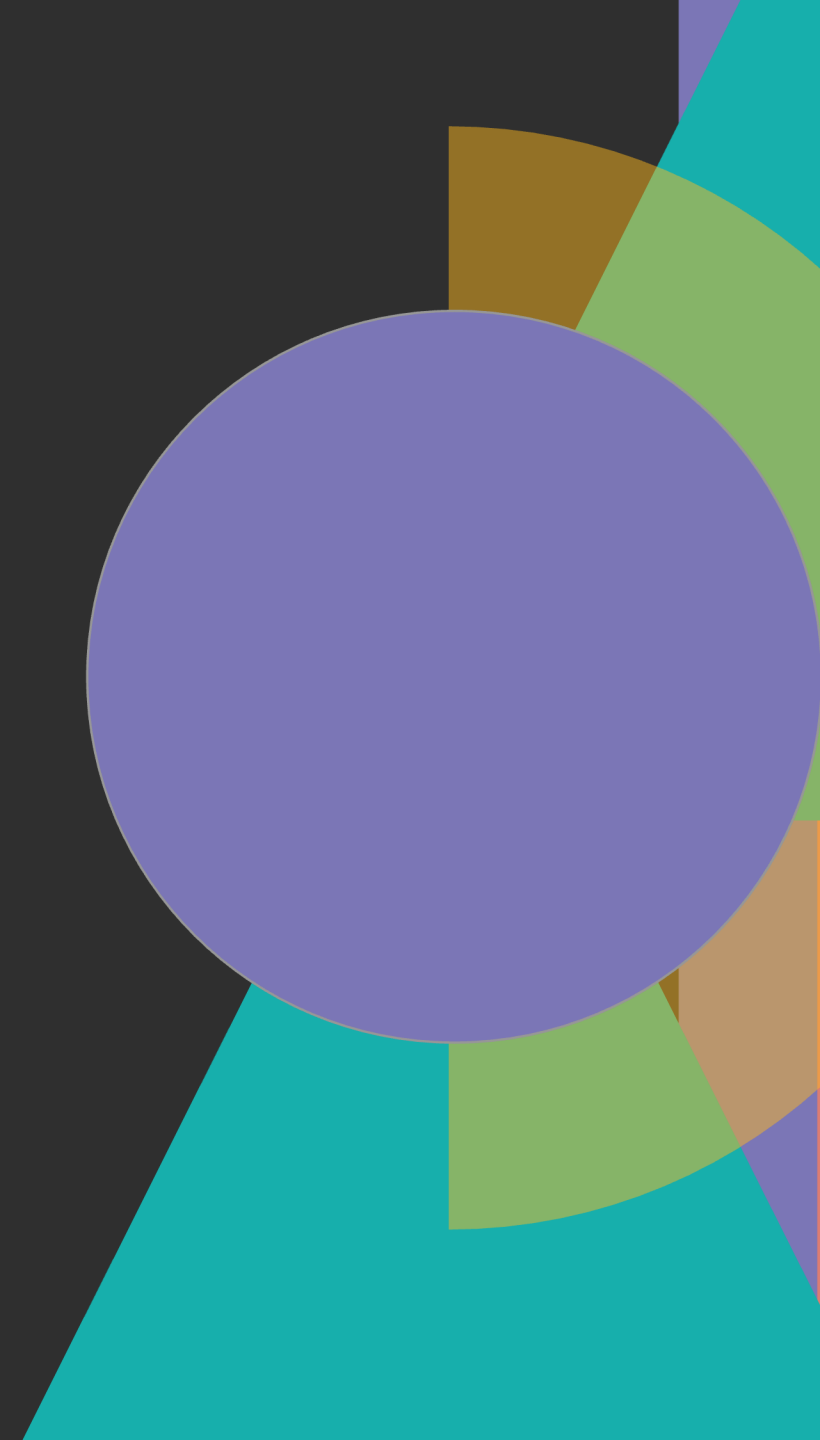


Death and Tax Wrappers

The tax and the practicalities

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice as of June 2022 all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients



Important Information

This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Barrie Dawson

Technical Manager



Learning Objectives

By the end of this session you will be able to describe the tax and distribution aspects on death of individuals holding:

OEICs

Pensions

Individual Savings
Accounts

Insurance Bonds
(Personally owned
& held in Trust)



Open-ended Investment Companies (GIA)

General Investment Account



Taxation:

- Capital gains
- Income tax
- Trusts & Estate return

Uplift on death :

- Gains die with owner

General Investment Account



Options:

- **Sell holding**
 - AEA available for tax year of death plus 2 further years
 - No gain / loss if IHT loss relief claimed
 - Gain is growth since death
 - Tax 20%
- **Transfer ownership**
 - No disposal
 - New owner picks up at date of death value.
- **Joint ownership**
 - Passes to survivor
 - Acquisition cost on 50% of holding rebased.

General Investment Account



- Allowances
 - No personal allowance for estate
 - No other allowances available
- Type
 - Interest – 20%
 - Dividend – 8.75%
 - Rental income – 20%
 - Exempt income e.g. premium bonds
- Reporting
 - Depends on income received.



