THE ANNUAL ALLOWANCES

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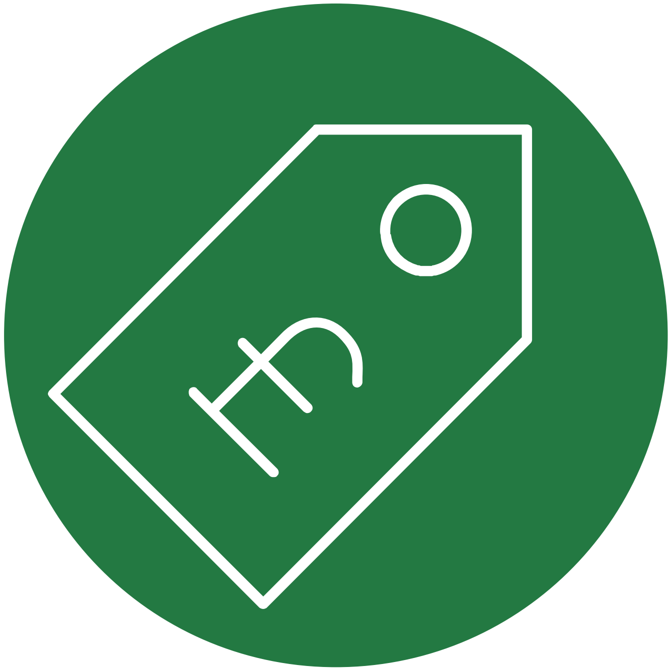
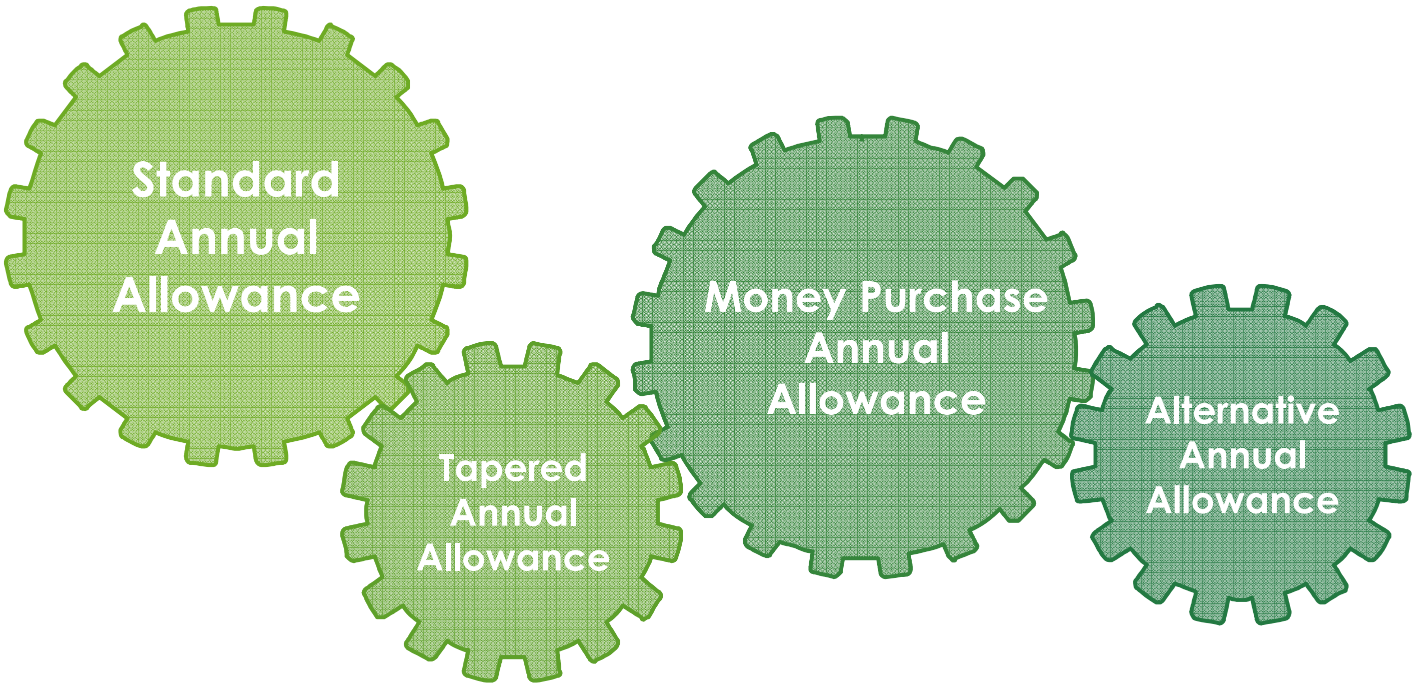
OLDMUTUAL WEALTH

