A BOOST FOR PENSION SAVERS

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The recent abolishment of the lifetime allowance, often described as a stealth tax is welcome news to many pension savers. The lifetime allowance was the total amount of pension benefits you could build up in your lifetime before you suffered a tax charge. The excess above the lifetime allowance was taxed at a hefty 55% where benefits were taken as a lump sum or 25% as pension income.

It was introduced in 2006 at a level of £1.5 million and initially rose to a level of £1.8 million, which at the time meant it affected only the larger of pension pots. However, over time it has been gradually squeezed and in recent years has been frozen at just over £1 million, meaning more and more savers were being caught by the tax.

The removal of the lifetime allowance means pension savers will no longer need to be concerned about the increasing size of their future pot and instead, they will be encouraged to save more; taking advantage of the valuable pension tax reliefs available.

A further boost was given as the pension annual allowance was also increased from £40,000 to £60,000. This is the amount that you can pay into your pension pot in any tax year without having to pay tax – the point where the valuable tax reliefs are no longer available.

The knock-on effect of the increased annual allowance was that the Tapered Annual Allowance, which reduces the allowance for high earners was also increased. High earners can now have an adjusted income of £260,000 before their allowance begins to reduce – it means they can use pensions even more efficiently to offset their highest rate of tax.

It's been good news all round and has opened up opportunities for those who had previously been forced to limit or even turn their back on pension planning.

If you are interested in knowing more about how I work and you have investments of over £200,000 why not give Jo a ring on 01562 745730 to arrange a no obligation 30-minute free meeting in our office.

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