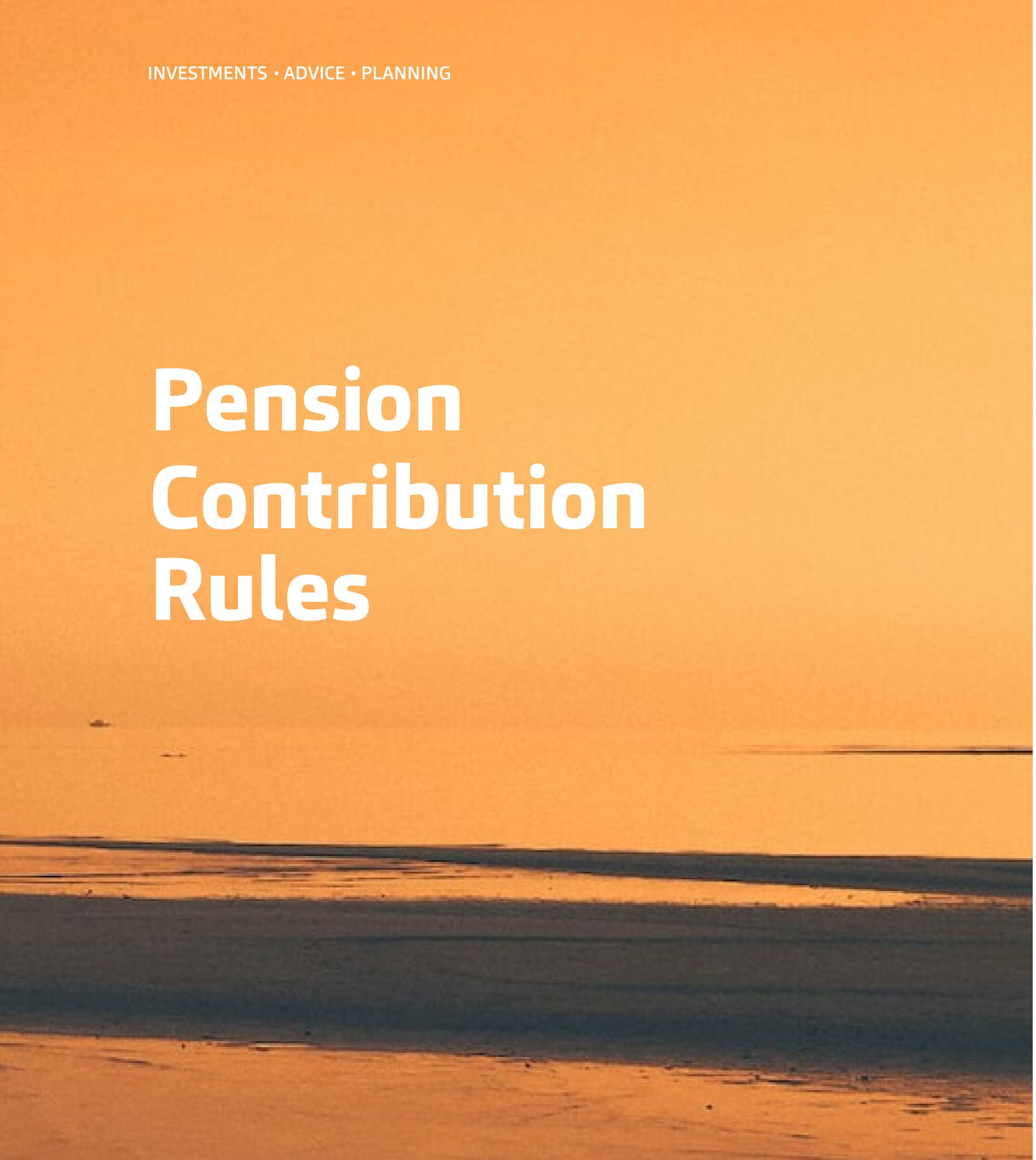

INVESTMENTS • ADVICE • PLANNING

Pension Contribution Rules

Pensions are often a fantastic way to save towards retirement, or just for the future, given retirement can be somewhat flexible under pension access rules. They can offer tax relief on contributions, grow free of tax, and are only taxable when you withdraw in retirement, with up to 25% of the pension held available to be withdrawn as tax-free cash.

These tax benefits can be very generous, so Government legislation restricts how much can be contributed each year.

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There are two limits to consider, and you can make contributions at the lower of:

1 Pensions Annual Allowance

You will be restricted to a maximum contribution between you and your employer of £60,000 before tax relief obtained in the current tax year.