Pensions

The big freedoms changes



TAXATION



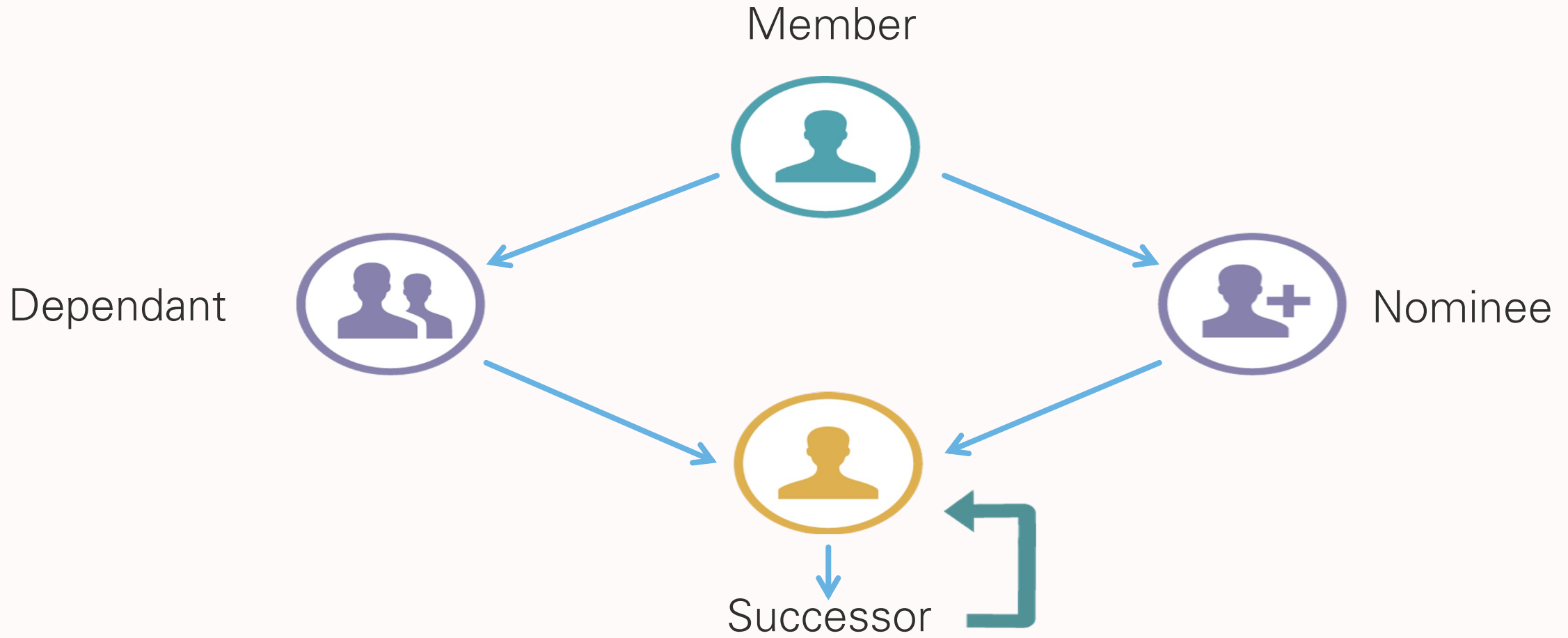
DISTRIBUTION

Death Benefits > LTA, <75 (incl Serious Ill Health)

