PROMOTION

RAYMOND JAMES
INVESTMENT SERVICES

The Tax Man cometh.... and he's quite interested in your pension!

When it was introduced in 2006, the Lifetime Allowance (LTA) limit was only supposed to affect a very small number of pension investors. That it now raises £110m a year for HMRC, affects over 2,400 people and is rising at an eye-watering rate may encourage you to check your own pension provision.

In simple terms, the LTA is the total value of private pension provision you can have before an excess charge is applied to your pension pot. This charge can be 55%, which could leave you with an unexpected and very large tax bill. The LTA has been reduced from £1.8m to £1m in recent years, leading to the marked rise in those honest pension savers who are now being affected. The LTA is only forecast to rise with inflation for the foreseeable future, which could lead to more people being affected if investments grow faster than prices.

Pension funds are checked against the LTA every time you access (crystallise) them, on death and on attaining age 75. So, people who are leaving their pensions invested in the hope of avoiding low annuity rates, or are seeking to leave an inheritance for their family, could realise too late that the tax man will be taking more than half.

DOUBLE WHAMMY

If you haven't kept an eye on your existing pension policies, you could be in for an extra "nasty surprise".

Many older style pension policies will not offer the flexibility to remain invested or may require you to transfer away from them before age 75 to avoid being locked into poor value, in-house annuities and face the loss of any remaining tax-free lump sum entitlement.

HOW TO AVOID THE TRAP

As always, taking early action maximises your ability to reduce the impact of these issues. Some of approaches you may consider are the following:

Apply for protection – When the LTA was reduced to £1m in 2016, HMRC launched a couple of protection schemes for people who met the qualifying criteria. Successfully applying for one of these (free) protections could potentially save you £137,500 of tax.

Access your pension now – different rules apply to pensions that have already been accessed and this may make it easier for you to avoid the LTA. Even if you face an immediate tax charge, this may prove to be more digestible than the possible tax charge at age 75.

Bespoke your pension portfolio – Placing lower growth, more defensive assets in your pension should result in a lower chance of exceeding the LTA limit. If you have non-pension assets, use these to invest in higher growth/risk assets with the aim of creating an overall portfolio that suits your risk profile, but which reduces the growth in your pensions.

Switch to a more flexible pension – More modern, and often cheaper, pension products are available to those who need flexibility and are approaching 75. ◆

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Risk Warning: With investing your capital is at risk.