

1 00:00:12:20 00:00:15:05
Hello, good morning,
and welcome, everyone

2 00:00:15:07 00:00:18:16
to the third of
our Future of Pension Advice seminars.

3 00:00:19:15 00:00:22:08
If you've been here all three days,
thank you very much.

4 00:00:22:10 00:00:25:03
I don't think I've ever had
a third date before in my life,

5 00:00:25:05 00:00:27:24
I feel I might have
to go and meet your parents now.

6 00:00:28:14 00:00:32:02
Onto business,
good seminar we've got for you today.

7 00:00:32:21 00:00:35:13
I'm Les Cameron,
Head of Technical here at Prudential

8 00:00:35:15 00:00:37:09
and I'm going to be the host.

9 00:00:37:11 00:00:39:14
Some housekeeping points for you:

10 00:00:40:06 00:00:42:11
we are recording this session today

11 00:00:42:13 00:00:46:06
so you'll be able
to get a recording of it

12 00:00:46:08 00:00:47:20
off the PruAdviser website.

13 00:00:47:22 00:00:50:17
Maybe at some point in the next week,
for replay purposes,

14 00:00:50:19 00:00:52:01
we'll be recording it.

15 00:00:52:03 00:00:56:04
Today's session
does qualify for structured CPD

16 00:00:56:06 00:01:00:16
from both the CII and the CISI.

17 00:01:00:18 00:01:02:15
Here's how it'll work, I'm hosting,

18 00:01:02:17 00:01:05:19
I'll pass over to a presenter
in a couple of seconds

19 00:01:05:21 00:01:08:02
who will do the main body
of the session

20 00:01:08:04 00:01:09:24
which will be up to about an hour.

21 00:01:10:15 00:01:15:05
And then after that, we'll stay behind
and answer your questions.

22 00:01:15:07 00:01:18:17
You can input your questions
and answers as we go along,

23 00:01:18:19 00:01:22:15
there's a little Q&A box
somewhere below the broadcast screen.

24 00:01:23:11 00:01:25:11
You'll see that there.

25 00:01:25:13 00:01:30:10
Without further ado, I'll introduce
one of our technical managers,

26 00:01:30:12 00:01:33:14
Neil MacLeod who will take you
through the body of the session.

27 00:01:34:01 00:01:36:15
We've been talking
about retirement income advice

28 00:01:36:17 00:01:38:14
and you don't give this kind of advice

29 00:01:38:16 00:01:40:18
until people
have built up retirement funds.

30 00:01:40:20 00:01:44:18
So, Neil's going to be looking
at the crucial area of tax relief

31 00:01:44:20 00:01:46:08
and annual allowance.

32 00:01:46:10 00:01:48:08
So, Neil, over to you.

33 00:01:49:13 00:01:53:04
Thanks, Les. That's correct,
you can't build up pension funds

34 00:01:53:06 00:01:55:00
without putting money in.

35 00:01:55:02 00:01:57:05
And you can't put money in

36 00:01:57:07 00:02:00:09
without considering tax relief
and annual allowance.

37 00:02:00:11 00:02:02:03
That brings with it a few challenges

38 00:02:02:05 00:02:04:19
because some things
have some complex calculations

39 00:02:04:21 00:02:06:00
to consider.

40 00:02:07:04 00:02:10:05
Here's an important information slide,
you'll get a copy after

41 00:02:10:07 00:02:12:10
so you can have a look at it
at your leisure.

42 00:02:12:24 00:02:15:05
Here's today's learner objectives:

43 00:02:15:07 00:02:18:13
hopefully, after today,
you've got a better understanding

44 00:02:18:15 00:02:20:11
of pensions tax relief,

45 00:02:20:21 00:02:25:03
the UK income tax system
and also the annual allowance regime.

