Pension contributions

There are limits to how much can be invested in a pension scheme before a tax charge is payable. To qualify for personal tax relief, a pension contribution must be made by or on behalf of a relevant UK individual.

Tax relief for pension contributions may be restricted by reference to net relevant earnings and the annual allowance. The annual allowance is currently £40,000 per year for those with income of less than £150,000. There is a minimum annual allowance of £10,000 per year, in most cases, for individuals with annual income of £210,000 or more. Complex rules also apply to individuals with 'threshold income' above £110,000 and, therefore, seeking pension advice is important. There is a lifetime allowance which is currently £1 million.

It is possible to carry forward any unused allowances from the previous 3 tax years.

Planning

A pension investment is many peoples' cornerstone of retirement saving as payments into a pension scheme currently attract tax relief of up to 60%.

If you are over 55, you may be able to take your tax-free lump sum or start taking pension drawdown even if you are still working.

However, those who are members of defined benefit schemes are likely to have restrictions as well as possibly costs if the pension is taken early.

There are however, other components of retirement planning:

- When might you retire and what are your income expectations?
- Should you increase your pension contributions?
- Have you reviewed both your employee and employer pension contributions when considering if you have exceeded the annual allowance?
- Have the potential inheritance tax benefits of maximising your pension fund been fully considered?

Inheritance tax

Generally, inheritance tax is due on death at a rate of 40% if the inheritance threshold of £325,000 is exceeded.

The percentage of any unused nil-rate band from the first death may be transferred to the surviving spouse or civil partner, allowing up to double the nil-rate band applicable at the date of the second death.

Gifts or transfers made within 7 years of death are also added back into the estate and are liable to inheritance tax, but may be subject to some exemptions as well as a tapered reduction for tax on transfers between years 3 and 7.

Planning

- Do you have an up-to-date will that reflects your wishes and are you happy with your choice of executors?
- Are you taking advantage of the available exemptions such as the annual £3,000 exemption, gifts out of income, and gifts on marriage or civil partnership?
- Should you consider using a Discounted Gift Trust which allows the gifting of a lump sum into a trust while retaining income for life?
- Do you have surplus assets that you can give away and reduce the value of your estate that is chargeable to inheritance tax?
- Should you consider altering the spread of your investment portfolio into more inheritance tax-efficient products?