PENSIONS

The tax benefits of saving for retirement

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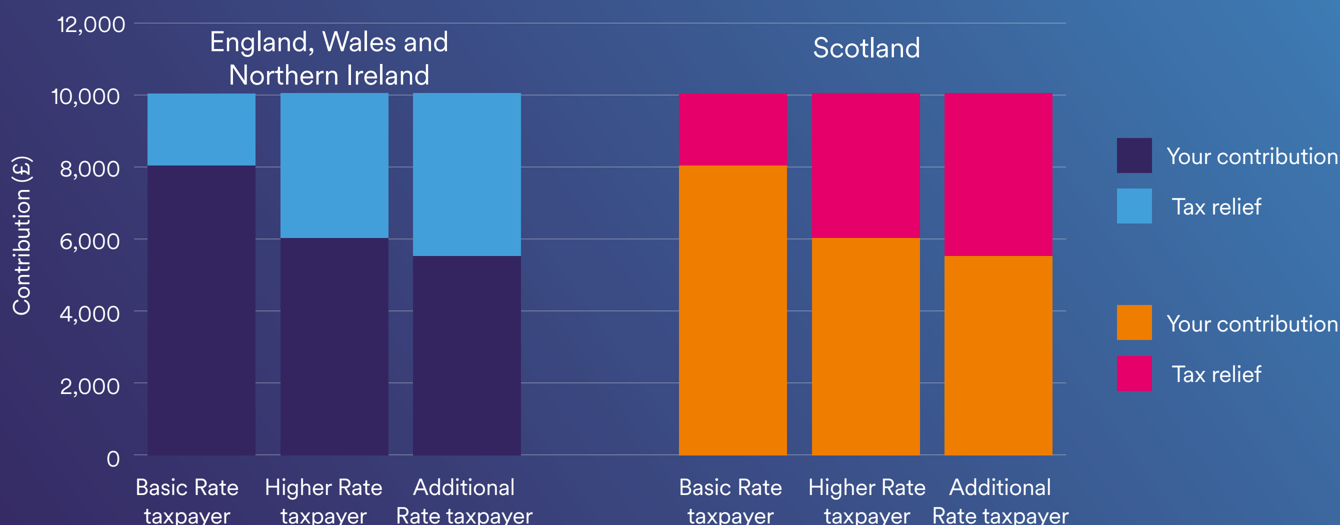
One of the most powerful arguments for saving into a pension is the boost you can receive from the income-tax relief on your contributions.

When you pay money in, the government pays in an extra 20% in basic-rate tax relief. If you pay a higher rate of income tax, you should normally be able to claim back more through your tax return. Up to an additional 25%[1]. It is important to remember, however, that tax rules can change over time and that these benefits will depend on your personal circumstances.

In Scotland, those who earn between £24,945 and £43,430 get tax relief of 21%, but that extra 1% isn't added automatically. Instead, it needs to be claimed through your tax return. Higher-rate Scottish taxpayers can claim a further 21% on top of basic tax relief, while additional rate taxpayers can claim another 26%[1].

Tax relief in action



If you are paying into a company scheme, these calculations are likely to be carried out by your employer's payment system automatically.

If you are paying into a personal pension plan, don't forget to notify the tax man of your contributions as the tax relief will not be worked out automatically and you will need to apply for a tax refund.

But whether or not your company offers a pension scheme, you can set up a personal pension plan of your own as long as you do not breach either the annual or lifetime allowances. But don't forget to tell the tax man how much you've paid in at the end of each tax year, as you could qualify for a tax refund.

Carry forward: an under-reported bonus

Did you know that if you don't use your full contributions allowance, you can usually carry it forward into the next tax year? In fact, you can carry any unused allowance forward by up to three years.

This means you could make a large pension contribution of up to £160,000 if you come into an inheritance or receive a bonus.

That said, the usual rules apply: you can only contribute up to 100% of your salary in any year. The maximum you can contribute in any year is £40,000. And the lifetime limit of £1,073,100 still applies[2].

1. www.gov.uk/tax-on-your-private-pension/pension-tax-relief
2. www.pensionsadvisoryservice.org.uk/about-pensions/saving-into-a-pension/pensions-and-tax/the-lifetime-allowance

Inheritance tax: an unexpected benefit

Your pension can also be an efficient and convenient way to pass on your wealth. This is because your pension pot is considered to be outside of your estate for inheritance tax (IHT) purposes. However, your beneficiaries could be liable to pay other taxes depending on when you die and how they access your pension savings.

This can be reassuring when putting together an inheritance strategy and will be considered by your Personal Wealth Adviser when creating your financial plan.

How does it work?

If you die before the age of 75 and your personal pension savings are less than the lifetime allowance, your beneficiaries can withdraw as much as they like without paying tax. This can be as a lump sum, as a regular income, or as a series of withdrawals. If you have taken out an annuity the income from this can also be left to your beneficiaries as tax-free income. But they must start accessing the money within two years of your death[3].

If you die over the age of 75, any withdrawals will be taxed just like regular income, but they can control their potential tax liability by how they access the money. Defined benefit pensions, also called final salary schemes, can't be passed on in this way, although your spouse could receive a survivor's benefit.