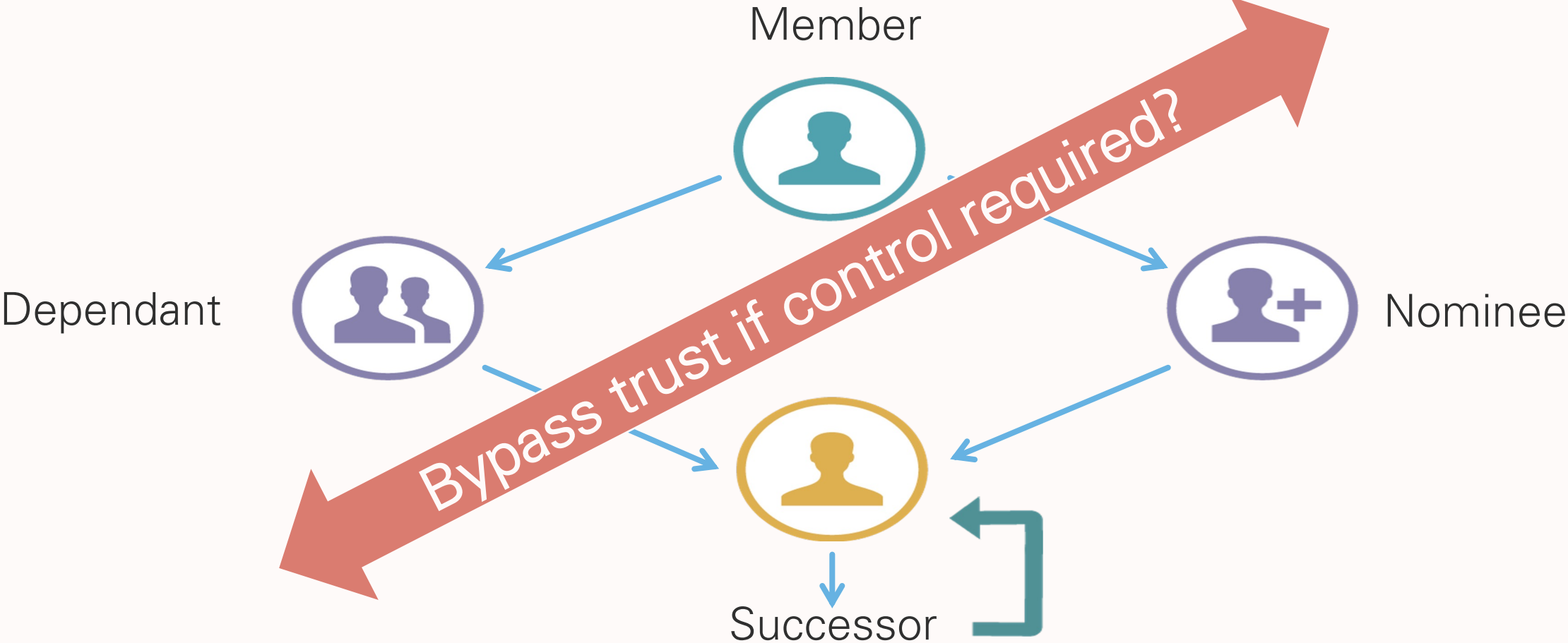
	2022/23		2023/24	
	LTA charge	Income Tax	LTA charge	Income Tax
Lump Sum	55%	N/A	0%	Marginal Rate
Income*	25%	Tax Free	0%	Tax Free

