CooleBevis
Wealth Management Limited

Pensions

What is a personal pension?

Quick facts

- Personal contributions are paid net of basic-rate tax and the pension provider claims a 20% tax refund from HMRC which is added directly to the pension plan.

- Higher rate tax-payers can claim higher rate tax relief for contributions via their Self-Assessment tax returns.

- Once invested, monies in a pension are exempt from UK Income Tax and Capital Gains Tax.

- Funds invested in a pension are usually not included in the value of your estate for Inheritance Tax purposes, and so pensions can allow funds to be passed down through the generations free of Inheritance Tax.

- You cannot access the funds in a pension before age 55 (expected to increase to age 57 for those retiring after 2028), except in certain specific circumstances.

Investing in a pension is a tax efficient way of saving for retirement.

- You can usually withdraw a maximum of 25% of the fund as a tax-free cash sum.

- The fund remaining after tax-free cash can be used to provide you with an income in your retirement (regular or ad-hoc), and any income withdrawn would be subject to Income Tax.

- You are able to invest in most types of investments such as cash deposits, insurance company funds, stocks and shares, OEICs, unit trusts and investment trusts. Some types of pensions will also allow investment into commercial property and other less mainstream types of investments.

- The value of funds accrued over certain limits (the Lifetime Allowance) will be subject to a tax charge on death, when the funds are used, or at age 75, whichever is earliest.

Who can invest in a pension?

Tax-relievable pension contributions can be made for an individual who is UK resident (or has been in the previous 5 years and has a UK pension), or who is either employed by the Crown, or who is the spouse or civil partner of someone employed by the Crown.

Contributions into a pension can be made by the individual, an employer or a third party (ie a parent). There are no age limits, and pensions can be taken out for minors. However, in practical terms, it is not possible for someone over age 75 to make a personal contribution to a pension and receive tax relief on it (although their employer could, if applicable).

How much can an individual contribute to a pension?

Any individual under the age of 75 can make personal tax-relievable contributions of up to the level of their relevant UK earnings or £3,600pa gross if greater.

Contributions can be made on a regular basis, as lump sums, or as a combination. Regular contributions can usually be stopped, increased or decreased at any time.

Annual Allowance

In addition to the above limit on personal tax-relievable contributions, the maximum total contributions that can be made for an individual from all sources in a tax year without suffering a tax charge is the Annual Allowance (£40,000 gross in the 2019/2020 tax year). Contributions in excess of the Annual Allowance will be subject to an Income Tax charge based on the individual's personal tax position.

This Annual Allowance is restricted by £1 for every £2 that an individual's 'Adjusted Income' exceeds £150,000 (if their 'threshold income' exceeds £110,000). However, the Annual Allowance is not reduced further than £10,000.

It is possible to carry forward unused Annual Allowance from the previous three tax years assuming you had a pension plan in those years and provided you have not drawn any benefits flexibly from a Defined Contribution (money purchase) pension scheme.

When you have flexibly accessed a Money Purchase pension, the Money Purchase Annual Allowance will apply to future money purchase contributions. This is £4,000 in the 2019/2020 tax year

Lifetime Allowance

If the total value of your pension benefits exceeds your Lifetime Allowance (£1,055,000 in 2019/2020) the excess will be subject to a tax charge of up to 55%. The Lifetime Allowance will increase each year in accordance with increases in CPI.

It is sometimes possible to elect for lifetime allowance protection for your pension funds, which can result in a higher Lifetime Allowance being applied. You should take advice as to whether protection is applicable to you.

Employer pension contributions

Employer pension contributions are not restricted by earnings and are paid gross. They can be paid and receive corporation tax relief even if the planholder is over 75.

Provided they are deemed wholly and exclusively for the purposes of your business, employer pension contributions can be treated as a deductible expense for Corporation Tax purposes.

Employer pension contributions are not subject to Income Tax or employer/employee National Insurance Contributions, as they would be if the amounts were paid to you as earnings. In addition, employer pension contributions are not subject to Income Tax as they would be if the same amounts were paid to you as dividends.

How can I invest my fund?

It is possible to invest in most mainstream types of investments via a pension. However, different providers will offer different investment options within their products. Before investing in a Personal Pension you should ensure that the investment options available are appropriate for your needs.

It is possible to invest in commercial property via a Self-Invested Personal Pension (SIPP). In certain circumstances, this can be appropriate for a business owner who also owns commercial premises. However, it is important to take advice before taking such a decision. HMRC do not allow direct investments in residential property via a pension.

You can change your investment choices within your plan at any time but switch charges may apply. You can also transfer your pension fund to another provider. However, you should take financial advice before doing this as you may lose valuable features or benefits provided by your current plan.

How can I recieve an income in retirement?

You can use some or all of your pension fund to buy an annuity (a guaranteed lifetime or fixed term income). Alternatively, you can leave your pension fund invested and make regular withdrawals and/or take ad hoc lump sums. You can encash your full pension fund taking 25% of the fund tax-free and the remainder of the fund will be added to your income in the relevant tax year. All income withdrawn from a pension will be subject to Income Tax.

There is no maximum age by which you have to draw on your pension funds (subject to the terms of your pension plan) and you can choose not to draw on them at all should you not need the money when you retire.

What happens when I die?

You can nominate a beneficiary(ies) of your choice to receive the value of your pension fund after your death. You should ensure that your pension provider has been informed of your wishes.

If you die before age 75, any funds held in a pension can be inherited without a charge to tax. If you die after age 75 the funds inherited will be subject to an income tax charge based on the personal circumstances of the beneficiary(ies). Tax is only paid on funds withdrawn from the pension, either in cash or as an income.

It is possible to leave pension funds invested and pass them down through the generations in this way.

Want to find out more?

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