How do I pass my pension on?

When you apply for a pension, your provider will ask you to nominate the specific beneficiaries who will receive the funds. This is because your pensions are not part of your estate so are not covered by your will. Just remember to review your nominations every now and again, particularly if you or your family's circumstances change.

Conclusion

We are all becoming increasingly responsible for our own financial futures, especially when it comes to being able to afford the retirement we've always hoped for.

Pension savings is one of the most tax-efficient ways of affording that dream retirement. Not only are your contributions free of income tax, but while you remain invested any growth within the portfolio is free from income and capital tax gains.

The tax regime in the UK also makes them an interesting tool for estate planning.

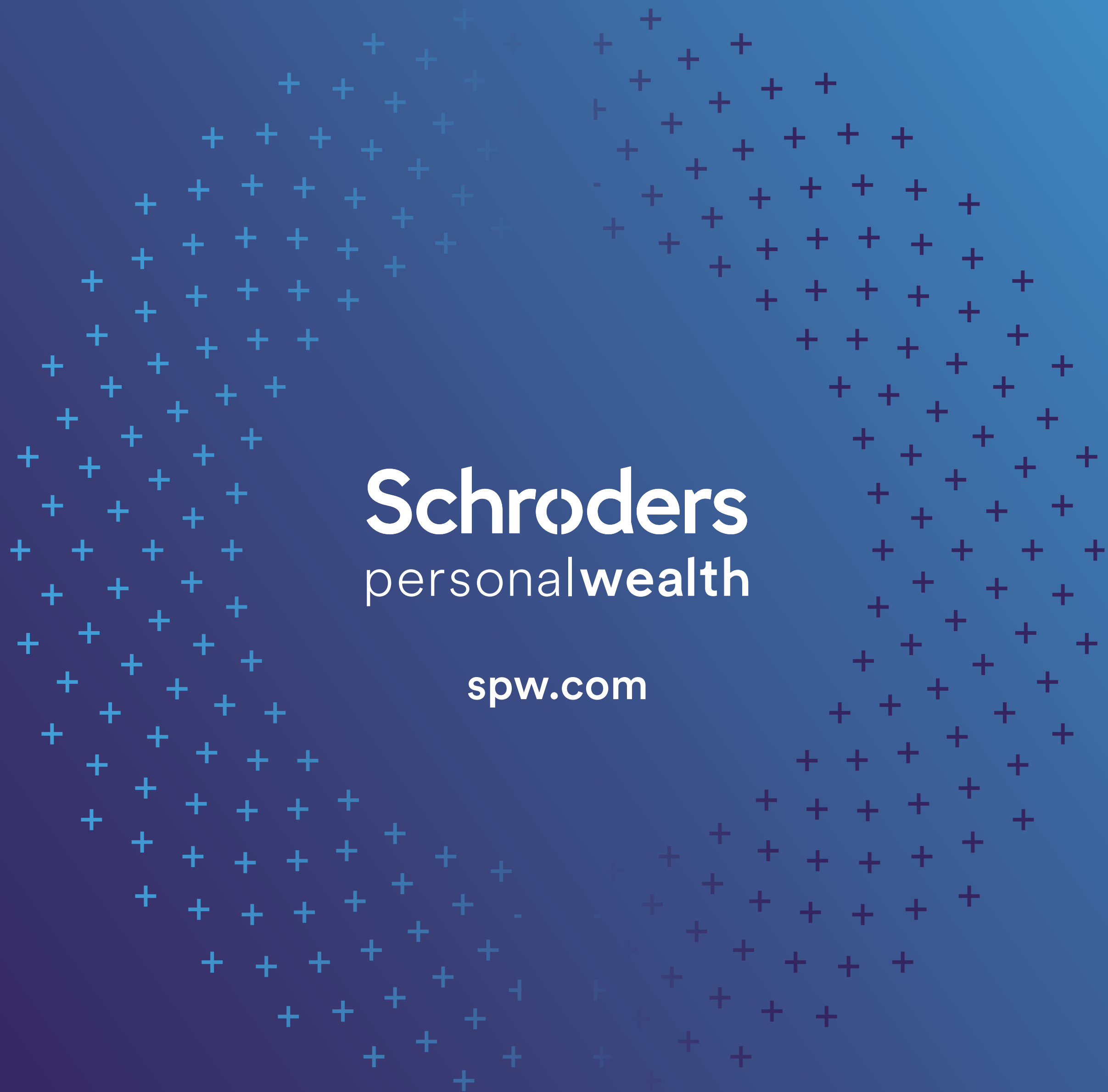
Important information

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Pensions are a long-term investment. The retirement benefits you receive from your pension plan depend on a number of factors including the value of your plan when you decide to take your benefits which isn't guaranteed and can go down as well as up. The benefits of your plan could fall below the amount(s) paid in.

If you'd like to discuss your retirement options, or your wider financial planning needs, you could speak to one of our national advisers. To find out more visit our website at **spw.com**, and book a call-back.

3. www.pensionwise.gov.uk/en/when-you-die



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