 For financial advisers only

UNDERSTANDING THE ANNUAL ALLOWANCES (RESTRICTIONS)



THE ANNUAL ALLOWANCE FAMILY



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THE STANDARD ANNUAL ALLOWANCE

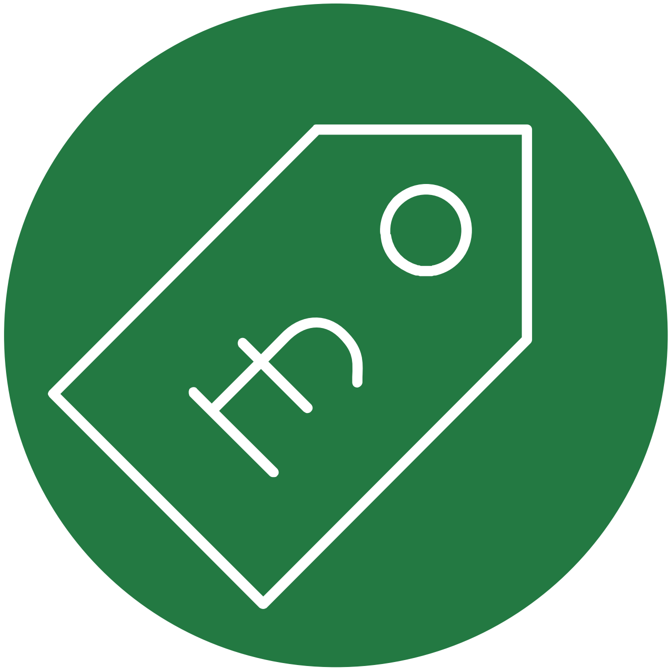
EMPLOYER CONTRIBUTIONS AND TAX RELIEF
MAXIMUM TAX RELIEVABLE CONTRIBUTIONS

Tax relief on individual contributions is restricted to the higher of 100% of earnings or the annual allowance, including any carry forward