*DB income benefits - remain LTA free with taxed income

Death benefits distribution



Death benefits distribution



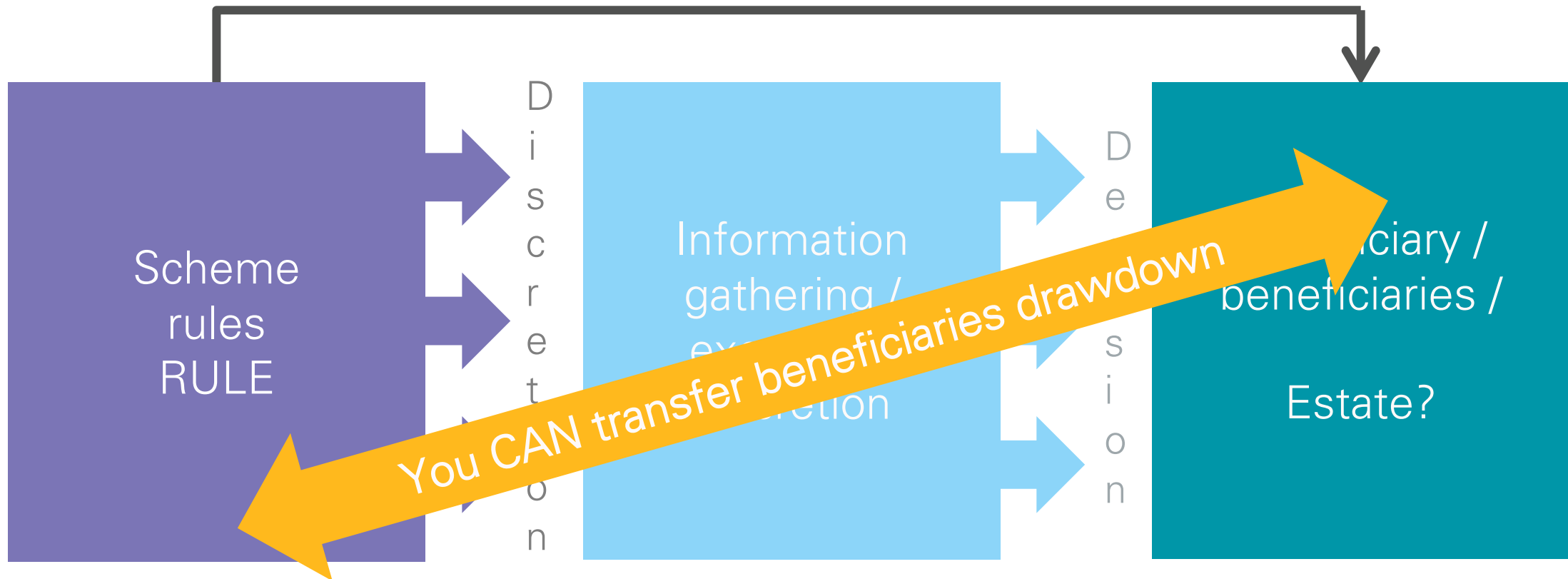
Distribution of Death Benefits

No discretion / binding nomination / plan terms



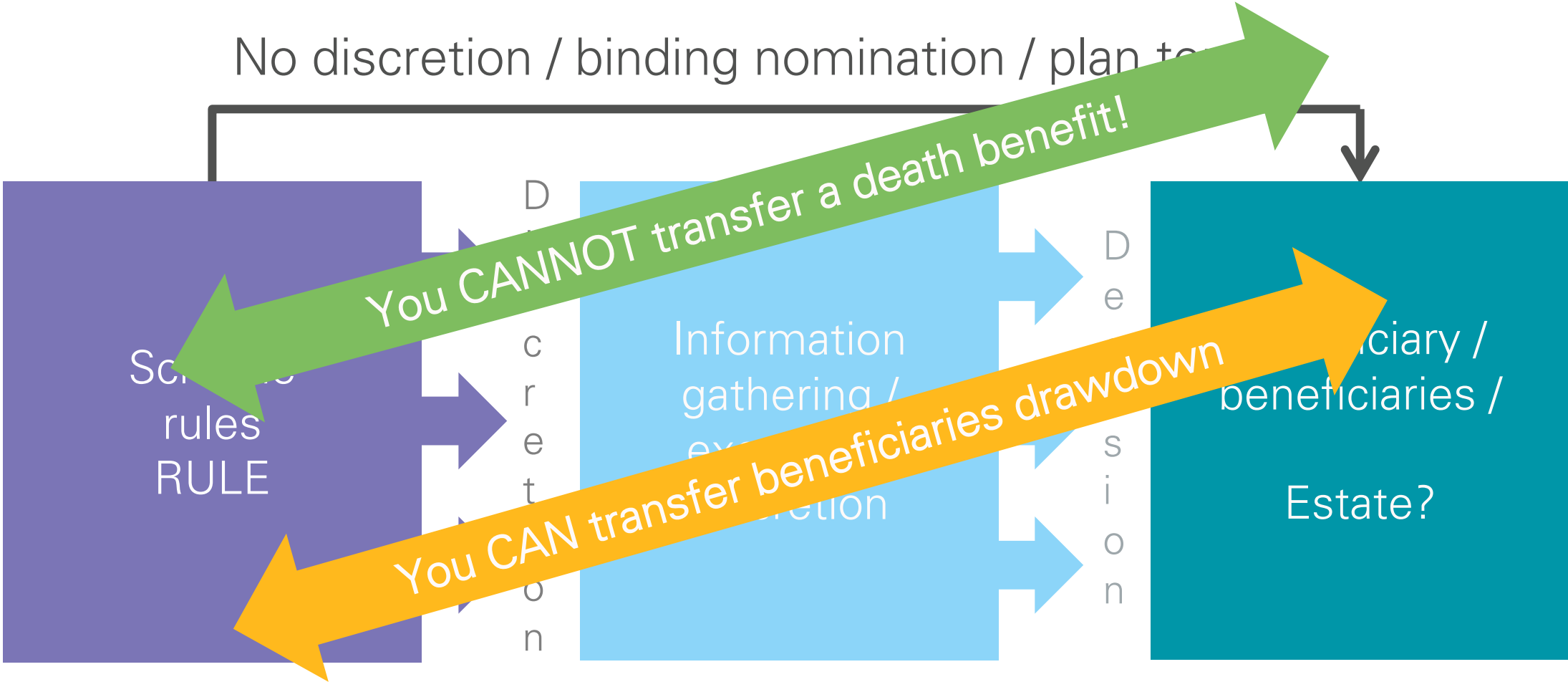
Distribution of Death Benefits

No discretion / binding nomination / plan terms



Distribution of Death Benefits

No discretion / binding nomination / plan to



Who can get what?

Assuming:

- the scheme rules allow discretion over payment of death benefits
- the individual's are in a class of beneficiaries allowed under the scheme rules

Dependant?	Nomination?	Payable
Yes	Yes	<ul style="list-style-type: none">• Income to dependant or nominee• Lump sum to anyone
No	Yes	<ul style="list-style-type: none">• Lump sum to nominee• Lump sum to anyone
Yes	No	<ul style="list-style-type: none">• Income to a dependant• Lump sum to anyone
No	No	<ul style="list-style-type: none">• Income to anyone• Lump sum to anyone