46 00:02:25:05 00:02:28:10
I'm also going to go through
a couple of short demonstrations

47 00:02:28:12 00:02:30:14
on a couple of our pensions tax tool,

48 00:02:30:16 00:02:32:08
so the tax relief modeller

49 00:02:32:10 00:02:34:13
and also

the annual allowance calculator

50 00:02:34:15 00:02:38:11
that can hopefully take out the pain
out of these calculations for you.

51 00:02:40:04 00:02:42:14
So, when it comes
to pension tax limits,

52 00:02:42:16 00:02:44:09
there's three things to consider:

53 00:02:44:11 00:02:47:04
tax relief for annual allowance
on the way in

54 00:02:47:06 00:02:49:12
and once your money's
in the pension system,

55 00:02:49:14 00:02:52:01
you're really thinking
about lifetime allowance.

56 00:02:52:03 00:02:55:00
Lifetime allowance
is one for another day,

57 00:02:55:02 00:02:58:17
today we're going to be focusing
on tax relief and annual allowance.

58 00:03:00:13 00:03:04:07
A lot of the confusion about
tax relief and annual allowance

59 00:03:04:09 00:03:07:04
is where people
get the rules mixed up

60 00:03:07:20 00:03:10:00
or they think
that they're similar things.

61 00:03:10:02 00:03:12:16
If you take nothing else
away from today's session,

62 00:03:12:18 00:03:14:02
please remember tax relief

63 00:03:14:04 00:03:16:05
and annual allowance
are separate

64 00:03:16:07 00:03:19:05
and they've got their own rules

that apply to each of them.

65 00:03:19:07 00:03:20:21
When it comes to planning,

66 00:03:20:23 00:03:23:19
you would normally think
about the tax relief aspect first

67 00:03:23:21 00:03:26:14
and then think about
the annual allowance implications

68 00:03:26:16 00:03:30:13
of any recommendations,
any new contributions.

69 00:03:33:20 00:03:37:15
So, tax relief, in terms of limits
on personal contributions,

70 00:03:38:07 00:03:41:03
an individual can pay in 100%
of their relevant earnings,

71 00:03:41:05 00:03:43:17
or £3,600 if that's higher,

72 00:03:43:19 00:03:45:04
and get tax relief on it.

73 00:03:45:15 00:03:49:08
So, when I say "relevant earnings",
it would usually be earned income,

74 00:03:49:10 00:03:51:07
so it would be your salary or bonus.

75 00:03:51:19 00:03:55:19
Or if you're self-employed,
it'd be your self-employed profits.

76 00:03:55:21 00:03:58:23
Importantly, you wouldn't get taxed
on personal contributions

77 00:03:59:00 00:04:00:21
if they're paid after 75.

78 00:04:03:05 00:04:05:08
You also get
third-party contributions,

79 00:04:05:10 00:04:08:09
so, they are also classed
as personal contributions

80 00:04:08:11 00:04:11:06

because it's the member
that's getting tax relief on that,

81 00:04:11:08 00:04:14:19
it's just that the person
making the payment is a third party.

82 00:04:14:21 00:04:18:06
So, it may be a parent or grandparent,
or something like that.

83 00:04:18:08 00:04:20:07
But it's a member
that gets tax relief,

84 00:04:20:09 00:04:22:14
so they need to have
the relevant earnings,

85 00:04:22:16 00:04:24:07
therefore the rules are the same.

86 00:04:25:18 00:04:27:24
You've also got
your employer contributions.

87 00:04:28:01 00:04:30:03
I don't really want
to go into the tax relief

88 00:04:30:05 00:04:32:23
on employer contributions
in too much detail,

89 00:04:33:00 00:04:36:13
but the important thing to remember,
there's no length to earnings

90 00:04:36:15 00:04:38:06
for employer contributions.

91 00:04:38:08 00:04:40:12
So, the individual
doesn't get taxed...

92 00:04:43:21 00:04:46:16
...and exclusively
for the purposes of the business.