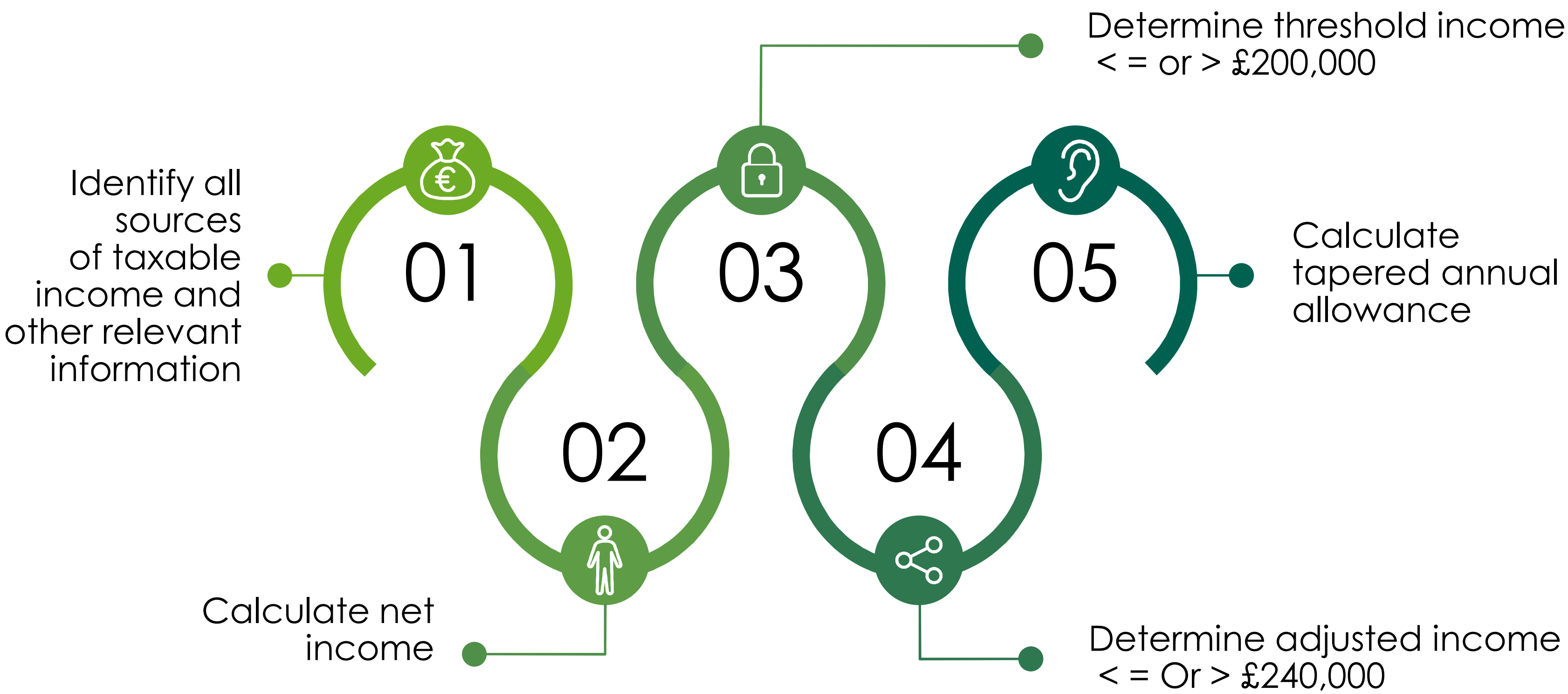
Employer contributions are restricted by the annual allowance only, including any carry forward

Corporation tax relief based on wholly and exclusively rules

THE TAPERED ANNUAL ALLOWANCE



ANNUAL ALLOWANCE TAPERING WHO WILL BE AFFECTED?
FIVE STEPS TO CONSIDER



ANNUAL ALLOWANCE TAPERING WHO WILL BE AFFECTED?

STEP 1 – IDENTIFY ALL SOURCES OF TAXABLE INCOME AND OTHER RELEVANT INFORMATION

- Salary / bonus & commission / pension income
- Dividends / benefits in kind
- Income from property and taxable savings
- Profits from self employment
- Certain taxable lump sum death benefits
- Deductions of relief (sections 23, 24 & 25 *)
- Employer contributions
- Net pay personal contributions
- Relief at source personal contributions
- New Salary Sacrifice Post 8/7/15

ANNUAL ALLOWANCE TAPERING WHO WILL BE AFFECTED?

STEP 2 – CALCULATE NET INCOME

Income from Step 1 **LESS** Deductions of relief (sections 23, 24 & 25 *) **=** **NET INCOME**

IF IN DOUBT INVOLVE CLIENT'S ACCOUNTANT

* This relates to sections 23, 24 and 25 of the Income Tax Act 2007

ANNUAL ALLOWANCE TAPERING WHO WILL BE AFFECTED?

STEP 3 – DETERMINE THRESHOLD INCOME < = or > £200,000

NET INCOME LESS **Relief at source personal contributions** LESS **Certain taxable lump sum death benefits**

