Defined Contribution Schemes

PLUTUS WEALTH MANAGEMENT LLP

Defined Contribution

Defined contribution (DC) pension schemes, also known as money purchase schemes, are so called as the size of your pension pot at retirement is dependent on the size of the contributions you make during your lifetime and the investment growth you achieve on those contributions. These can be on an individual basis or set up as a group scheme by an employer but either way can receive contributions from the member, the employer or both.

Contributions

Depending on the tax position of the contributing member, income tax relief will be available on contributions. The table below shows the effective cost to an individual of a £100 gross pension contribution:

Non taxpayer - £80 (limited to £3,600 per annum gross)
Basic rate taxpayer - £80
Higher rate taxpayer - £60
Additional rate taxpayer - £50

Personal pension contributions are limited to £50,000 per annum although tax relief at the member's highest rate may not be available on the full amount.

Types of Private Pension

Some of the most basic plans are low cost stakeholder plans, which usually only allow you to choose from a range of 10-15 of the pension provider's own in-house investment funds. A Personal Pension could provide a more significant range of funds, some provided by your own pension provider but also funds from other external investment houses. A more sophisticated investor may opt for a Self Invested Personal Pension (SIPP) through which the investments need not be limited to mutual funds, but could include individual company shares, commercial property, land, offshore funds or structured products.

In Retirement

Once in retirement there are a variety of different ways you can go about taking benefits from your plan and the process of doing so is known as crystallisation. At this point you can take up to 25% of your fund in the form of a tax free cash lump sum and have to use the remaining 75% to provide an income. The more traditional way of doing this is to buy an annuity through an insurance company, where in essence you are exchanging the value of your fund for a guaranteed income for the rest of your life. An alternative strategy would be to opt for drawdown or a variation of, whereby each year you encash a proportion of your fund to provide income. The maximum and minimum amounts you are allowed to drawdown are set by the government so as to try and limit the risk of your fund running out.

If you would like to discuss any of the above in more detail please do not hesitate to contact us.

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Inheritance Tax Planning

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Many people assume that if no will is written, their estate will go directly to their spouse or civil partner, after they die.

Under the law of intestacy in England and Wales, for married couples and civil partners with children, only £250,000 of your personally owned assets, plus personal belongings, will pass to your spouse, or civil partner.

The rest is split 50/50, half passing to your children and half providing an income for your spouse or civil partner. If you do not have a spouse, civil partner, or children, more distant relatives might benefit. Unmarried couples currently have no rights to each other's possessions, if will are not made.
Wills need to be reviewed on a regular basis, in particular when getting married or divorced or the birth of a child.

Trusts

A Trust is where an individual (the settler) transfers a legal obligation to a binding person (the trustee) to deal with property in a particular way for the benefit of one or more beneficiaries
If you have capital available to invest over the medium to long term, trusts can be an extremely efficient way to reducing an IHT liability.

Gifting

Gifting is an effective way or reducing your IHT bill, as it removes assets from your estate before your death.
There are 3 categories
Exempt transfers – The gift becomes exempt from IHT on death. Examples might be transfers between spouses, civil partnerships or gifts to charity, or those who make use of gifting allowances.
Potentially exempt transfers – exemption is achieved if the gift is given seven years before death. Gifts given less than seven years from death may benefit from varying levels of relief.
Chargeable lifetime transfers – Gifts which are generally made into most types of trust which become immediately subject to IHT, where the gift exceeds the Nil Rate Band, but only at a rate of 20% when paid by the Trustees or 25% when paid by the Settlor.

Tax Efficient Funds

The idea behind this is to create a fund to enable beneficiaries of the estate to meet the tax liability without disturbing family wealth.

The alternative investment market and small businesses provide an opportunity for people looking to minimise their IHT liability. Investing in these areas provides freedom from IHT after only 2 years. If you are investing in small business via an Enterprise Investment Scheme (EIS) it may also be possible to reduce an income tax or CGT bill.

Pensions and Life Assurance

Death benefits in most pension plans are broadly exempt from IHT and also provide retirement income for the spouse or civil partner. Whilst investment in an indirect method of mitigating IHT, it is important that supporting trusts are in place so that the funds pass to the beneficiary.

Life assurance plans can provide a tax free cash sum to meet any IHT liability and should normally be written into Trust.

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