93 00:04:47:09 00:04:49:21
Normally, if you're dealing
with a limited company

94 00:04:49:23 00:04:52:14
and it's a sole director,
it shouldn't be a problem,

95 00:04:52:16 00:04:55:11

but in all cases, I would say
run it past the accountant

96 00:04:55:13 00:04:58:18
and make sure they're comfortable
with the tax relief angle on it.

97 00:05:01:10 00:05:04:02
So, in terms of how tax relief works,

98 00:05:04:04 00:05:07:01
you've got your earnings,
you've got your tax bands,

99 00:05:07:03 00:05:10:01
and that's going to be taxed
dependent on where it falls.

100 00:05:10:03 00:05:12:16
There's three methods
for getting tax relief

101 00:05:12:18 00:05:14:01
from personal contributions.

102 00:05:14:03 00:05:17:05
You've got your net pay,
relief at source,

103 00:05:17:07 00:05:19:17
which is called relief
when making a claim.

104 00:05:19:19 00:05:21:24
So, if I have a look at
relief at source first,

105 00:05:22:12 00:05:25:24
it's called 'relief at source'
because to the pension provider...

106 00:05:27:00 00:05:28:12
it gets grossed up.

107 00:05:28:14 00:05:30:24
So, if you pay £80 to the provider,

108 00:05:31:01 00:05:35:13
they'll go to HMRC and they'll get £20
and add that to your payment.

109 00:05:35:15 00:05:38:12
Your gross payment
is actually £100,

110 00:05:38:14 00:05:40:15
so you've had relief at source.

111 00:05:40:17 00:05:43:19
Relief at source, or RAS
as it's sometimes referred to,

112 00:05:44:04 00:05:46:09
is for personal pensions.

113 00:05:46:21 00:05:48:21
That's fine
for a basic rate taxpayer,

114 00:05:48:23 00:05:51:00
but what about higher
or additional rates?

115 00:05:51:14 00:05:54:14
What happens, as well as them
getting relief at source

116 00:05:54:16 00:05:56:14
and the money
invested in your pension,

117 00:05:56:16 00:05:59:02
it also extends your basic rate band.

118 00:05:59:16 00:06:02:17
So, in that example, £100,
that's the gross amount,

119 00:06:02:19 00:06:05:23
that would extend your basic rate band
by £100

120 00:06:06:00 00:06:08:24
and that has the effect
of bringing £100 off

121 00:06:09:01 00:06:11:19
of income that was getting taxed
at a higher rate

122 00:06:11:21 00:06:14:19
into the lower tax band,
into your basic rate band.

123 00:06:14:21 00:06:17:02
So, that's how you get
your higher rate relief.

124 00:06:17:13 00:06:19:22
It also has the impact
of raising the point

125 00:06:19:24 00:06:21:20
you wish to pay additional rate tax.

126 00:06:21:22 00:06:25:09

That's how additional rate taxpayers
get their tax relief.

127 00:06:26:15 00:06:29:11
Moving on to net pay.

128 00:06:29:13 00:06:32:11
Net pay is used
for occupational schemes.

129 00:06:33:00 00:06:34:23
It's a bit simpler
than relief at source

130 00:06:35:00 00:06:36:03
in how it operates

131 00:06:36:05 00:06:39:19
because they take off
that pension contribution

132 00:06:39:21 00:06:43:00
from your salary
before income tax is calculated on it.

133 00:06:43:14 00:06:46:15
So, there's no messing around
with tax bands, it just comes off

134 00:06:46:17 00:06:49:19
and that's how you get your relief
at your highest marginal rate.

135 00:06:49:21 00:06:51:03
So, it is a bit simpler.

136 00:06:51:14 00:06:54:17
You've also got your relief
on making a claim,

137 00:06:55:10 00:06:57:21
provisions,
and that applies too.

138 00:06:57:23 00:07:01:20
You might have a client who's got
an old retirement annuity contract

139 00:07:02:04 00:07:04:19
so they'll make their payments gross

140 00:07:05:17 00:07:08:24
and similarly to a net pay
on a net pay basis,

141 00:07:09:01 00:07:10:22
that amount's deducted
from their income

142 00:07:10:24 00:07:13:09
before income tax is calculated on it.