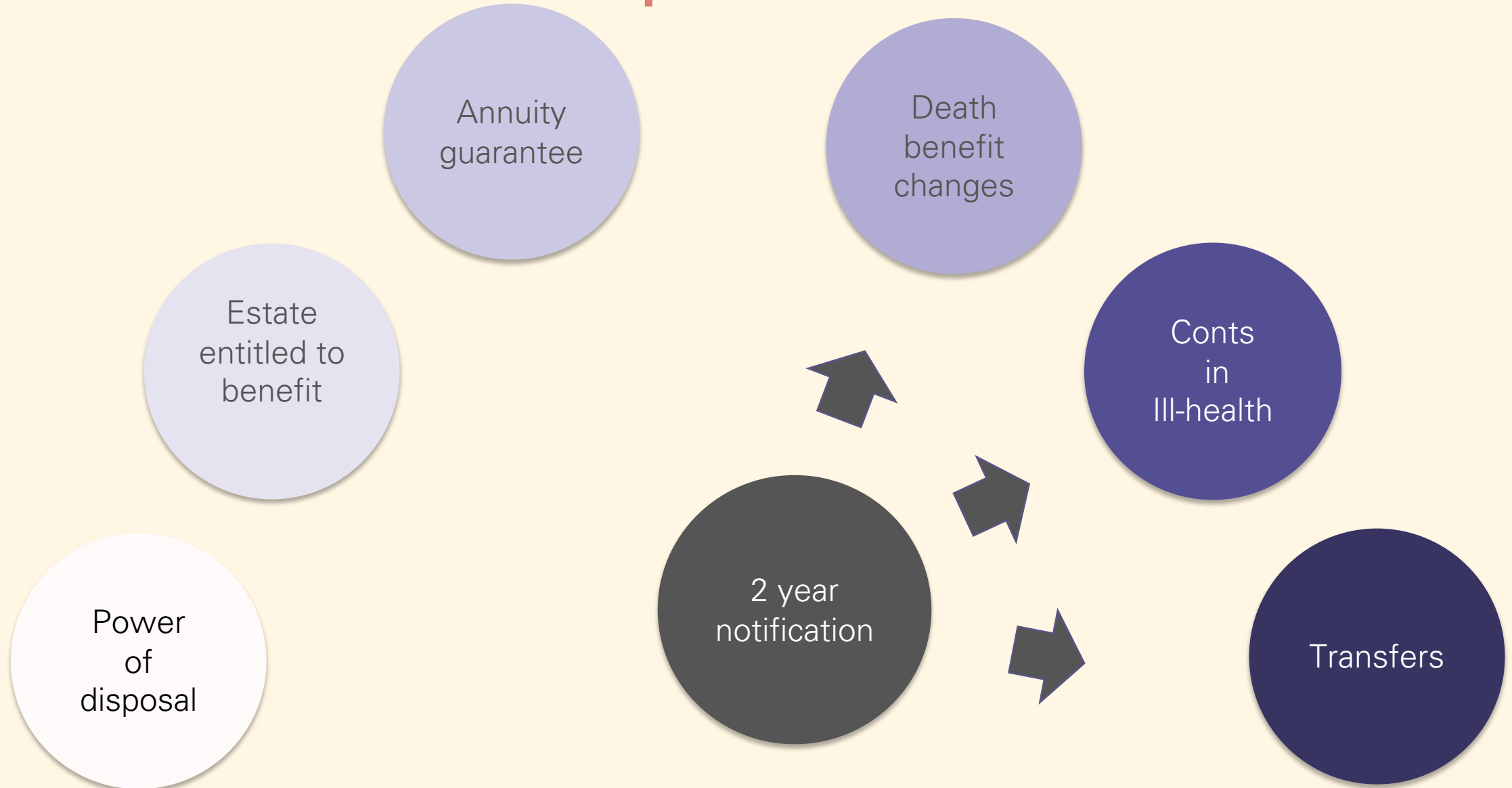
Pensions IHT impact

Annuity
guarantee

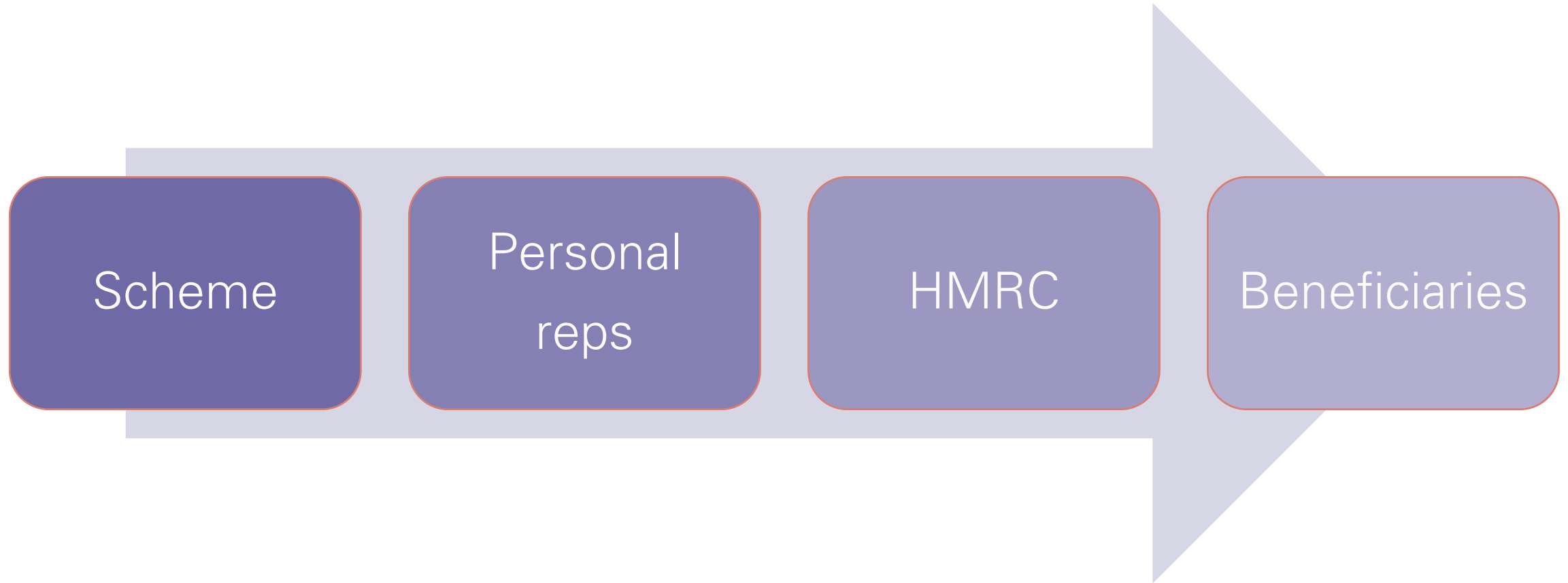
Estate
entitled to
benefit

Power
of
disposal

Pensions IHT impact



Death “admin”



Death – lump sums for minors (scheme discretion)

HMRC internal manual

TSEM 1563

Trusts, Settlements and Estates Manual

Example 2 - bare trust

The trustees of a pension scheme decide under their discretionary powers to grant the sum of £20,000 to the child of a deceased member of the pension scheme. Because the child is only 9 years old they decide to appoint trustees to administer the fund and protect the child's interests until she attains age 18 years. The terms of the appointment from the pension scheme were in favour of the child absolutely. This is a bare trust.

The income ought to be returned as the child's own income and not that of the trustees.

Death – lump sums for minors (scheme discretion)

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Trusts, Settlements and Estates Manual

Example 2 - bare trust

The trustees of a pension scheme decide under their discretionary powers to grant the sum of £20,000 to the child of a deceased member of the pension scheme. Because the child is only 9 years old they decide to appoint trustees to administer the fund and protect the child's interests until she attains age 18 years. The terms of the appointment from the pension scheme were in favour of the child absolutely. This is a bare trust.

The income ought to be returned as the child's own income and not that of the trustees.

- The scheme might require a formal trust deed to be drafted before releasing payment.
- If not, obtain written confirmation from the scheme to confirm the funds are being paid to X (legal guardian) to hold on bare trust for Y (the minor beneficiary)



Individual Savings Accounts

ISAs on death



Until sooner of:

- estate administration is complete, or
- ISA is closed, or
- three years from date of death

Investments:

- Life policies
- S&S

ISAs are NOT Inherited



ADDITIONAL
PERMITTED
SUBSCRIPTION

Eligibility:

- Available to spouse/civil partner