If your earnings exceed £200,000, please speak to your financial adviser or your accountant, as you may find that the contributions you and/or your employer can make are restricted. The Government has put in place a taper to the £60,000 allowance for high earners, which in some cases can see a reduction to the £60,000 allowance available to £10,000.

Where an Annual Allowance has been breached, or you wish to make larger contributions, unused allowance from the previous three tax years can also be made available via "Carry Forward".

2 UK Relevant Earnings

Irrespective of the Pensions Annual Allowance available to you, tax relief on pension contributions (as opposed to a tax charge where allowances are breached), is also limited to your UK Relevant Earnings. Whilst not an exhaustive list, these are earnings by way of employment or a profession, and include notional payments such as benefits in kind, and deductions from pay for purchase into company share schemes. Dividends and interest are not included.

As a business owner who mainly draws dividends, how do I pay into a pension?

If dividends are mainly drawn, the expectation is that your UK earnings will be nominal and based on the above, it would seem like pension contributions would be heavily restricted. However, there is a difference to the rules regarding directors making contributions to their own pension.

The Pensions Annual Allowance is still relevant, so a limit of £60,000 applies (down to a minimum of £10,000 if high income triggers the tapering rule), but UK Relevant Earnings are now irrelevant.

A different test applies, with contributions needing to be 'wholly and exclusively' for the purposes of the business. This means that contributions should be for those that generate profit for the business as part of the wider renumeration for the business, and contributions should not be excessive.

This is somewhat vague, and only assessed by a local tax inspector, so it is prudent to confirm this with your accountant at MHA before contributions are made.

I'm nearing what was the Lifetime Allowance (LTA), should I still pay into a pension?

With the Government's announcement that the Lifetime Allowance would be scrapped, the immediate reaction was that this opened up further planning opportunities. However, further clarity suggests there are still many considerations to be thought through before deciding to deliberately breach this allowance.

Here are the key rule changes:

- Tax Free Cash is restricted to a maximum of £268,275 (though may be higher where LTA protection has been applied for).
- At present, death pre-75 allows for a pension to be inherited tax free, with new legislation proposing that any funds in excess to £1,073,100 will be taxed at a beneficiary's marginal rate of tax, this being an improvement from the previous LTA tax charge of 55% on the excess.
- Death post-75 legislation suggests that all funds inherited are taxed at the beneficiary's marginal rate.

I no longer work; can I still pay into a pension?

Yes, contributions with no UK Relevant Earnings are restricted to £3,600 a year. While this is a relatively small amount, you can still receive tax relief on contributions.

I've taken money out of my pension before, can I still pay in?

You can, but it is limited to the 'Money Purchase Annual Allowance' of £10,000, triggered when you first withdraw a taxable sum from a pension under flexi-access rules. You must still have the required UK Relevant earnings for contributions. Having taken funds from a pension, you must also be careful when reinvesting funds back in, as you cannot recycle pension withdrawals into new contributions to accrue more tax relief.

I'm over the age of 75, can I still pay into a pension?

As pensions fall outside of your estate for Inheritance Tax purposes, they can be used as a legacy planning tool, and individuals may wish to make further contributions.

You will not receive tax relief on contributions post-75, with some pension providers unwilling to accept contributions. However, pension rules do not dictate that this cannot be done. One area to be wary of, are contributions being made whilst in ill health. HMRC may view this as a way of avoiding Inheritance Tax and assess the sums in question as part of your estate.

Risk Considerations

Past performance is no guarantee of future returns.

The price of units and the income from them can fall as well as rise.

This investment is intended as a long-term investment and under current HM Revenue & Customs' practice it's not normally possible to access the fund(s) prior to the age of 55. The minimum age will increase to 57 from 2028 with further increases expected as the State Pension Age goes up.

Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.

Tax rules are subject to change.

Risk Warnings

This is a marketing communication, for general information only, and is not intended to be individual investment advice, a recommendation, tax, or legal advice. The views expressed in this article are those of MHA Caves Wealth or its staff and should not be considered as advice or a recommendation to buy, sell or hold a particular investment or product. In particular, the information provided will not address your personal circumstances, objectives, and attitude towards risk. Therefore, you are recommended to seek professional regulated advice before taking any action.

Key Risks: Capital at risk. Past performance is not a guide to future performance. The value of an investment and the income generated from it can go down as well as up, and is not guaranteed, therefore you may not get back the amount originally invested. Investment markets and conditions can change rapidly. Investments should always be considered long term.

This Information represents our understanding of current law and HM Revenue & Customs practice as at June 2023. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change. Tax and Estate Planning Services (including Trusts) are not regulated by the Financial Conduct Authority.

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