143 00:07:14:00 00:07:17:08
The difference is they won't
automatically get that tax relief,

144 00:07:17:10 00:07:19:05
they need to complete a tax return

145 00:07:19:07 00:07:21:21
and that's how
they'll get their tax relief.

146 00:07:23:19 00:07:26:15
You'll also come across people
who pay their contributions

147 00:07:26:17 00:07:28:02
via salary sacrifice.

148 00:07:28:24 00:07:32:11
So, salary sacrifice
is exactly what it says on the tin:

149 00:07:32:13 00:07:34:20
instead of you being paid some salary,

150 00:07:35:07 00:07:38:08
it's just going to be paid
directly into your pension.

151 00:07:38:10 00:07:40:20
So, the gross amount
is paid into your pension.

152 00:07:41:14 00:07:44:17
On the face of it,
it does look similar to net pay,

153 00:07:44:19 00:07:46:16
because you're not getting paid
that amount,

154 00:07:46:18 00:07:48:14
so you're not being taxed on it.

155 00:07:48:16 00:07:50:23
But there's a couple
of important differences.

156 00:07:51:00 00:07:52:04
First of all,

157 00:07:52:06 00:07:56:03
it's an employer contribution
being made under salary sacrifice,

158 00:07:56:05 00:07:59:17
it's not a personal contribution
and that's very important to remember.

159 00:08:00:10 00:08:04:08
The other point is under net pay,
the amount of the contribution

160 00:08:04:18 00:08:08:09
is NI-able for both the employer
and the employee,

161 00:08:08:11 00:08:10:08
whereas with salary sacrifice,

162 00:08:10:10 00:08:12:07
as an individual,
you're not being paid it,

163 00:08:12:09 00:08:14:02
so you're not paying NI on it.

164 00:08:14:04 00:08:17:11
And that's an allowable expense
for the company,

165 00:08:17:13 00:08:19:22
so they're saving national insurance
as well.

166 00:08:19:24 00:08:22:16
And because of that,
you'll find, in a lot of cases,

167 00:08:22:18 00:08:24:19
if someone's making
salary sacrifice payments,

168 00:08:24:21 00:08:28:08
the employer might give up
some of that NI saving

169 00:08:28:10 00:08:30:23
and pay it into the member's pension
as well.

170 00:08:31:00 00:08:35:03
So, they can end up with a bit more
in their pension that way.

171 00:08:36:21 00:08:40:15
Normally,
you do end up in the same place

172 00:08:40:17 00:08:43:22
if you pay under net pay
or relief at source.

173 00:08:43:24 00:08:46:11
I've got a wee example here
to show how that works.

174 00:08:46:13 00:08:50:14
So, with somebody
who's got a salary of £42,570,

175 00:08:50:16 00:08:52:11
they're not making
a pension contribution

176 00:08:52:13 00:08:54:18
so they're going to be taxed
on the full amount

177 00:08:54:20 00:08:57:08
after deduction
of their personal allowance.

178 00:08:57:10 00:09:01:23
So, this individual walks away
with £36,570 in their hand.

179 00:09:02:00 00:09:05:09
Obviously, to simplify this,
I haven't included national insurance.

180 00:09:06:06 00:09:09:02
What happens if they wanted
to make a net pay contribution?

181 00:09:09:04 00:09:13:24
So, our net pay contribution
is at £2,500,

182 00:09:14:01 00:09:17:11
so that's deducted from their income

183 00:09:17:13 00:09:19:09
before the tax is calculated on it.

184 00:09:19:11 00:09:21:14
So, they've got
a lower tax bill there.

185 00:09:22:00 00:09:26:14
In terms of take-home pay,
it's reduced by £2,000

186 00:09:27:09 00:09:29:02
in comparison to the person

187 00:09:29:04 00:09:31:09
who didn't make
a pension contribution.

