ROTHERHAM TAYLOR
LIMITED
Chartered Accountants & Registered Auditors

PENSIONS

OUR GUIDE TO MAKING THE MOST OF THE NEW ALLOWANCES

YOUR FORWARD
THINKING ADVISERS

THERE HAVE BEEN SEVERAL CHANGES TO THE RULES REGARDING PENSIONS, WHICH COULD HAVE BIG IMPLICATIONS FOR YOU AND YOUR PLANS FOR LATER LIFE.

In this mini guide, our experts will explore how the new rules on UK pensions can provide opportunities that help you and your business save money.

WHAT HAS CHANGED?

Since 6 April 2023, the Lifetime Allowance – the amount of money which could be put into a pension fund during a person's life – has been effectively abolished.

At the same time, the amount of money that could be placed in a pension fund each year, tax-free was increased from £40,000 to £60,000.

Additionally, a change to the Money Purchase Annual Allowance declared in the Budget impacts individuals who have started receiving taxable earnings from their pension plans.

Before this, these individuals faced a cap on their yearly tax-free pension contributions at £4,000.

However, the updated limit has now been raised to £10,000 per year to encourage people to continue working while receiving a pension income. Likewise, if you are a higher-income individual, you may have been affected by a provision called the Tapered Annual Allowance.

This progressively diminishes the sum you can contribute to your pension every tax year, based on your income. In the 2023/24 tax year, this lower threshold has been raised from £4,000 to £10,000.

The most obvious upside of the new rules is that anyone with a current pension can improve the amount of money they can contribute to their pension fund each year, and during their lifetime, without worrying about facing tax penalties.

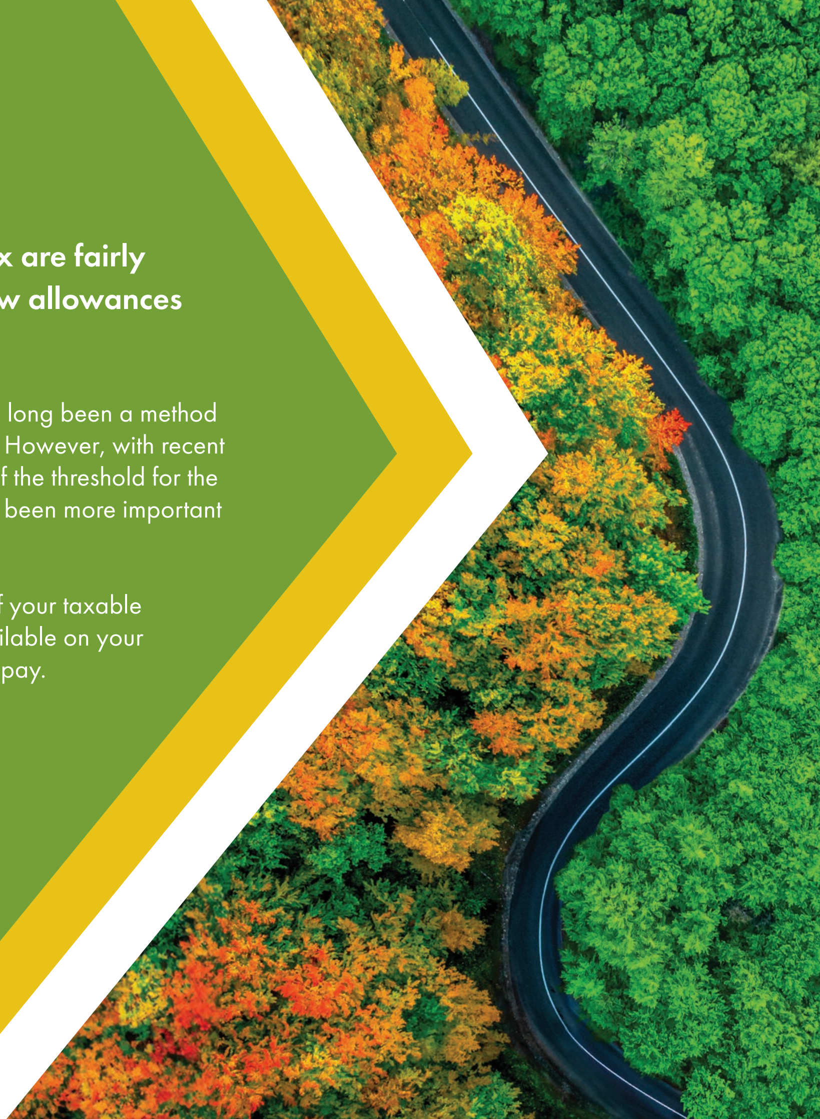
PERSONAL TAX

The implications of these changes to Personal Tax are fairly apparent, but it is worth considering how the new allowances can help you to manage your annual tax bill.

The tax-free allowances afforded to pension contributions have long been a method for taxpayers to manage and maintain the rate of tax they pay. However, with recent freezes to several Personal Tax Allowances and the reduction of the threshold for the additional rate of tax from £150,000 to £125,140, it has never been more important to make use of your pension allowance.

By paying more into a pension each year you can take more of your taxable income out of higher tax bands. This is because tax relief is available on your pension contributions at the highest rate of income tax that you pay.

- Basic-rate taxpayers get 20 per cent pension tax relief.
- Higher-rate taxpayers get 40 per cent pension tax relief.
- Additional-rate taxpayers get 45 per cent pension tax relief.