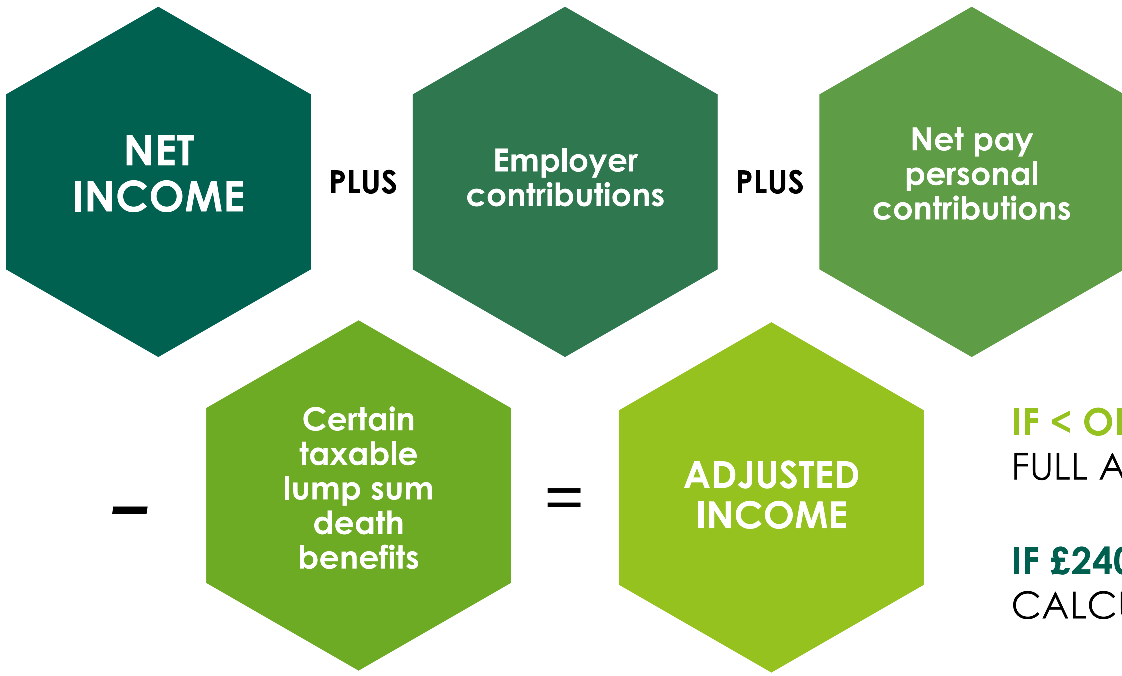
\+ **New Salary Sacrifice Post 8/7/15** = **THRESHOLD INCOME**

IF < OR = £200,000.00:
FULL ANNUAL ALLOWANCE MAINTAINED

IF £200,000.01 OR MORE:
CALCULATE ADJUSTED INCOME

ANNUAL ALLOWANCE TAPERING WHO WILL BE AFFECTED?

STEP 4 –DETERMINE ADJUSTED INCOME < = or > £240,000



IF < OR = £240,000.00:
FULL ANNUAL ALLOWANCE MAINTAINED

IF £240,000.01 OR MORE:
CALCULATE TAPERED ALLOWANCE

CASE STUDY – DOCTOR JAYNE: £32,000 GROSS PENSION INPUT AMOUNT

Adjusted Income in 2020/21	Annual Allowance
Up to £240,000	£40,000
£250,000	£35,000
£260,000	£30,000
£270,000	£25,000
£280,000	£20,000
£290,000	£15,000
£300,000	£10,000
£312,000 +	£4,000

- An Adjusted income of £280,000 leaves an Annual Allowance of £20,000.
- This is £12,000 less than our member needs without any carry forward
- The £12,000 is added to his taxable income in 2020/21.
- The member's tax bill will increase by £5,400* as the excess would be taxed at their marginal rate, likely to be 45%.

** HMRC help sheet HS345 has details required to pay excess tax charge via self assessment process*

WHAT IS THE BEST WAY TO PAY AN ANNUAL ALLOWANCE TAX CHARGE?

When contributions are in excess of any of the annual allowances the options could be:

- Client pays directly
- Client pays from their DB scheme
- Client pays from their DC scheme

YOU NEED TO CONSIDER ALL OPTIONS AVAILABLE, COMPARE AND CONTRAST EACH, AND IDENTIFY ANY TRADE OFFS

PAYING THE ANNUAL ALLOWANCE CHARGE
COMPARE AND CONTRAST CHECK LIST

- Does the client have the money?
- Does paying the tax charge create a debt? If so, what is the interest rate?
- Will any of their pension schemes facilitate the tax charge? (Mandatory vs Voluntary)
- What conversion factors and assumptions are being used by the DB scheme?
- What impact does the tax charge have on their benefits? (income, lump sums and death benefits)
- Are there any deadlines or cut offs for paying the charge?
- What impact does the tax charge have on the Lifetime Allowance?