188 00:09:31:22 00:09:35:21
So, it's reduced by £2,000,
but they have £2,500 in their pension

189 00:09:35:23 00:09:37:21
so they have obtained tax relief.

190 00:09:38:20 00:09:40:11
If you compare that to somebody

191 00:09:40:13 00:09:42:22
who pays
into a relief at source scheme,

192 00:09:43:13 00:09:45:22
like the person
who's made no pension contributions,

193 00:09:45:24 00:09:48:18
the full amount of that salary
is going to get taxed.

194 00:09:49:10 00:09:52:02
But then they make
the £2,000 net contribution

195 00:09:52:04 00:09:53:24
to their provider

196 00:09:54:01 00:09:57:17
and they'll gross that up
and get the £500 from HMRC.

197 00:09:57:19 00:10:00:14
So, they'll still end up
with £2,500 in their pension,

198 00:10:00:24 00:10:03:13
but, importantly,
the take-home pay is the same

199 00:10:03:15 00:10:06:01
who's made the contribution
under net pay.

200 00:10:07:03 00:10:09:07
Now,
it's not always as simple as that.

201 00:10:09:09 00:10:12:10
There's something you need
to be aware of: the net pay anomaly.

202 00:10:12:23 00:10:17:01
So, the net pay anomaly
specifically affects non-taxpayers.

203 00:10:17:24 00:10:19:15

I'll show you what I'm talking about.

204 00:10:19:17 00:10:23:23
On the left, we've got members
who are paying gross,

205 00:10:24:00 00:10:26:11
so by paying gross,
it could be net pay,

206 00:10:26:13 00:10:29:20
it could be relief when making a claim
or making gross payments.

207 00:10:29:22 00:10:33:16
Then on the right, you've got
a RAS member, relief at source.

208 00:10:34:05 00:10:38:12
So, if a non-taxpayer
has got £100 salary

209 00:10:38:23 00:10:41:00
and they want to pay that
into a pension...

210 00:10:42:17 00:10:44:04
they'd pay £100 in

211 00:10:44:15 00:10:46:07
and it'd cost them £100 to do it

212 00:10:46:09 00:10:48:24
because they're paying it gross
and that's the cost.

213 00:10:50:02 00:10:52:17
Compare that
to a relief-at-source member,

214 00:10:52:19 00:10:55:05
they only need to pay £80

215 00:10:55:07 00:10:57:16
to get the same amount
into their pension.

216 00:10:57:18 00:10:59:19
That's because the provider
has gone away

217 00:10:59:21 00:11:01:19
and claimed that relief at source.

218 00:11:01:21 00:11:05:05
So, relief-at-source members
for non-taxpaying members

219 00:11:05:07 00:11:06:11
will get tax relief,

220 00:11:07:07 00:11:08:15
other ones don't.

221 00:11:08:17 00:11:11:01
So, it's just something to remember.

222 00:11:11:03 00:11:12:23
But although you don't get tax relief,

223 00:11:13:00 00:11:15:10
it doesn't mean
you don't make the contribution.

224 00:11:16:03 00:11:21:06
So, if you think about it,
you might be a member of a DB scheme,

225 00:11:21:22 00:11:25:16
in which case the benefit that
you're accruing from that contribution

226 00:11:25:18 00:11:27:18
might be really valuable,

227 00:11:27:20 00:11:30:02
in which case,
who cares about tax relief?

228 00:11:30:19 00:11:34:09
On the other hand, you might be
a member of a money purchase scheme

229 00:11:34:11 00:11:37:09
and your employer could be paying
matching contributions.

230 00:11:37:11 00:11:40:10
If that's the case, again,
you're going to benefit from that.

231 00:11:40:22 00:11:42:22
So, tax relief is nice,

232 00:11:42:24 00:11:44:20
but it's not the end of the world.

233 00:11:47:23 00:11:51:08
Now, that's a brief,
simple explanation

234 00:11:51:10 00:11:52:24
of how tax relief works.

