



## Death Benefits Leaflet

This leaflet provides general information on the death benefits available to our SIPP clients and confirms the procedure that will be followed. For more information, please contact your Financial Adviser who will be able to advise you on which options best suit your needs.

This leaflet is based on our understanding of current legislation and HM Revenue & Customs (HMRC) practice and every care has been taken to ensure it is correct. It is issued by DP Pensions Ltd for use by our SIPP clients and no responsibility to any third party is accepted if the information in the leaflet is used for any other purpose. The legislation and HMRC practice may change in the future.

### Overview

The Taxation of Pensions Act 2014 made widespread changes to the way that death benefits can be paid and introduced death benefits for nominees<sup>1</sup> and successors<sup>2</sup> of deceased scheme members whilst retaining the ability to pay death benefits to dependants<sup>3</sup>.

In this leaflet we have made reference to what happens when the member dies however the information in this leaflet also applies to dependants and beneficiaries. The taxation of death benefits is governed by the age of the deceased individual at that time.

The death benefits that are available under the SIPP will depend on the member's, or after the death of the member the dependant's/beneficiary's nomination and whether they died before or after age 75.

The scheme is written in Trust. This means that the benefits are paid at the discretion of the Scheme Trustee taking into account any beneficiaries nominated by the member (or subsequently by the dependant /beneficiary/successor) by the completion of an Expression of Wish form.

The death benefits payable under the Scheme can be paid in cash or by the in specie transfer of particular assets. This means that assets such as commercial property can be transferred to the beneficiaries rather than having to sell the asset.

### Death prior to age 75

#### **Lump Sum Death Benefit**

Provided that the lump sum is paid within 2 years<sup>4</sup> of death it will be tax free. If the lump sum is not paid within 2 years it will be subject to the lump sum death benefit charge which is taxed at the recipient's marginal rate of income tax.

If the lump sum is being paid from the member's uncrystallised funds then payment within 2 years is a benefit crystallisation event and the value of the lump sum has to be tested against the member's

lifetime allowance. Any excess value above the lifetime allowance could be subject to the lifetime allowance charge (See member benefits form).

Uncrystallised funds are funds that a member had not taken any benefits from (in the form of a pension commencement lump sum and /or pension).

### **Flexi Access Drawdown Pension**

This option is only available if you are a dependant or the member/dependant/beneficiary has nominated you to receive this benefit.

Any funds designated to provide a drawdown pension fund after 06 April 2015 will be used to provide a dependant's/nominee's/successor's flexi access drawdown pension. There is no minimum or maximum limit on the amount that can be drawn as a pension payment from this fund and the payments will be tax free as long as any uncrystallised funds are designated to a flexi access drawdown fund within 2 years<sup>4</sup> of death . If designation of uncrystallised funds occurs after 2 years any income payment will be taxed at the recipients' marginal rate.

Designation of the member's uncrystallised funds to provide flexi access drawdown within the 2 year period is a benefit crystallisation event and the value of the fund designated will be tested against the deceased members lifetime allowance. Any excess value above the lifetime allowance could be subject to the lifetime allowance charge.

## **Death post age 75**

Irrespective of whether funds are uncrystallised or crystallised the death benefit options and any tax charges are the same when a member or dependant/beneficiary dies after age 75.

### **Lump Sum Death Benefit**

Payment of a lump sum death benefit when the member or dependant/beneficiary dies after 75 is not a benefit crystallisation event and a special lump sum death benefit charge is applied to payments made. The charge is the recipients marginal rate of income tax.

### **Flexi Access Drawdown Pension**

This option is only available if you are a dependant or the member/dependant/beneficiary has nominated you to receive this benefit.

Any funds designated to provide a dependants/nominees/successors drawdown pension fund after 06 April 2015 will be to provide a flexi access drawdown pension. There is no minimum or maximum limit on the amount that can be drawn as a pension payment from this fund.

Designation of funds to provide a flexi access drawdown pension post 75 is not a benefit crystallisation event and any pension payment will be taxed at the recipients marginal rate.

## Annuity

An annuity is an insurance company product which is used to pay a members or dependants/beneficiaries pension for the rest of their life and is purchased using a lump sum payment from a SIPP.

The option of purchasing an annuity is available at any time from uncrystallised or crystallised funds and regardless of age.

## Process

The scheme is written in Trust. This means that the benefits are paid at the discretion of the Scheme Trustee taking into account the deceased's wishes. We will review the information provided and determine all potential beneficiaries. Once we have determined the beneficiaries we will write to them confirming our decision and provide a Death Benefits Leaflet which gives a detailed explanation of death benefits available from the Scheme and a Payment of Benefits form for the beneficiaries to confirm how they wish to proceed.