- Must have been living together
- Must not have been separated

Claim:

- Application to use APS with ISA provider
- ISA manager claims by contacting deceased's ISA manager for values

Valuation :

- Higher of:
 - Value at death
 - Value when closed

ISAs are NOT Inherited



ADDITIONAL
PERMITTED
SUBSCRIPTION

Contributions:

- Can be made to any ISA
- Cash or assets (or both)
- In-specie only allowed to deceased's ISA manager

Time limits:

- In-specie
 - 180 days from beneficial ownership
- Cash
 - 3 yrs from date of death, or
 - 180 days from estate closure, if later



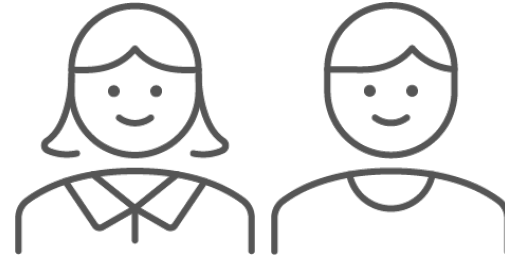
Insurance Bonds (personally owned)

Ownership



100%

Single Owner



100%

Joint Tenancy

Will / Intestacy*

Survivorship


Probate usually required

Probate not required

** Ownership normally passes to personal representatives initially*

Personal Bond - Who is liable?*


Is the owner(s) alive
when the chargeable event
occurs?



- Owner is assessed on the gain
- Top slicing relief may apply

Personal Bond - Who is liable?*


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No?

Has the owner's death caused
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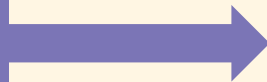
Has the owner's death caused the chargeable event?



- Owner is assessed on the gain
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No?

Have the personal representatives encashed the bond?



- Personal reps liable for basic rate tax
- No top slicing relief applies
- Estate beneficiaries receive "estate income"
- Assign instead?

*Assumes owner is UK resident

Case study

Mary's father Ted has recently died.

Ted was widowed and as an only child Mary is inheriting all his estate.

His estate includes an onshore bond that has continued as Ted had added Mary as a life assured when he set it up.

The executors are wondering whether to cash in the bond or assign it to Mary.

It is currently showing a gain of £69,000 and a slice of £11,500 (it been in force for 6 complete years).

Mary only has a salary of £30,000 and no other income.

What should be done?

