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Pensions Management
& Financial Services

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Opportunity Beckons...

With uncertainty clouding so much of our immediate future right now, any attempt to make comment upon matters of economic or political relevance would clearly be pretty silly. Suffice to say that, as I write this, financial markets feel suspiciously calm, interest rates remain unchanged, inflation (at a 3-year low), is subdued and the UK economy continues to record slow but positive growth...

The coming political upheaval, our imminent departure from the EU and all of the turmoil generated by these events is for another day.

Meanwhile, in the absence of a functioning government, we can enjoy a brief period of calm, during which all current UK pension, taxation and benefit structures will remain blissfully unchanged.

So, within this short interlude, lets quickly remind ourselves of certain key tax-planning and pension plotting opportunities that are there to be used right now, before the end of this tax-year – and preferably before the coming storm:

Unused Pension Allowances from Tax Year 2016/17 Onwards

12 months ago, in Bulletin No 95, I defined the limitations and benefits to be extracted from HMRC's 'Carry Forward' rules for unused Annual Allowances. The rules remain unchanged and as such, represent a unique opportunity to shoehorn a sizeable tax relieved contribution into a tax-exempt fund.
What I said 12 months ago in Bulletin No 95 remains entirely relevant - but must surely now carry even greater urgency:

- Carry Forward allows you to make use of any Annual Allowances that you may not have used during the three previous tax years, provided that you were a member of a registered pension scheme for that period.
- You can use Carry Forward if you're an active scheme member currently building up pension benefits; a deferred member with paid-up pension benefits; a pensioner member in receipt of pension benefits from your pension scheme, or a pension credit member with a share of your ex-partner's pension scheme.
- To use Carry Forward, you must first pay (or have paid for you) the maximum allowable contribution in the current tax year (£40,000 in 2019-20). That done, you then utilise unused Annual Allowances from the three previous tax years, starting with the tax year 2016/17.
- Remember that your Company is able to make whatever contribution it likes to its 'employees' pension funds, regardless of the amount of salary/ dividends an employee receives. It is important that correct legal form is followed here. The Company is not making the contribution on behalf of the employee (in which case it would be treated as an employee contribution) but is making, in its own right, an employer contribution to a Registered Pension Scheme, for the benefit of the member. Such a contribution doesn't count towards the employee's remuneration from the Company – nevertheless the contribution does count towards the employee's Annual Allowance - so enabling the employee member to benefit from the Carry Forward rules.
- In terms of the Company's profits, the pension payment is an expense of employing staff and in practice would be allowed as a deduction against trading profits of the Company for Corporation Tax purposes. The downside is that if the contribution is substantial, it will reduce the amount of profit that

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is transferred to the Company's distributable re serves, which in turn may limit any dividend that may be paid. Remember, every deduction against trading profits has to pass HMRC's 'wholly and exclusively for the purposes of the trade' test.

So, if there's unused Annual Allowance that's there to be used – and a potential trading profit in the current year that enables its usage, then this is one exit door that remains open – for now!

Higher Rate and Additional Rate Relief

HMRC estimate that the 'cost' of pension contribution relief is set to top £20 billion this year. It's believed that a sizeable proportion of this relief is thought to be taken by higher-rate and additional rate tax-payers - circumstances that are seen by some to be the misdirection of subsidy and a misallocation of incentive. Restriction of contribution tax relief is a real and ever-present threat – so don't wait for the next cut – make full use of the present structure whilst you can. Its unique and won't stay forever.

Contribution Tax Relief for Non-Earners and Non-Tax Paying Low Earners

Those with no earnings at all can still benefit from tax relief being added to their pension contributions. A non-earner (a child?) making (or having made for them) a contribution of say £2,880 in the 2019/20 tax year, would have 'tax relief' of £720 added to their contribution, so making full use of their Allowance limit of £3,600.

Low earners who pay no tax (i.e. those with earnings below £12,500 2019/20) are able to benefit from the same 'tax relief' structure – but free from the £3,600 Allowance limit. Non-tax paying earners are simply limited to a (gross) contribution equivalent to 100% of earnings – i.e. earnings of £10,000 would permit a personal contribution of £8,000 to which HMRC would add £2,000 'relief' into the pension pot. Where circumstances permit, its well worth it.

Marriage Allowance

If you're married (or in a Civil Partnership), born after 1935, with one of you as a non-tax payer and the other a Basic Rate tax payer, then for each tax year from 2015/16 onwards, Marriage Allowance is for you. This year's Allowance is worth £250 – but if the circumstances of your respective incomes have remained unchanged since 2015, you can backdate your claim by up to 4 years. So, if you claim now and backdate, then the value of your combined Allowances could generate a refund of up to £1,150 from HMRC. This year's £250 worth of Allowance would be credited by year-end adjustment – but the remaining refund would be by cheque. Well worth the effort! Do it online at *www.gov.uk/moneyandtax/incometax...*

Inheritance Tax – Gifts, Reliefs and Exemptions

With time so short and the issues so large, IHT planning must never be rushed. So, let's see what's to emerge from the 12th December upheaval and consider our options in the New Year.
Meanwhile there's much to look forward to...
We wish you a joyous Christmas.

Geoffrey Stait
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