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FACTSHEET

Funding your golden years

Tax aspects require careful planning after recent government changes

Pensions have the reputation of being confusing, but they needn't be. Private pensions are usually used by people who don't have access to a workplace pension scheme, but you can also have one if you are employed or not working.

They work in much the same way as workplace pension schemes, but you, rather than an employer, are responsible for choosing the provider and setting up your plan.

When you pay into a pension, you receive tax relief on any contributions you make. People may turn to private pensions as a tax-effective way to bolster their retirement income. There are several different types of private pension to choose from, but in light of recent government changes, the tax aspects require careful planning.

AS MANY SCHEMES AS YOU LIKE

The term 'private pension' covers both workplace pensions and personal pensions. The UK Government currently places no restrictions on the number of different pension schemes you can be a member of.

So, even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident between the ages of 18 and 75 can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot.

TAX RELIEF ON PENSION CONTRIBUTIONS

Private pensions are designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions. In the 2018/19 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum.

The current pension tax relief rates are:

- Basic-rate taxpayers will receive 20% tax relief on pension contributions
- Higher-rate taxpayers also receive 20% tax relief, but they can claim back up to an additional 20% through their tax return
- Additional-rate taxpayers again pay 20% tax relief, but they can claim back up to a further 25% through their tax return
- Non-taxpayers receive basic-rate tax relief, but the maximum payment they can make is £2,880, to which the Government adds £720 in tax relief, making a total gross contribution of £3,600

If you are a Scottish taxpayer, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

ANNUAL ALLOWANCES CAN VARY

- The annual allowance is the maximum amount that you can contribute to your pension each year while still receiving tax relief. The current annual allowance is capped at £40,000, but may be lower depending on your personal circumstances
- In April 2016, the Government introduced the tapered annual allowance for high earners, which states that for every £2 of income earned above £150,000 each year, £1 of annual allowance will be forfeited. The maximum reduction will, however, be £30,000 – taking the highest earners' annual allowance down to £10,000

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Any contributions over the annual allowance won't be eligible for tax relief, and you will need to pay an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000.

It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years.

- If you have accessed any of your pensions, you can only pay a maximum of £4,000 into any un-accessed pension(s) you have. This is called the 'Money Purchase Annual Allowance' (or MPAA). The MPAA applies only if you have accessed one of your pensions

LIFETIME ALLOWANCES HAVE SHRUNK

The lifetime allowance (LTA) is the maximum amount of pension benefit that can be drawn without incurring an additional tax charge. Since 6 April 2018, the lifetime allowance is £1,030,000.

Your pension provider will be able to help you determine how much of your LTA you have already used up. This is important because exceeding the LTA will result in a charge of 55% on any lump sum and 25% on any other pension income such as cash withdrawals. This charge will usually be deducted by your pension provider when you access your pension.

IT'S POSSIBLE TO PROTECT YOUR PENSION

It's easier than you think to exceed the LTA, especially if you have been diligent about building up your pension pot. If you are concerned about exceeding your LTA, or have already done so, you should talk to us.

It may be that we can apply for pension protection for you. This could enable you to retain a larger LTA and keep paying into your pension – depending on which form of protection you are eligible for:

- **Individual protection 2016 –** this protects your lifetime allowance to the lower of the value of your pension(s) at 5 April 2016 and/or £1.25 million. You can keep building up your pension with this type of protection, but you must pay tax on money taken from your pension(s) that exceed your protected lifetime allowance
- **Fixed protection 2016 –** this fixes your lifetime allowance at £1.25 million. You can only apply for this if you haven't made any pension contributions after 5 April

OTHER WAYS TO SAVE

In addition to pension protection, if you have reached your LTA (or are close to doing so), it may also be worth considering other tax-effective vehicles for retirement savings, such as Individual Savings Accounts (ISAs). In the current tax year, individuals can invest up to £20,000 into an ISA.

The Lifetime ISA, launched in April 2017, is open to UK residents aged 18–40 and enables younger savers to invest up to £4,000 a year tax-free – and any savings you put into the ISA before your 50th birthday will receive an added 25% bonus from the Government. After your 60th birthday, you can take out all the savings tax-free, making this an interesting alternative for those saving for retirement.

PASSING ON YOUR PENSION

Finally, it is worth noting that there will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 and before you take anything from your pension pot – as long as the total assets are less than the LTA. If you die aged 75 or older, the beneficiary will typically be taxed at their marginal rate.

PLANNING A PROSPEROUS AND SATISFYING RETIREMENT

Whether you are leaving work, handing over the reins of a business or looking to enjoy the next chapter of your life, we'll help you have a prosperous and satisfying retirement. To find out more, please contact us.