

Article

Clear need for change

25th May 2009

On the 9th March 2009 A J Bell wrote open letters to the Chancellor of the Exchequer and the Shadow Chancellor. One of the aims of this was to explore the arguments for change on the taxation treatment of residual ASP funds on death.

A simple client scenario can only add to the existing well-established arguments. On the 1 October 2007 the FTSE 100 closed at 6,506.20. On the 18th May 2009 it closed at 4,446.45 a fall of almost 32%. The majority of clients invested in Unsecured Pension (USP) who are considering ASP will have some element of stock market exposure.

The yield applying to the Government Actuary's Department's (GAD's) rates on 1 October 2007 was 4.75%. Based on this, a male-aged 75 entering ASP would have received £102 income for every £1,000 of pension fund. The gilt yield that applied from the 1 April 2009 fell to 3.25%. This means that a 75 year old male would now receive £92 per £1,000 of fund, a fall in potential income of 10%.

So the net affect of a falling fund value and gilt yield is a reduced expectation of income beyond age 75. For anyone in this position and facing this dilemma, a natural question is what happens to the residual fund?

Well as we know any client opting for ASP will be faced with the prospect on death of a charge to tax on the residual fund of 82%. The four different tax charges making up the 82% tax charge are the unauthorised payments charge, the unauthorised payments surcharge, the scheme sanction charge and inheritance tax.

The Government has what appears to be an irrational fear that unless you have a penal tax rate, pension savers will use their pension schemes as an inheritance tax avoidance scheme. Funds in excess of the lifetime allowance are taxed at 55% and lump sum death benefits at ages younger than 75 are taxed at either 0% or 35%.

The current economic conditions have reduced the net wealth of all savers. A tax charge of 55% on lump sum death benefits under ASP would be fairer, more appropriate in the current conditions and would certainly not be open to abuse. A survey of over 300 advisers showed that almost 98% agreed with us, evidence if any was needed of a case for continuing to highlight the clear need for change.

END

Please note this document is intended for trade and national press individuals.

Notes for Editors

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