Mary



Is inheriting a bond
(inter alia)

Estate cashes in



Estate cashes in

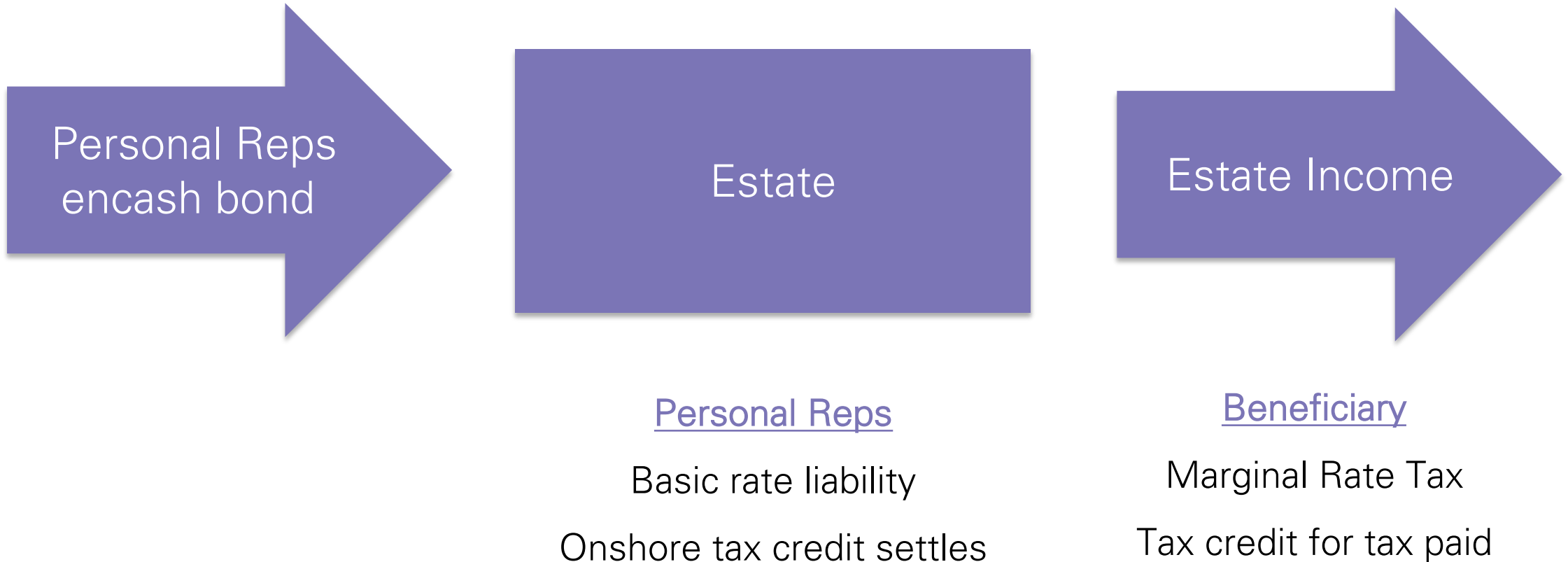


Personal Reps

Basic rate liability

Onshore tax credit settles

Estate cashes in



Mary – bond is assigned

	Amounts		Tax
Salary	£30,000		
Personal Allowance	<u>£12,570</u>		
Taxable income	£17,430		
Salary	£17,430 @ 20%		£3,486
Bond	£500 @ 0%	£0	
	£19,770 @20%	£3,954	
	£48,730 @ 40%	<u>£19,492</u>	<u>£23,446</u>
		Step 5 Total	£26,932
Tax credit	£69,000 @ 20%	£13,800	
Top slicing relief		<u>£9,646</u>	(£23,446)
		Tax liability	£3,486

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		Tax liability	£3,486

Mary – estate cashes in bond

	Amounts	Tax
Salary	£30,000	
Estate Income	<u>£69,000</u>	
Personal Allowance	<u>£12,570</u>	
Taxable income	£86,430	
Salary	£17,430 @ 20%	£3,486
Estate Income	£20,270 @ 20%	£4,054
Estate Income	£48,730 @ 40%	<u>£19,492</u>
	Total	£27,032
Tax credit from estate	£69,000 @ 20%	(£13,800)
	Tax liability	£13,232

Mary – estate cashes in bond

	Amounts	Tax
Salary	£30,000	
Estate Income	<u>£69,000</u>	
Personal Allowance	<u>£12,570</u>	
Taxable income	£86,430	
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Tax liability £3,486

Assign to Mary!

Mary – estate cashes in bond

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Salary	£30,000	
Estate Income	<u>£69,000</u>	
Personal Allowance	<u>£12,570</u>	
Taxable income	£80,430	
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	Total	£27,032
Tax credit from estate	£69,000 @ 20%	(£13,800)
	Tax liability	£13,232

Key point – top slicing not available if personal rep surrenders

Tax liability £3,486

Assign to Mary!



Insurance Bonds
(in Trust)

Chargeable Event Gains



Bare

Other

Bare Trusts

Chargeable event gains will be taxed on the beneficiary of a bare trust subject to two exceptions.

1. Parental settlements
2. Discounted Gift Trusts



Chargeable Event Gains – Who is liable?

Is settlor alive and UK resident?



- Settlor is assessed on the gain
- Top slicing relief may apply
- Statutory right of recovery

No? Then look to the trustees

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Is the trust UK resident?



