



DEATH LUMP SUMS: DEFINED CONTRIBUTION SCHEMES

What is a defined contribution lump sum death benefit?

This type of lump sum can only be paid from a defined contribution scheme or a cash balance arrangement. It is paid from funds that have not yet been put into payment (sometimes called 'uncrystallised').

When can a defined contribution lump sum death benefit be paid?

If the member died on or after 6 April 2011 a defined contribution lump sum death benefit can be paid whatever the age of the member when they died.

If the member died before they were 75 the defined contribution lump sum death benefit must be paid within two years of the earlier of the following dates:

- The date the pension scheme administrator first knew of the member's death, **or**
- The date the scheme administrator could reasonably have been expected to know of the member's death.

If the member died age 75 or over there is no two year time limit on making the payment of an uncrystallised funds lump sum death benefit.

Who can receive a defined contribution lump sum death benefit?

The tax rules do not set any conditions on who can be paid this type of lump sum. However the rules of your pension scheme may set limits on to whom it will pay this type of benefit.

How much can be paid as a defined contribution lump sum death benefit?

The amount of uncrystallised funds lump sum death benefit paid must be no more than the value of the uncrystallised funds (i.e. the funds that have not yet been put into payment), that were held in the arrangement when the member died, at the point of the lump sum payment. So any growth of those uncrystallised funds up to the point of payment may be covered in the payment.

If the member was aged 75 or over when they died the uncrystallised funds lump sum death benefit is not tested against the lifetime allowance.

How is an uncrystallised funds lump sum death benefit taxed?

It depends on how old the member was when they died.

If the member was under 75 when they died this lump sum will be tax free unless the lifetime allowance charge is payable (see below).

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If the member was aged 75 or more the lump sum will be taxed at 55 per cent. So if a £100,000 lump sum is payable the amount of tax due is £55,000. This tax charge is called the special lump sum death benefits charge. The scheme administrator is responsible for paying this tax.

If an uncrystallised funds lump sum death benefit is paid in respect of a member who died aged 75 or over who is responsible for paying the tax due?

The special lump sum death benefits charge is due on an uncrystallised funds lump sum death benefit paid in respect of a member who died aged 75 or over. The rate of the special lump sum death benefits charge is 55 per cent. The scheme administrator is responsible for paying this tax charge. The person who received the lump sum is not liable to this tax charge. The scheme administrator can deduct the tax due before paying the lump sum.

Is an uncrystallised funds lump sum death benefit tested against the lifetime allowance?

It depends on how old the member was when they died.

If the member was aged under 75 when they died, the lump sum will be tested against the lifetime allowance. If the total benefits taken in respect of the member are more than their lifetime allowance, the excess is liable to the lifetime allowance charge. The tax rate of the lifetime allowance charge will be 55 per cent. The lifetime allowance is £1.8 million. It is reducing to £1.5 million on 6 April 2012.

Is Inheritance Tax due on payment of an uncrystallised funds lump sum death benefit?

Inheritance Tax will not normally apply. All the Inheritance Tax charges that arose before 6 April 2011 on pension funds left over on death, no longer apply. Similarly, the Inheritance Tax charges that were due when a person chose not to take any benefits from their scheme no longer apply.

About Us

The Pensions Advisory Service has been providing help and guidance to members of the public on pension matters since 1983 either by telephone or written advice. We can also help people who have a pension complaint or dispute.

Our service is free and sustained by a nationwide network of volunteer advisers, who are supported and augmented by technical and administrative staff based in our London office.

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