



# Retirement matters

Time to make smart year-end decisions

Time is ticking away to make smart year-end retirement planning decisions. It's common knowledge that increasing our retirement savings will better prepare us for retirement. But in addition to saving for retirement, it's also important to maximise on other ways to improve our retirement finances in 2016 and beyond. We've provided some year-end retirement planning tips that, if appropriate to your particular situation, you may want to investigate further.

## PENSION PLANNING PROVISION

Tax relief on pension contributions will be restricted for higher earners from 6 April 2016. However, transitional rules have been introduced for 2015/16 which give a wider group of taxpayers the opportunity to make extra pension contributions and claim full tax relief.

The annual contribution limit for an individual (the total of personal contributions and those made by an employer) is £40,000 for pension input periods (PIPs) ending after 5 April 2014. For personal contributions to personal pensions (even those to a 'group' personal pension), basic-rate tax relief is given at source, and higher- or additional-rate taxpayers must claim additional relief through their tax returns: the total subsidy can be up to 45p in every pound paid into your pension pot. Personal contributions to occupational pension schemes are often made via the 'net pay' method, where full tax relief is given up front and no tax reclaim is necessary.

While the transitional rules are complex, they are also generous: everyone will have two mini tax years for 2015/16, one ending on 8 July 2015, the second ending on 5 April 2016, and a total annual allowance of up to £80,000 for the year. The £80,000 limit is first used against contributions made during any PIPs ending in the period 6 April to 8 July 2015. Any unused balance up to a maximum of £40,000 is carried forward to use in the period 9 July 2015 to 5 April 2016. Unused allowances in 2012/13, 2013/14 and 2014/15 are also available for carry forward into 2015/16. However, you must have been a

member of a registered pension scheme in the tax year giving rise to the unused relief.

Maximising contributions in 2015/16 will be advantageous for individuals with an annual income in excess of £150,000, as their tax relief for contributions in future years will be restricted. Depending on your past contribution pattern and current income level, it is theoretically possible to contribute up to £220,000 for 2015/16 and obtain tax relief on the whole sum. It is important to take advice from a professional financial adviser on contribution levels because if the total contributions you make, or that are made on your behalf, exceed your available allowance (including any unused relief brought forward), a tax charge will arise.

## LARGER PENSION POTS

Although funds invested within a pension can grow tax-free, there is a limit (the lifetime allowance) on the total amount you can hold in pension pots, with funds in excess of the limit being subject to penalty tax charges when you take pension benefits that exceed the limit.

The lifetime allowance reduced from £1.5 million to £1.25 million from 6 April 2014. However, affected individuals can now elect for 'individual protection 2014' (IP14) to preserve their individual lifetime allowance at the lower of £1.5 million and the actual value of their pension fund at 5 April 2014 (the standard lifetime allowance will apply if it becomes greater than the IP14 figure). The option to make the IP14 election will end on 5 April 2017.

If the total of all your pension funds is likely to be at or near £1.25 million by the time you retire, you should seek immediate professional financial advice on whether opting for IP14 is appropriate. To be eligible for IP14, total pension benefits must have exceeded £1.25m on 5 April 2014. The lifetime allowance will reduce further to £1 million for 2016/17, and a similar protection option will be available.

Individual Protection is also available to individuals with enhanced protection and fixed protection (FP12 or FP14). In all cases where the individual has enhanced protection, FP12 or FP14, this will take precedence over Individual Protection, with Individual Protection being the fall-back position should the other form of protection be lost.

## PENSION DRAWDOWN

If you are aged 55 or over, you may be able to start drawing pension benefits now from a personal pension, even if you are still working. Members of defined benefit schemes are likely to face more restrictions and charges if a pension is taken early.

It may not even be necessary to start taking a full pension income immediately. For example, it may be possible if appropriate to just take your tax-free cash entitlement (entirely or in part) and designate funds for income drawdown. Once all your tax-free cash is taken, further drawings are liable to tax at your marginal rate and will trigger the money purchase annual allowance (MPAA), so a phased approach is likely to be most tax-efficient.

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Alternatively, you can take an 'uncrystallised funds pension lump sum' (25% of which is tax-free with the rest taxed at your marginal rate) if appropriate – either the whole fund or a series of payments if the product allows – but this may not be the best option if you or an employer may make contributions to your pension fund at a later date. Most individuals with a defined contribution pension can also now take their whole pension fund via flexi-access drawdown (in one lump sum if appropriate). Funds taken this way above the usual 25% tax-free cash entitlement will be taxed at the individual's marginal rate of tax for the year.

Anyone who is entitled to flexi-access drawdown and who is considering retiring overseas should seek professional financial advice on the potential tax savings of taking such income while outside the UK tax net.

Individuals in defined benefit (final salary schemes) may not have these flexible options and may want to consider switching out of their current scheme and into a personal pension to achieve this flexibility. However, depending on the terms of the particular defined benefit scheme concerned, the cost of such a switch could be prohibitive. Anyone considering this issue is

required by law to prove that they have taken financial advice from an independent financial adviser before such a transfer can take place (if the transfer value is £30k or more).

### TAX-FREE PENSION CONTRIBUTIONS

For employees, particularly those paying basic-rate tax, pension contributions made by your employer are tax-efficient, as there is no tax to pay on this benefit and the employer can claim a business tax deduction. If you own the company, this can be a tax-efficient way to extract value.

It is often worth setting up arrangements where employees exchange some of their salary in return for a larger pension contribution made by the employer. This saves on National Insurance Contributions that would have been paid by both employer and employee, and the savings can be passed on as higher pension contributions. However, for 2016/17 and later years, this may not be effective for high earners. With regards to pension contributions made on their behalf by employers as a result of salary sacrifice arrangements started after 8 July 2015, the income sacrificed will be added back on as part of threshold income to establish whether threshold income exceeds £110,000. Tax relief on personal contributions is restricted if threshold

income exceeds £110,000 and adjusted income exceeds £150,000.

### TIME TO REVIEW YOUR SITUATION?

To make sure you have the right plans in place, or to review your situation, please contact us – we look forward to hearing from you.

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