

retirement planning your new year's health

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Adrian Walker outlines the financial planning opportunities as tax-year end approaches in a changing regulatory landscape for pensions.



From a tax and financial planning perspective the most significant issue of 2009 was without doubt the changes to the tax relief on pension funding for high income individuals. However, these changes, along with the approaching tax-year end, present a number of planning opportunities for clients building their retirement funds and those in the decumulation phase.

In this article I'll look briefly at the issues which present the opportunity to review and discuss with suitable clients how they can adjust their own future retirement planning to take account of the future legislation.

accumulation

The Pre-Budget Report announced a decrease to £130,000 of the relevant income threshold above which a tax relief restriction will apply on contributions above the special annual allowance of £20,000 from 9 December 2009. Clients potentially affected should:

- ensure they use their special annual allowance contribution of £20,000, or

- where applicable, pay a higher infrequent money purchase contribution limit (capped at £30,000) to their chosen registered pension scheme, or
- where they enjoy a higher protected pension input allowance from regular benefit accrual, ensure it is preserved in their pre 22 April 2009 or pre 9 December 2009 registered pension schemes.

Payment of relievable personal contributions of up to £20,000, combined with gift aid payments, may reduce a client's relevant income below the £130,000 threshold in the current tax year. This may allow the opportunity to make full use of their Annual Allowance without any reduction in tax relief.

The main focus, however, should be on individuals not caught by the relevant income threshold – which represents most of the UK taxpaying public. Such individuals can still contribute up to 100% of their relevant earnings, to which they can add any employer contributions up to the Annual Allowance. This may be a particularly important consideration for those with

relevant income falling just below the current £130,000 threshold, especially if they feel the Government could reduce the relevant income threshold further in the future.

Importantly, the last working day of this tax year is 1 April. For many of the self-employed the first payment on account for the 2009/10 tax year will be 31 January 2010. Any contributions paid before then will enable individuals to receive higher rate tax relief more immediately by reducing the tax payable on the first payment on account. Given that the Budget will fall after January, anyone concerned the Government will announce further controls on higher rate tax relief should consider contributing beforehand. This will ensure, as far as possible, they receive full tax relief on those contributions should further changes arise.

The Pre-Budget announcements of significant increases in National Insurance contributions in 2011/12 for both employer and employee may highlight the potential efficiencies of salary sacrifice. An employer could redirect part or all of their NI

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contributions (currently 12.8%) to provide funding into private retirement provision. Freezing of the upper earnings accrual at £40,040 means clients will not lose state benefit provision if a sacrifice of earnings above that level takes place. When considering this, clients need to be sure that any sacrifice does not result in a cut in other benefits, such as PHI or group life cover. For clients caught by the relevant income threshold, any new salary sacrifice agreement set up from 22 April 2009 or 8 December 2009 (as applicable) will not reduce relevant income to avoid the threshold.

Remember, individuals without relevant earnings can make (or receive from a third party) a pension contribution of up to £3,600 gross. This may be attractive when considering retirement provision for children or grandchildren from surplus income. The child will receive basic rate relief of 20% in the current tax year, giving them an early start on building their retirement provision.

decumulation

The beginning of the 2010/11 tax year sees the normal minimum pension age for crystallising benefits from a registered pension scheme increase from 50 to 55. There will be some in the 50-54 age band who may wish to consider whether this provides an opportunity to crystallise their existing funds now and receive their pension commencement lump sum (PCLS).

By combining this with the use of income withdrawal it may be possible to defer taking any income, providing a key part of their short-term retirement planning. Clients wishing to do this must remember that they have to crystallise benefits before the last working day of the tax year, and should consider early March as the last implementation date to complete such an exercise.

Many clients with income withdrawal may not currently have a need for the income if they continue to work or are receiving income from other assets. In which case, they may benefit from recycling income as a new contribution to increase the tax efficiency of their pension fund. If they no longer have relevant earnings the contribution limit is £3,600, but could be much higher if they are continuing to work.

In addition, they could use the income from their income withdrawal fund to gift excess income for this tax year for inheritance tax planning purposes. However, to do so they must ensure they receive the income withdrawal before the end of the tax year.

Gilt yields that control the maximum annual income for income withdrawals have remained broadly flat since February 2009, which is about the time the recovery in investment markets started. Clients could recycle a contribution for immediate additional designation, which for some would significantly increase the annual income available for the rest of their current five-year period. By potentially locking in gains from recent investment market improvements, clients may create greater flexibility to use their income withdrawal over the rest of their current five-year income period as part of their overall retirement planning.

The run up to the tax-year end is always a busy time for advisers and this year is no exception. The changes occurring within the tax and financial planning arena offer a number of opportunities to review clients' retirement planning strategies and add significant value. ●

further support

A 'financial planning health check' summary document is now available to help you identify the opportunities in pension, investment and tax planning.



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