

Caught in the pensions tax trap?

Increasing numbers of people are facing substantial tax penalties on their pensions, sometimes unexpectedly. Are you at risk of an unwelcome surprise?

Tax and national insurance contribution reliefs for pensions cost £53.7bn in 2017/18, according to statistics issued by HMRC in September 2019. It is little wonder therefore that successive Chancellors have attempted to cut back on the government's generosity.

The most recent attacks on pension reliefs have focused on two key aspects:

- *The Lifetime Allowance* sets the maximum tax-efficient value on all your pension benefits. The standard Lifetime Allowance is currently £1.055m, down from £1.8m back in 2010/11. Any value above the available allowance (after any transitional reliefs) is taxed at a flat rate of 55% (as a lump sum) or 25% (as income).
- *The Annual Allowance* sets the maximum tax-relievable pension contributions that

can be made for you from all sources during a tax year. This is now a standard £40,000 after starting the decade at £255,000. The tapered Annual Allowance was introduced in 2016/17, targeting high earners and limiting their Annual Allowance to as little as £10,000. Excess contributions effectively receive no personal tax relief.

Complex calculations

In 2017/18 over 26,500 people exceeded their Annual Allowance, nearly five times the number two years previously. The Lifetime Allowance charge raised £185m in 2017/18, almost double in the figure for 2015/16.

One reason why these hefty charges are being paid is the complexity of the calculations involved. For example, the amount of the tapered allowance cannot be accurately calculated until *after* the end of the tax year to which it relates.

If you may be affected by either tax charge, take advice as soon as possible. Ultimately, you may need to consider additional alternatives to pensions for your retirement planning.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