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CASE STUDY: DOCTOR JAYNE

If Doctor Jayne pays directly, it would cost £5,400 out of their savings.

If Doctor Jayne has a DC pension scheme, £5,400 could be deducted from their fund value.

NHS scheme pays likely to reduce member's scheme pension by £295 pa *** at 60, plus £885*** off their PCLS.

Except for current tax year

HOW WOULD YOU COMPARE AND CONTRAST DB BENEFITS AND DC BENEFITS?

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** Scheme pays available for 2019/20 tax year till 31st July 2021*

*** Debt grows by 2.4% plus CPI inflation rate (2% used for illustration purposes)*

**** 22.7 factor applied to scheme pension and PCLS reduced by three times the reduction in scheme pension*

PAYING THE ANNUAL ALLOWANCE CHARGE
MANDATORY SCHEME PAYS

An individual can elect to require the scheme administrator to pay all or some of the annual allowance charge if:

- The **charge** exceeds £2,000, and
- The **standard** annual allowance has been breached **in that scheme**

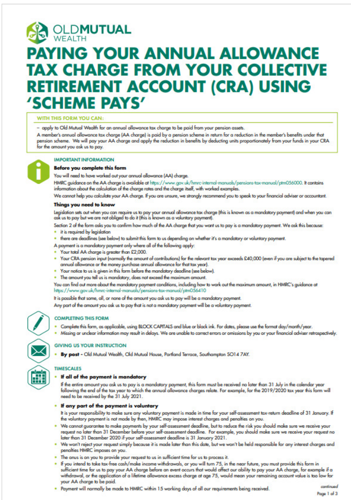
THE SCHEME ADMINISTRATOR BECOMES JOINTLY AND SEVERALLY LIABLE WITH THE INDIVIDUAL TO PAY THE CHARGE

PAYING THE ANNUAL ALLOWANCE CHARGE
VOLUNTARY SCHEME PAYS

Scheme administrators can **choose** to pay an individual's annual allowance charge voluntarily. NHS will do this.

THE INDIVIDUAL REMAINS SOLELY LIABLE TO PAY THE CHARGE

HOW THE COLLECTIVE RETIREMENT ACCOUNT CAN HELP



Client completes our form

Payment made

We make the payment within **10 days** of receipt

Interest stops

Any interest accruing **stops** when we make the payment

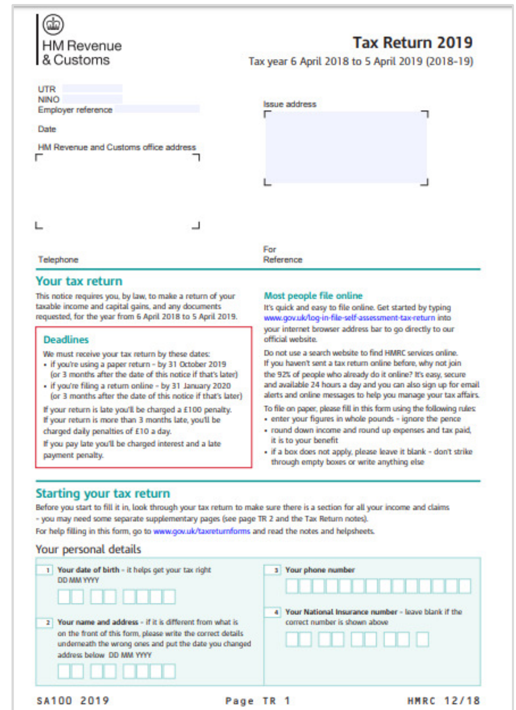
Benefits updated

We will make a proportionate reduction in benefits in the Collective Retirement Account

- Requests for mandatory payments must reach us by the **31 July** following the end of the relevant tax year
- Requests for voluntary payments can be made **at any time**

A NOTE ABOUT SELF-ASSESSMENT

- All annual allowance charge and scheme pays amount must be stated on self-assessment
- We **cannot guarantee** that we will be able to make a payment in time for the self-assessment deadline
- The individual is **liable** for any penalties and interest accrued



HM Revenue & Customs

Tax Return 2019

Tax year 6 April 2018 to 5 April 2019 (2018-19)

UTR
NINO
Employer reference

Date

HM Revenue and Customs office address

Issue address

Telephone

For Reference

Your tax return

This notice requires you, by law, to make a return of your taxable income and capital gains, and any documents requested, for the year from 6 April 2018 to 5 April 2019.

