How might a reduction in tax on death benefits benefit you?

I wrote how I embraced the new flexibilities that are proposed to be afforded to pensioners in April 2015. Today saw a publication from gov.uk on the abolition of 55% tax charges on pension funds on death. The headlines are:

- The current effective penalty on funds from which an income and/or lump sum ("crystallised" benefits) will go. There will be no tax charge before the age of 75 irrespective who receives the benefit
- Age 75 remains a cliff-edge, but the tax charge will reduce from the current 55% to 45% on lump sum death benefits. Income can provided to any individual, less their marginal rate
- The change is budgeted to cost £150m in the first year of implementation
- Tax-free lump sum at outset of the taking benefits (25%) will continue to be available in the same way it has been to today

A couple of observations and queries on these new rules:

- Once a pension fund pays out a lump sum death benefit, the link with a pension fund has historically been broken. Inheritance tax can then occur on **second** death
- There is no comment on how it will effect non-trust based pension plans. These are principally older contracts between insurers and customers, for example so called 'retirement annuity contracts' taken out by many self-employed individuals
- Trusts could potentially receive death benefits, thus avoiding further taxation, potentially for many years, though rules are changing to increase taxation on many new trusts formed after 6th June 2014
- What will be the effect on those who have died recently and claims have not been settled?
- Would two 'income' payments be taxed at the beneficiaries marginal rate, which may well be lower than the 45% lump sum death benefit charge post 75

The Autumn statement will bring more detail no doubt, and the above is guidance only at this stage.