CASE STUDY
SUCCESSION PLANNING

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Two clients pass away, and their children explore their options for inheriting the properties within the plans.

The Challenges

Elias, 76, and Rita, 72, were former business partners. Their business is now run by Elias's daughter Ada, and Rita's children Lucas and Imogen. Elias and Rita both recently passed away in quick succession, each with their children named as the beneficiaries of their Curtis Banks Your Future SIPPs. Each still held one of the business's properties in their SIPPs.

Rita's SIPP held a property worth £500,000 and a few hundred pounds in cash. Elias's SIPP held a property worth £300,000, approximately £90,000 of other assets and £10,000 in cash. Both SIPPs were fully crystallised.

Ada, Lucas and Imogen all have relatively modest pension provisions of their own. Their business is performing well and they are keen to keep the properties in their ownership. They arrange a meeting with their financial adviser Arjun to discuss their options.

The Actions

First, Arjun gives an overview of the group's situation and options. He explains that the SIPPs are outside Rita and Elias's estates, and therefore won't be included in any inheritance tax calculations. He also explains that Curtis Banks offers beneficiaries' drawdown, so each beneficiary can choose between that or a lump sum payment. He then looks at each case in turn.

Rita's expression of wishes asked to split her plan 50/50 between Lucas and Imogen, and Curtis Banks has decided to follow the expression of wishes. Both Lucas and Imogen are keen to keep their share within a pension. Arjun explains that Curtis Banks will establish a drawdown account for each of them, and can allocate 50% of the property ownership to each plan. Going forward, each plan will pay 50% of the property fees and receive 50% of the rental income.

Arjun then explains that as Rita died before age 75, any income Lucas or Imogen withdraw should be free of income tax. Lucas and Imogen can take tax free income from any surplus which builds up, although they need to be careful to leave enough liquidity for fees and other expenses which may arise.

Ada is less familiar with the idea of holding a property within a pension, and thinks she would prefer to take the second property out of her father's plan as a lump sum and own it personally. However, Arjun explains that this might not be the best option for her, and may not be possible.

Arjun says that as Elias was 76 when he died, the death benefits paid to Ada will be subject to income tax. As she is already a higher rate tax payer at the upper end of the band, most of the £400,000 would be subject to 45% tax.

Curtis Banks must pay this tax charge to HMRC before distributing the benefits, so the SIPP would need almost £180,000 in cash in order to pay the remainder as a lump sum.

Ada asks if she could purchase the property from the SIPP herself. Arjun explains that this would be possible, but as Ada does not have the money available, she would have to borrow in order to do so. She could then take the pension as a lump sum, but after tax there would not be enough cash left to pay off the whole loan.

Arjun explains that if Ada leaves the property in a drawdown account, she does not have to pay any tax up front: she will only pay tax on income she chooses to withdraw. The property will also benefit from the same tax advantages that applied to Elias's pension: the SIPP will receive rent tax free, the property is outside her estate for inheritance tax purposes, and if she chooses to sell the property in the future she won't pay capital gains tax on any profit.

The Results

Ada, Lucas and Imogen all decide to keep their inherited funds within Curtis Banks Your Future SIPPs and hold the properties within them. This allows them all to keep the properties in a tax efficient environment, and allows Ada to minimise the tax she might pay on the inherited funds.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

Contact Details

If you'd like to speak to us about anything in this case study, please contact us on:

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We may record and monitor calls. Call charges will vary.

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Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.