Chartered Certified Accountants

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# TAX ON A PRIVATE PENSION YOU INHERIT - INFORMATION FOR CLIENTS

## Walsh West Certified Chartered Accountants 2021

You may have to pay tax on payments you get from someone else's pension pot after they die.

There are different rules on inheriting the State Pension.

### Who can get payments?

The person who died will usually have nominated you (told their pension provider to give you money from their pension pot). But sometimes the provider can pay the money to someone else, for example if the nominated person cannot be found or has died.

A pension from a defined benefit pot can usually only be paid to a dependant of the person who died, for example a husband, wife, civil partner or child under 23. It can sometimes be paid to someone else if the pension scheme's rules allow it - but it will be taxed at up to 55% as an unauthorised payment.

### Passing on a pension pot you inherited

If you inherit a defined contribution pot you can nominate someone to get any money you do not use before your death. The money must be in a flexi-access drawdown fund when you die.

### When you pay tax

Whether you pay tax usually depends on the:

- type of payment you get
- type of pension pot
- age of the pension pot's owner when they died

| Payment | Type of pot | Age its owner died | Tax you usually pay |
|---|---|---|---|
| Most lump sums | Defined contribution or defined benefit | Under 75 | No tax |
| Most lump sums | Defined contribution or defined benefit | 75 or over | Income Tax deducted by the provider |
| Trivial commutation lump sums | Defined contribution or defined benefit | Any age | Income Tax deducted by the provider |
| Annuity or money from a new drawdown fund (set up or converted and first accessed from 6 April 2015) | Defined contribution | Under 75 | No tax |
| Money from an old drawdown fund (a 'capped' fund or a fund first accessed before 6 April 2015) | Defined contribution | Under 75 | Income Tax deducted by the provider |
| Annuity or money from a drawdown fund | Defined contribution | 75 or over | Income Tax deducted by the provider |
| Pension provided by the scheme | Defined contribution or defined benefit | Any age | Income Tax deducted by the provider |

You may also have to pay tax if the pension pot's owner was under 75 when they died and any of the following apply:

- you're paid more than 2 years after the pension provider is told of the death
- they had pension savings worth more than £1,073,100 (the 'lifetime allowance')
- they died before 3 December 2014, and you buy an annuity from the pot

## If you're paid more than 2 years after the provider is told of the death

You pay tax if the pot's owner was under 75, and it is more than 2 years after the provider is told of their death when you get either:

- an annuity or drawdown fund from an 'untouched' pot (the person who died did not take any money from it)

- most types of lump sum from defined contribution or defined benefit pots

In both cases, the provider will deduct Income Tax before you're paid.

### If the person who died had pension savings worth more than £1,073,100

You may have to pay a lifetime allowance tax charge. You pay the charge if the amount you get is more than the person's available lifetime allowance.

You'll need to pay:

- 55% if you get a lump sum
- 25% if you get any other type of payment, for example pensions, annuities or money from a drawdown fund

The amount you pay may change if someone else starts to get payments from the same pot. You will not pay lifetime allowance tax charge if you got the pot more than 2 years after the provider was told about the death.

HM Revenue and Customs (HMRC) will send you a bill, after they're told about the payment by the person dealing with the estate of the person who died.

The person dealing with the estate must tell HMRC within 13 months of the death or 30 days after they realise you owe tax (whichever is later).

### If you get an annuity and the pot's owner died before 3 December 2014

If you buy an annuity from the pot, the provider takes Income Tax off payments before you get them.

### Inheritance Tax

You do not usually
pay Inheritance Tax on a lump sum because payment is usually 'discretionary' - this means the pension provider can choose whether to pay it to you.

Ask the pension provider if payment of the lump sum was discretionary. If it was not, you may have to pay Inheritance Tax.

### If you paid too much tax

If you fill in a Self-Assessment tax return each year, you'll get a refund when you've sent your return.
If you do not, the form you fill in to claim your refund depends on whether the payment:

- used up the pension pot and you have no other income in the tax year
- used up the pension pot and you have other taxable income
- did not use up the pension pot and you're not taking regular payments

There's a different way to claim if your payment came from a trust.

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For initial advice about Accounting and Taxation, call our team on 0203 488 7503, 01992 236 110 or contact us by email at welcome@walshwestcca.com or via our website www.walshwestcca.com and we will help you.