Deadlines

We must receive your tax return by these dates:
- if you're using a paper return – by 31 October 2019 (or 3 months after the date of this notice if that's later)
- if you're filing a return online – by 31 January 2020 (or 3 months after the date of this notice if that's later)

If your return is late you'll be charged a £100 penalty. If your return is more than 3 months late, you'll be charged daily penalties of £10 a day.

If you pay late you'll be charged interest and a late payment penalty.

Most people file online

It's quick and easy to file online. Get started by typing www.gov.uk/log-in-file-self-assessment-tax-return into your internet browser address bar to go directly to our official website.

Do not use a search website to find HMRC services online. If you haven't sent a tax return online before, why not join the 92% of people who already do it online? It's easy, secure and available 24 hours a day and you can also sign up for email alerts and online messages to help you manage your tax affairs.

To file on paper, please fill in this form using the following rules:
- enter your figures in whole pounds – ignore the pence
- round down income and round up expenses and tax paid, it is to your benefit
- if a box does not apply, please leave it blank – don't strike through empty boxes or write anything else

Starting your tax return

Before you start to fill it in, look through your tax return to make sure there is a section for all your income and claims – you may need some separate supplementary pages (see page TR 2 and the Tax Return notes).

For help filling in this form, go to www.gov.uk/taxreturnforms and read the notes and helpsheets.

Your personal details

1 **Your date of birth** – it helps get your tax right
DD MM YYYY

2 **Your name and address** – if it is different from what is on the front of this form, please write the correct details underneath the wrong ones and put the date you changed address below DD MM YYYY

3 **Your phone number**

4 **Your National Insurance number** – leave blank if the correct number is shown above

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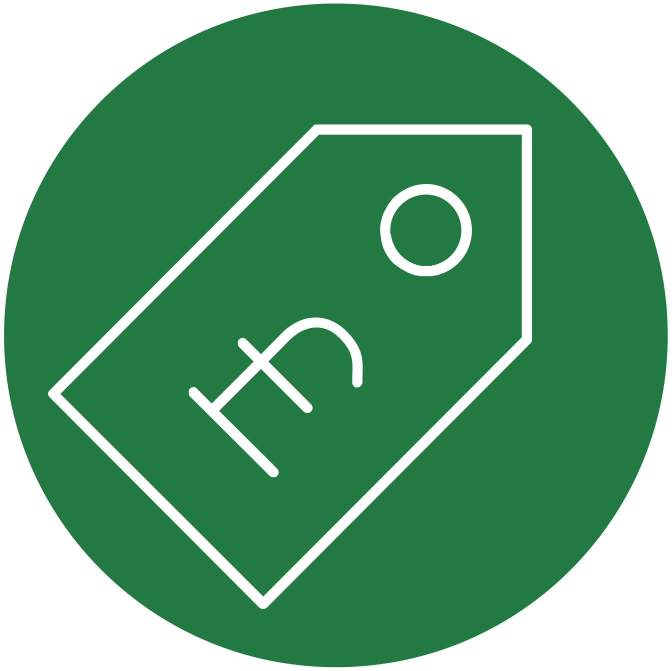
THE MONEY PURCHASE ANNUAL ALLOWANCE



THE MONEY PURCHASE ANNUAL ALLOWANCE

HM Treasury

Freedom and choice in pensions:

government response to the consultation

Cm 8901

July 2014

"…an individual over the age of 55 could **divert** their salary each year into their pension, take it out immediately and receive 25% of it **tax-free**, thus **avoiding** income **tax** and **National Insurance Contributions** on their employment income."

