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As we fast approach the end of yet another tax year, **Adrian Walker** focuses on the opportunities available to take maximum advantage of the allowances within the new pension regime.



Adrian Walker
Senior Manager Retirement Planning

taking full advantage at tax-year end

// You need to ensure your clients are taking full advantage of the existing opportunities. //

This year's annual allowance of £225,000 will not cause issues for most individuals in relation to their relevant earnings for the year. The ability to fund up to 100% of the net relevant earnings and be within the annual allowance creates significant opportunity to fund contributions into registered pension schemes.

time to take full advantage

It is particularly important in the current tax year for clients to consider this opportunity. The change to basic rate income tax from the new tax year will affect the amount of relief that individuals can claim at source when funding personal contributions into a registered personal pension scheme.

For higher rate taxpayers the ability to maximise the relief gained at source will marginally reduce the amount of higher rate income tax relief that will need to be claimed when compared with delaying funding until the 2008/09 tax year.

Clients who are non-earners or low earners should use their £3,600 annual contribution allowance to registered pension schemes in the current year. Contributions can be paid net of 22% income tax, rather than the 20% available next year. They will receive full relief at source, regardless of the level of income tax paid.

giving some input

At the other end of the spectrum there will be clients with significant earnings where full use of the 100% earnings rule will exceed the annual allowance. The same situation will apply to employed individuals where personal funding is combined with funding by their employer.

For the contributions to be fully relievable in the tax year in which they are paid, careful pension input period planning will be needed. Such planning will avoid individuals having to vest their benefits by the end of this tax year, or 2008/09 if that is when their current pension input period would end.

Individuals and their advisers will need to elect a nominated date within the current pension input period which ends in this tax year. This allows full use of this year's annual allowance during the current pension input period and brings forward the following pension input period (which will end in the 2008/09 tax year), effectively accelerating the use of next year's annual allowance and allowing a second payment to be made in this tax year.

Advanced funding in this way provides more immediate higher rate and basic rate tax relief than would be the case by spreading the payment of contributions over two tax years.

recycling income

Having reached retirement, many clients will have funds held in income withdrawal arrangements. Under the income rules that were introduced on 6 April 2006, there is no requirement to take an annual income from these funds.

However, clients who are fully retired still have a contribution allowance of £3,600 a year. It may be more tax efficient to draw income from the income withdrawal arrangement and recycle the income as a new contribution to a registered pension scheme.

The client's tax position is neutral with tax being paid on the income and the same rate of tax relief being granted on the new

contribution. Importantly, clients will be creating a further uncrystallised pension fund for future use, making available a further pension commencement lump sum (PCLS). The fund, should they die before vesting those benefits, will be payable as a lump sum and will be more tax efficient as the uncrystallised fund builds up year by year.

enhancing inheritance tax planning

Clients who do not currently require income from income withdrawal funds could consider taking income withdrawals to make gifts from the surplus income arising from normal expenditure.

In a post retirement process this may enable them to gift funds while alive to their children or grandchildren – such gifts being exempt from any subsequent inheritance tax charge on their death.

time to act

With the 5 April falling on a Saturday this year, Friday 4 April becomes the key date by which most clients' financial planning for this tax year will need to have been finalised and delivered. You need to ensure your clients are taking full advantage of the existing opportunities brought by the generous funding rules of the new pensions simplification regime.

Reading this article in conjunction with those of my colleagues Nick Bladen and Ben Camp-Bell, you will see there are many potential planning activities to undertake with clients before tax-year end. ●

This article is based on Skandia's interpretation of the law and HM Revenue & Customs practice as at 31 December 2007. We believe this interpretation to be correct but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

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