

## CASE STUDY

# CHARITY LUMP SUM DEATH BENEFITS

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***This case study is part of the Jones family series. Information about the family and further case studies can be found on our website, [www.curtisbanks.co.uk](http://www.curtisbanks.co.uk). All characters in the Jones family are fictional and intended for demonstrative purposes only.***

### The Challenges

Steve Jones (61) wants to update his expression of wishes. More accurately - he wants to complete one for the first time. With no spouse or children to consider, it's something he's always been quite careless about. He's aware that his pension scheme administrator has discretion over the death benefits and thought that in the unlikely event that something happened to him at a young age, his brother Fred would help the administrator sort everything out.

However, having just witnessed the difficulties the family have been through following Fred's wife Margaret passing away with no expression of wishes in place, Steve feels as though he hasn't acted very responsibly and doesn't want to cause his brother to have to go through the same thing again should something happen to him. Steve decides to think more carefully about his wishes.

### The Actions

Steve decides that he won't leave anything to Fred, who is already financially comfortable and wouldn't be expecting anything. Steve knows that Fred would say it was pointless to leave him anything when it would be most likely be passed on again on his death before he could spend it.

Steve knows that his niece and nephew (Julia and Dan), great-nieces (Flo and Paula) and great-nephew (Alfie) are also either financially comfortable or will be well-looked after by Fred,

but he would still like to leave them something as they are his only family.

However, Steve decides that he would like to leave the majority of his wealth to charity. He's heard conflicting information about how death benefits are taxed when paid to a charity; he thought he'd read before that such benefits were always tax free, but has seen other sources suggesting that this isn't always the case. He calls his wealth manager Isla for clarification. Isla wants to double check her understanding before confirming to Steve and arranges to call Steve back after she's spoken to her pension contacts.

Isla confirms to Steve that the confusion stems from the fact that when death benefits are paid to a charity, there are two possible scenarios:

- It is a 'charity lump sum death benefit' being paid
- It is a normal lump sum death benefit being paid, which just happens to be going to a charity.

The taxation depends on which type of benefit is actually being paid.

Isla explains that a 'charity lump sum death benefit' has to meet a specific set of rules. It can only be paid if the deceased pension scheme member had no dependants, and if the charity had been nominated by the member on his or her expressions of wishes. Where the conditions are

met, the lump sum will be free of tax regardless of other circumstances, such as the member's age when they died. Additionally, a charity lump sum death benefit is not tested against the lifetime allowance.

If the conditions for a charity lump sum death benefit can't be met, a normal lump sum death benefit can still be paid to a charity. It is then subject to all the normal taxation rules for death benefits. Therefore it will be tax free if the individual died before age 75 and the funds are distributed within two years (subject to a test against the deceased's lifetime allowance); otherwise it will be taxable. When taxable death benefits are paid to individuals, they are taxed at the recipient's marginal rate of income tax. In the case of a charity, there would be a flat tax charge of 45%.

### **The Results**

Steve's relieved that he decided to act and check the rules with Isla. Although he doesn't have any dependants, if Steve had died without making an expression of wishes in favour of his chosen charities he would not have met the second condition for a charity lump sum death benefit, and could have risked losing some of the money to tax unnecessarily.

Steve completes an expression of wishes leaving a set sum of money each to Dan, Julia, Flo, Paula, and Alfie, and asks for the rest to be split between a selection of charities. Although Steve is in good health and hopes that it is many years before the expression of wishes is needed, he is reassured to finally have one in place.

### **Contact Details**

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

**T 01473 296 950**

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

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