

Impact of Budget 2024 IHT Changes on Pensions

Client Briefing

7th November 2024

A New Era of Estate Planning: Navigating the Impact of IHT Changes on Pensions

As announced in last week's Autumn Budget, the proposed changes to Inheritance Tax (IHT) rules for pensions, effective 2027, will significantly impact estate planning strategies. This briefing outlines the key implications and provides practical strategies to mitigate the potential tax burden.

Key Implications

1. Inclusion of Pension Funds in Estates:

- From April 2027, unused pension funds will no longer be able to be passed on free of IHT
- This will change the current mindset of - "I'll touch my pension last as it is outside of my estate"

2. Double Taxation Risk:

- Individuals over 75 may face double taxation if residual funds are subject to both IHT and income tax.

3. Spousal Exemption:

- The spousal exemption remains, but careful planning is needed to maximise its benefits.

Strategic Considerations

To mitigate the impact of these changes, consider the following strategies in order to diversify your estate planning:

1. Review Pension-Funding Objectives:

- Reassess the role of pensions in estate planning.
- Explore alternative strategies such as life insurance and/or additional spending and gifting and re-investment into IHT optimised investments.

2. Time Your Tax-Free Cash:

- Consider taking tax-free cash before age 75 to avoid potential double taxation.

3. Optimise Pension Drawdown:

- Strategically drawdown pension funds to minimise IHT exposure.
- Balance income needs with tax efficiency.
- Spend more!

4. Gift and Invest Wisely:

- Utilise gifting allowances and IHT-efficient investments.
- Be mindful of the 7-year rule for gifts.

5. Review Death Benefit Nominations and Bypass Trusts:

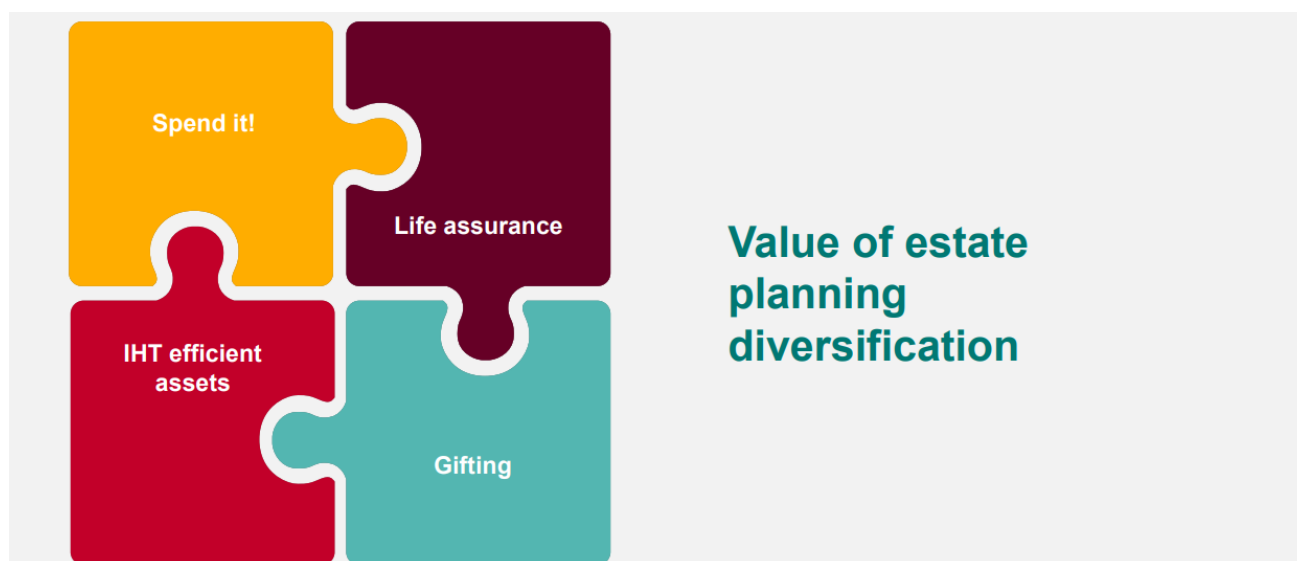
- Update death benefit nominations to maximise tax efficiency.
- Assess the effectiveness of bypass trusts in the new IHT landscape.

6. Leverage Life Insurance:

- A simple yet effective solution.
- Use life insurance to cover potential IHT liabilities. Ensures the “right people have the right amount and the right time”.
- Written in trust to benefit your loved ones. Policy proceeds are tax free.

A diversified estate planning strategy is key

There is no “one size fits all” solution to address the changing landscape of IHT and pensions. It is likely that a cocktail of some/all the above strategies will be suitable for you and your family.



Seeking Professional Advice (and avoiding “THE BIG MISTAKE”)

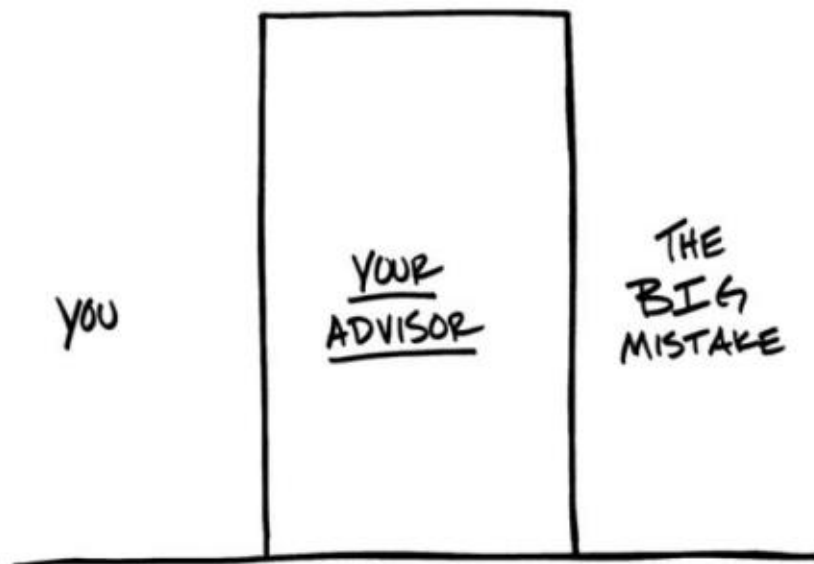
The Autumn Budget 2024 reinforces the importance of proactive professional advice. Given the complexity of these changes, it is crucial to seek personalised advice to help you develop a personalised strategy.

Professional Advice will:

- Assess your specific circumstances and identify potential risks.
- Develop a tailored estate plan that aligns with your financial goals.
- Monitor legislative changes and adjust your plan accordingly.
- Leverage sophisticated modelling tools to examine a series of scenarios and “what ifs”.

By taking proactive steps and seeking expert guidance, you can effectively navigate the new IHT landscape and protect your wealth for future generations.

We can't predict the future, nor the exact details of the changes afoot (yet.), however, we can begin to stress test your current situation based on various scenarios and advise you accordingly.



We urge you to tread carefully and not make any irreversible actions before any actual legislation is passed.

Lastly, we look forward to discussing your unique situation with you personally over the coming weeks.



0141 260 7200
admin@fdwealth.co.uk
www.fdwealth.co.uk

Suite A, 3rd Floor
133 Finnieston Street,
Glasgow, G3 8HB

FD Wealth Ltd is authorised and regulated
by the Financial Conduct Authority
(Registered in Scotland SC229215)