How pension tax relief is applied to your tax position depends on the type of pension scheme you belong to:

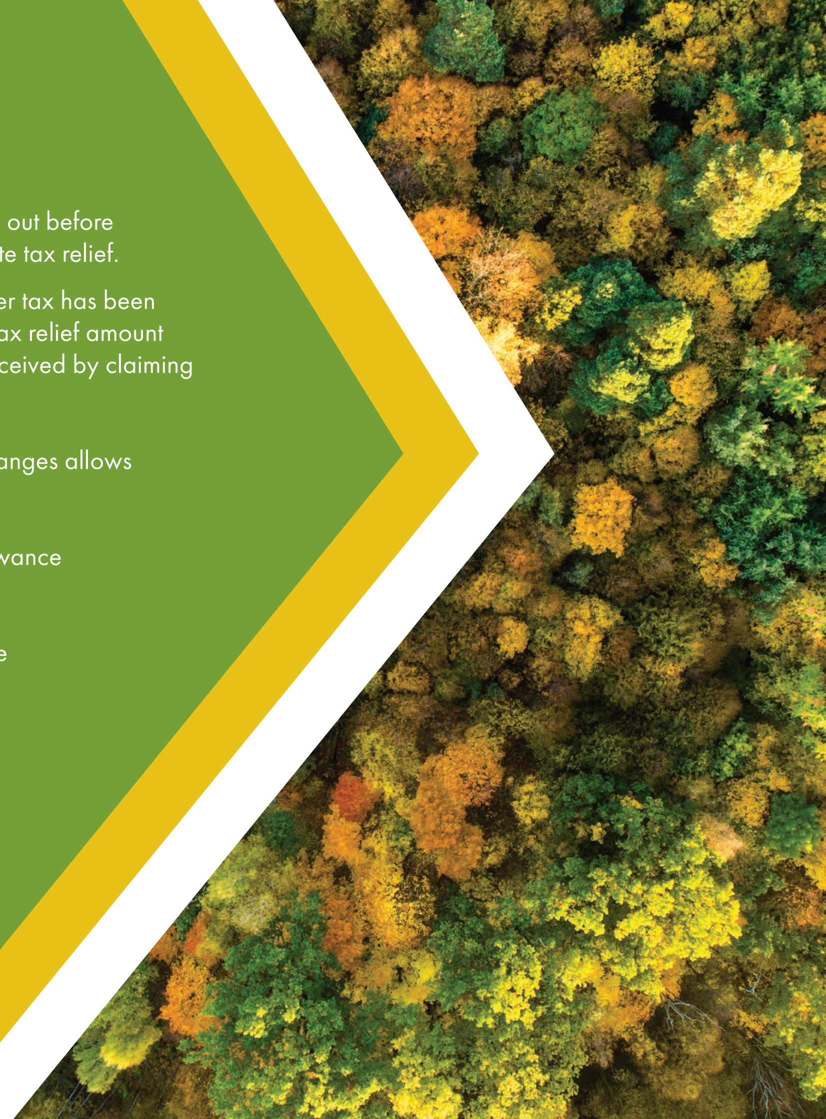
- **Net Pay Arrangement:** Our pension contribution is taken out before calculating the tax on your earnings – resulting in immediate tax relief.
- **Relief at Source:** The pension contribution is deducted after tax has been calculated, and HMRC subsequently sends the basic rate tax relief amount to the pension scheme. Higher or additional rate relief is received by claiming through a Tax Return or included in a PAYE code.

In either case, the additional allowance afforded under the changes allows you to keep more of the money you earn after tax.

This is even more important given the cuts to the Dividend Allowance and the reduction in the additional rate tax threshold.

From 6 April 2023, the tax-free allowance for dividend income (Dividend Allowance) was reduced from £2,000 to £1,000 and then to £500 from 6 April 2024, for individuals who receive dividend income.

Additional rate taxpayers will pay 45 per cent on any income above £125,140 from 6 April 2023.



CORPORATION TAX

With the rate of Corporation Tax rising from 19 per cent up to 25 per cent for businesses with profits of £50,000 or more (subject to Marginal Rate Relief on earnings between £50,000 and £250,000), it's well worth considering scaling up pension payments as a form of 'benefit extraction', which shields profits from this higher tax rate.

Employer pension contributions are not subject to National Insurance contributions and are tax-deductible for the company – reducing a business's Corporation Tax liability.

Therefore, if you have several high earners previously requesting a limit on their pension contributions in line with the previous allowance, it may be worth taking advantage of the advantageous tax position they now enjoy by increasing the amount paid to them as a pension.

This should be done in consultation with employees to ensure that this change does not affect their entitlement to any other pension or benefits.

INHERITANCE TAX (IHT)

IHT is a tax applied to the estate of a deceased person, which includes their property, money, and possessions.

IHT is not due if the estate's value is below the £325,000 threshold. However, you may still need to report the estate's value even if it's below the threshold.

Above this threshold, the estate is taxed at 40 per cent. However, there are exceptions and reliefs available, such as the transferable nil-rate band between spouses or civil partners and the residence nil-rate band.

Together, these can drastically increase a couple's tax-free IHT allowance up to £1 million where a main property is passed to a direct descendant.

In general, a pension that is passed on or inherited will not be subject to IHT. This is because the payments are not considered part of the deceased's estate for tax purposes.

The end of the Lifetime Allowance then makes pensions an ideal vehicle to pass on wealth without attracting IHT, while still maintaining a person's standard of living later in life.

However, if the pension scheme does not give the trustees discretion over who should receive the death benefits, the payments may be subject to IHT.

In this case, the payments would be treated as part of the deceased's estate and would be subject to IHT, if the estate's value exceeded the applicable threshold.

If the deceased was aged over 75 when they died, any remaining payments due from the pension will be treated as an income for tax purposes and may be subject to Income Tax at the recipient's marginal rate.

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