered a long-term investment.

You may lose money

An investment in smaller companies is likely to be higher risk than other investments. Investors' capital may be at risk and investors may get back less than their original investment.

Potentially illiquid investment

Shares in private trading companies are illiquid. It may prove difficult for investors to realise immediately or in full proceeds from the sale of such shares.

Cassini House
57 St James's Street
London SW1A 1LD

This communication is a financial promotion issued by Puma Investments in accordance with section 21 of the Financial Services and Markets Act 2000 ("FSMA").

This communication has been prepared by Puma Investments for information purposes only and should not be read as advice, it is intended for the recipient only and should not be forwarded on.

Puma Investments is a trading name of Puma Investment Management Limited (FCA No 590919) which is authorised and regulated by the Financial Conduct Authority. Registered office address: Cassini House, 57 St James's Street, London SW1A 1LD. Registered as a private limited company in England and Wales No 08210180.

PI003211 0226
CL2607