- Trustees are assessed on the gain
- Trustee rates apply
- Top slicing relief does not apply

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No? Then look to the beneficiary

Is the beneficiary UK resident?



- If beneficiary is UK resident they will be assessed on the gain.

Discretionary Trust – Single Settlor

John takes out an investment bond and assigns it into a discretionary trust. Subsequently the bond is encashed when John is still alive and UK resident.

Who is taxable?

Settlor

Trustees

Beneficiaries

Discretionary Trust – Single Settlor

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Who is taxable?

Settlor



Trustees

Beneficiaries

Discretionary Trust – Single Settlor

Jo takes out an investment bond where she is the sole life assured. She assigns it into a discretionary trust but dies a few years later which triggers a chargeable event.

Who is taxable?

Settlor

Trustees

Beneficiaries

Discretionary Trust – Single Settlor

Jo takes out an investment bond where she is the sole life assured. She assigns it into a discretionary trust but dies a few years later which triggers a chargeable event.

Who is taxable?

Settlor



Trustees

Beneficiaries

Discretionary Trust – Single Settlor

Jack assigned his bond into a discretionary trust. He died 3 months ago but the bond continued as his son is the surviving life assured. The trustees want to surrender and distribute the trust fund.

Who is taxable?

Settlor

Trustees

Beneficiaries

Discretionary Trust – Single Settlor

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Who is taxable?

Settlor

Trustees

Beneficiaries ✓

Discretionary Trust – Joint Settlor

In 2010, Bill and Hilary jointly set up an investment bond under a discretionary trust. Bill dies one year later but the bond continues with Hilary as the surviving life assured. In 2021/22 the trustees encash the bond.

Who is taxable?

Settlor

Trustees

Beneficiaries

Discretionary Trust – Joint Settlor

In 2010, Bill and Hilary jointly set up an investment bond under a discretionary trust. Bill dies one year later but the bond continues with Hilary as the surviving life assured. In 2021/22 the trustees encash the bond.

Who is taxable?

Settlor ✓

Trustees ✓

Beneficiaries

Chargeable Event Gains – Taxed on trustees

Trustees of a discretionary trust crystallise an onshore bond gain of £100,000.
How much tax will they pay?

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How much tax will they pay?

	Bond Gain £	Tax Due £
Received	100,000	
Standard Rate Band	1,000 @ 20%	200
Trustee Rate	99,000 @ 45%	44,550
		44,750

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Onshore bond gains come with a 20% tax credit. Further 25% tax to pay

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No 45% tax credit for the beneficiary. The tax paid is not reclaimable.

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How much tax will they pay?

	Bond Gain £	Tax
Received		
Standard rate	1,000 @ 20%	200
Higher rate	99,000 @ 45%	44,550
		44,750

Standard rate band won't apply from 6 April 2024



Onshore bond gains come with a 20% tax credit. Further 25% tax to pay



No 45% tax credit for the beneficiary. The tax paid is not reclaimable.

Gift Trust – distribution/admin

Absolute



- Trust doesn't end on settlors death
- Beneficiaries have access at age 18

Gift Trust – distribution/admin

Absolute



- Trust doesn't end on settlors death
- Beneficiaries have access at age 18

Discretionary



- Trust doesn't end on settlors death
- Trustees have control/flexibility
- Did the settlor leave a letter of wishes?

Loan Trust – distribution/admin

Absolute



- Trust doesn't end on settlors death
- If joint settlor outstanding loan payable to surviving settlor.
- If last settlor has died trustees need to cancel withdrawals
- If the last settlor has died does the loan need to be repaid to estate or has it been waived to form part of the trust fund?
- Beneficiaries have access at age 18

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- Did the settlor leave a letter of wishes?

Discounted Gift Trust – distribution/admin

Absolute



- Trust doesn't end on settlors death
- If joint settlor the capital payments need to be maintained to surviving settlor.
- If last settlor has died trustees need to cancel withdrawals
- Beneficiaries have access at age 18

Discounted Gift Trust – distribution/admin

Absolute



- Trust doesn't end on settlors death
- If joint settlor the capital payments need to be maintained to surviving settlor.
- If last settlor has died trustees need to cancel withdrawals
- Beneficiaries have access at age 18

Discretionary



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- If joint settlor the capital payments need to be maintained to surviving settlor.
- If last settlor has died trustees need to cancel withdrawals
- Trustees have control/flexibility
- Did the settlor leave a letter of wishes?

Trusts admin – Trust Registration Service

Closing a trust

You must use the online service to update the trust register and 'close' the trust if you have registered it to comply with anti-money laundering regulations.

You'll need to confirm that the details on the trust register are up to date and tell us the date the trust ended. Do not write to HMRC to tell us that the trust has come to an end.

You should use the online service to update the trust register and 'close' the trust if you have registered it purely to get a Unique Taxpayer Reference (UTR) to fill in a Self Assessment trust tax return.

You may need to submit a tax return for the year in which the trust ended.

Learning Objectives

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Individual Savings
Accounts

Insurance Bonds
(Personally owned
& held in Trust)



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