We recommend you get guidance or advice to help you with your decision as to how to proceed. Pension Wise is a service set up by the government that offers free and impartial guidance. We have included a letter to you from the government explaining what the service offers.

We also recommend that you speak with your financial adviser to discuss your options before making any decisions. This is to make sure you are choosing the most suitable option to meet your future needs and that you are aware of the potential tax implications.

If you do not have a financial adviser please refer to the FCA's website for more information about finding one [www.fca.org.uk/consumers/finding-adviser](http://www.fca.org.uk/consumers/finding-adviser)

Step 1 - On receipt of your completed Death Benefits form

The Financial Conduct Authority (FCA) requires us to check whether you have taken pensions guidance from Pension Wise or advice from an FCA regulated financial adviser. If you have received advice your financial adviser will need to sign the declaration.

If you have taken pensions guidance from Pension Wise but have not taken financial advice you will continue to the next step. If you have taken advice from an FCA regulated financial adviser you will be able to move straight to Step 3: Payment of benefits.

If you have not taken pensions guidance or financial advice we will write to you again to explain how the decision to access the pension scheme is an important one and that you should use Pension Wise or take financial advice.

Step 2 - You have not taken financial advice

Even if you have taken pensions guidance from Pension Wise but have not taken financial advice the Financial Conduct Authority (FCA) requires us to make you aware of the risks and implications involved in accessing the pension scheme and so you will be required to answer a series of questions - either via

an online or paper based questionnaire. This is so that we can provide you with the appropriate risk warnings based on your decisions and circumstances.

Only once you have answered these questions and confirmed that you have read and understood the risk warnings can we proceed to the final step.

### Step 3 - Payment of benefits

Only upon receipt of all the documentation outlined above, will we then value the SIPP under HMRC guidelines before processing the payment of death benefits.

If any lump sum death benefit is to be paid we would either transfer the assets in specie or make a cash payment depending on how we have been instructed to proceed. If any tax charge is due to HMRC sufficient cash must be retained in the SIPP's bank account to settle the tax charge due to HMRC.

If any of the options chosen are benefit crystallisation events we will value the SIPP on the date that we receive all the documents required to be able to proceed. Legislation and regulations determine how assets should be valued for example properties must be independently valued by a surveyor and be dated within 6 months of the calculation. In addition some "esoteric" investments for example unlisted shares can be difficult to value but must be valued by an independent expert within 6 months of the calculation. In valuing some assets we are relying on the advice of professionals and there could be costs attached to obtaining these valuations which will be borne by the SIPP. Should HMRC challenge any of these valuations then any resulting tax consequences will be borne by you personally and/or the SIPP.

If a dependants/nominees/successors pension is selected payment will be made in accordance with your instructions which have been completed on the Death Benefits form.

If an annuity is to be purchased we will provide you with further paperwork to enable the annuity to be purchased.

### Reclaiming overpaid tax on death benefits

HMRC have provided three forms on their website to enable beneficiaries to reclaim any overpaid tax deducted <https://www.gov.uk/government/collections/income-tax-forms>

### Responsibility

The ability of the SIPP to pay the desired benefits is dependent on there being sufficient liquidity. It is your responsibility with the help of your Financial Adviser to ensure that arrangements are in place to have sufficient cash to meet these payments.

Changes to pension payment levels will be processed as soon as possible, but should DP Pensions Limited receive an instruction after the 20<sup>th</sup> of the month this will not be processed until the following month.

Cleared funds should be in the SIPP's bank account by the 20<sup>th</sup> of the month and if there are insufficient funds to cover an income payment this will not be processed until the following month.

Neither DP Pensions Ltd nor D A Phillips & Co Ltd are authorised to provide advice. If you need advice then you should contact your Financial Adviser.

## Notes

Note 1 – A nominee of the member means an individual nominated by the member or nominated by the scheme administrator who is not a dependant of the member.

Note 2 – A successor of the member means an individual nominated by a dependant of the member, nominated by a nominee of the member, nominated by a successor of the member or nominated by the scheme administrator.

Note 3 - A dependant is defined in Legislation as:

- i) The person was married to or was the civil partner of the member at the date of the member's death
- ii) He / she was a child of the member when the member died and the child either:
  - a) Has not reached the age of 23
  - b) Has reached the age of 23 and, in the opinion of the scheme administrator, was at the date of the member's death dependent on the member because of physical or mental impairment, or
- iii) He / she was neither married to, or the civil partner of, the member at the date of the member's death, nor a child of the member but, in the opinion of the scheme administrator, at the date of the member's death
  - a) Was financially dependent on the member, or
  - b) His / her financial relationship with the member was one of mutual dependence or
  - c) Was dependent on the member because of physical or mental impairment

Note 4 – 2 years beginning with the earlier day on which the scheme administrator first knew of the members death and the day on which the scheme administrator could first reasonably have been expected to have known of it.

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