Source: https://www.gov.uk/government/consultations/freedom-and-choice-in-pensions

EXCESS TAX CHARGES DUE TO MPAA BREACH

HMRC doesn't know how many people face MPAA fines

In response to an FOI submitted by Royal London, HMRC said it does n
people are facing fines over money purchase annual allowance rules bre

Tax 52 minutes ago

Savers unaware of pensions cap bypass

MISTAKES IN PENSION LATER LIFE CAN BE FINANCIALLY CATASTOPHIC
PHASING SLOWLY INTO RETIREMENT NOW FAR MORE DIFFICULT

Source: https://citywire.co.uk/new-model-adviser/news/hmrc-doesnt-know-how-many-people-face-mpaa-fines/a1252168

THE MONEY PURCHASE ANNUAL ALLOWANCE

Action	MPAA trigger
Take PCLS only (FAD)	No
Take PCLS and income (FAD)	Yes
Take UFPLS	Yes
Remain in capped DD	No
Exceed GAD in capped DD	Yes
Take annuity	Maybe!
Take "small pots" less than £10,000 x 3	No

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THE MONEY PURCHASE ANNUAL ALLOWANCE

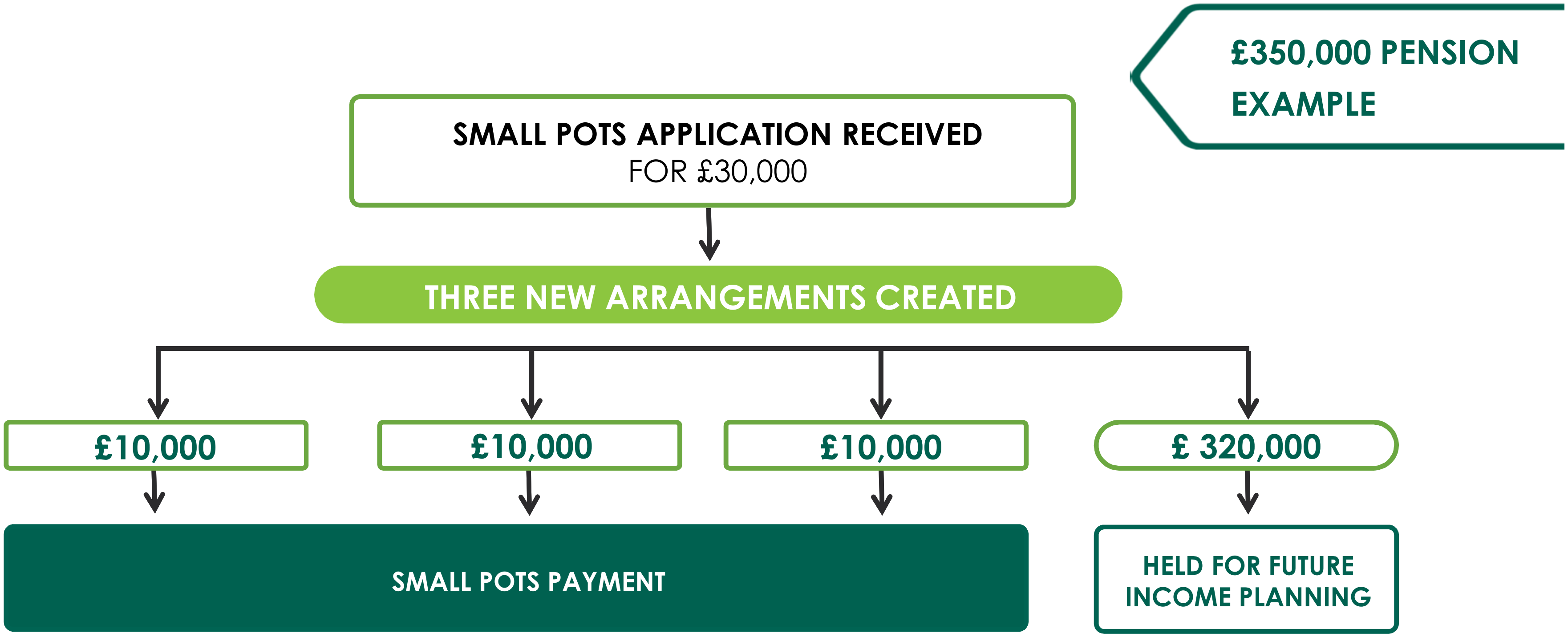
- Applies to money purchase pension saving only
- Once it's triggered, it doesn't go away
- Currently set at £4,000
- Has no impact on other pension savings (DB) if MPAA not breached
- Cannot carry forward any unused MPAA

If MPAA breached, **Alternative Annual Allowance** for other pension savings kicks in.

- Alternative Annual Allowance

  = £36,000

A MODERN PENSION PROPOSITION – SMALL POTS WITHDRAWAL



£25,500 in total

A MODERN PENSION PROPOSITION
SMALL POTS WITHDRAWAL

Be aware, it will not work for clients:

- who are younger than 55
- registered for Enhanced Protection, Fixed Protection 2012, 2014 and 2016 funds> £10,000 *
- or who are going to apply and rely on Fixed 2016 in future
- with protected tax free cash - small pots cash limited to 25%
- with crystallised monies only greater than £10,000
- with no unused LTA available*

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* These are OMW , rather than legislative requirements, and might not need to be met in certain circumstances.

CARRY FORWARD

CARRY FORWARD RULES

Can go back three tax years

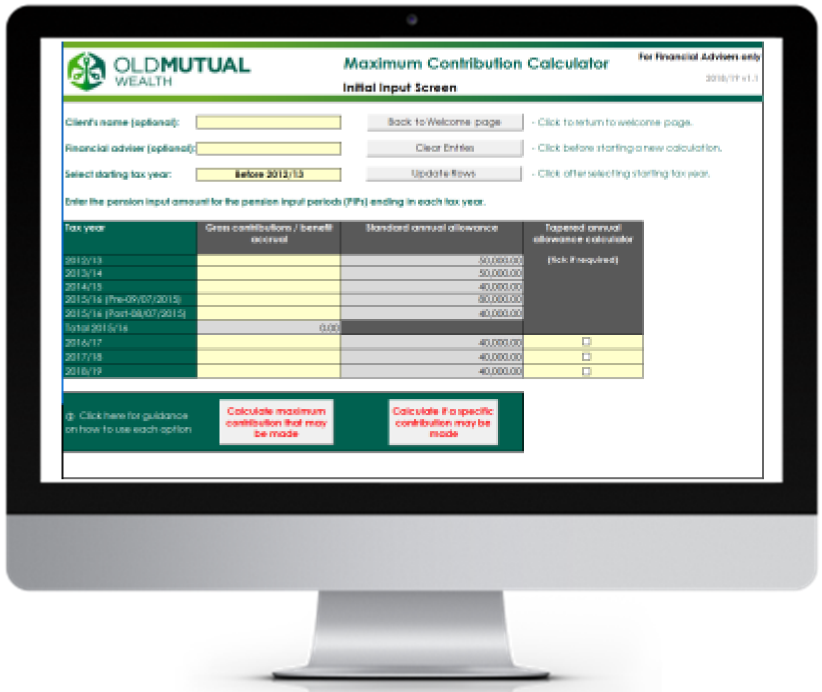
Registered scheme membership required

Beware MPAA trigger events and the Alternative Allowance

Member contributions and employer

TIMING AND PLANNING IS ESSENTIAL – USE IT OR LOSE IT!

MAXIMUM CONTRIBUTION CALCULATOR
HELP WORK OUT CLIENT FUNDING OPTIONS



We can check calculations as required but cannot produce these for you

KEY POINTS

- Make the most of carry forward
- Make the most of employer contributions
- Beware the Taper and MPAA
- We can help check

Please remember that past performance is not a guide to future performance. The value of your client's investments may fall as well as rise and they may not get back what they put in.

This document is based on Old Mutual Wealth's interpretation of the law and HM Revenue and Customs practice as at 12/2019. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The value of any tax relief will depend on the investor's individual circumstances.

The tax treatment and efficiency of these options will depend on the individual circumstances of each customer. Tax rules and their application may change in the future.

www.oldmutualwealth.co.uk

Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

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219-1792 December 2019

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