235 00:11:53:12 00:11:56:16
In reality,

it's a lot more complicated than that

236 00:11:56:18 00:11:59:13
and to understand fully
the benefit of tax relief,

237 00:11:59:15 00:12:02:12
you really need to understand
the UK income tax system

238 00:12:02:14 00:12:03:22
and how it works.

239 00:12:03:24 00:12:07:02
There are seven steps
to the income tax computation

240 00:12:07:04 00:12:08:06
in the UK.

241 00:12:08:08 00:12:10:12
If you want to find out about it
in more detail

242 00:12:10:14 00:12:14:04
and you're really interested,
it's in the Income Tax Act 2007,

243 00:12:14:15 00:12:17:05
otherwise,
I'll outline how it works here.

244 00:12:17:16 00:12:22:15
So, your first step, you need
to find out somebody's total income.

245 00:12:22:17 00:12:25:16
Total income is all taxable income.

246 00:12:26:09 00:12:29:15
Importantly, you include
the full amount of any savings,

247 00:12:29:17 00:12:30:17
any dividends,

248 00:12:30:19 00:12:33:08
whether or not they're covered
by a no-rate allowance,

249 00:12:33:10 00:12:35:16
for example,
your personal savings allowance

250 00:12:35:18 00:12:37:11
or the dividend allowance,

251 00:12:37:13 00:12:40:01

you still include them
in your total income.

252 00:12:41:12 00:12:44:08
You also include the full amount
of any bond gains.

253 00:12:44:19 00:12:47:21
Now, you might get top slicing relief,

254 00:12:47:23 00:12:50:03
but for the purposes
of the income tax calculation,

255 00:12:50:05 00:12:53:07
you need to tax the full amount
of your bond gains first.

256 00:12:53:18 00:12:57:14
Top slicing relief is a tax reducer
which we'll come onto shortly,

257 00:12:57:16 00:12:59:11
and that reduces your tax bill.

258 00:12:59:13 00:13:02:01
So, it's a completely
stand-alone calculation.

259 00:13:02:20 00:13:05:08
The other thing to highlight
about total income,

260 00:13:05:10 00:13:09:14
it's not going to include the amount
of your net pay contributions.

261 00:13:09:16 00:13:11:16
If you think about it,
they're taking off

262 00:13:11:18 00:13:13:11
before income tax is calculated,

263 00:13:13:13 00:13:16:20
so they're not included in step one
for your total income.

264 00:13:18:14 00:13:21:20
Moving on, step two:
you deduct any allowable reliefs.

265 00:13:22:20 00:13:24:19
Now, these tend to be pretty obscure,

266 00:13:24:21 00:13:29:08
the only one I can usually remember
is Ellie share trade loss relief

267 00:13:29:10 00:13:31:00
- I don't even know what it is.

268 00:13:31:10 00:13:36:11
To be honest, if you have a client
with a complicated tax situation,

269 00:13:36:13 00:13:38:24
if they've got an accountant,
I'd check with them

270 00:13:39:01 00:13:42:03
if there are any allowable reliefs
to be deducted here.

271 00:13:43:03 00:13:45:15
One of the more common ones
you'll come across

272 00:13:45:17 00:13:48:22
is relief
on making a claim contribution.

273 00:13:48:24 00:13:50:24
So, they are taken off here.

274 00:13:51:01 00:13:53:23
If you've got a client
who's making contributions to Iraq,

275 00:13:54:10 00:13:56:16
it's deducted at step two.

276 00:13:57:12 00:14:01:05
Once you've done that, you arrive at
what's called somebody's net income.

277 00:14:01:21 00:14:04:05
This can cause a bit of confusion,

278 00:14:04:21 00:14:07:16
when we're talking about net income,
myself included,

279 00:14:07:18 00:14:13:02
you're usually thinking about
what is somebody's income after tax.

280 00:14:13:04 00:14:16:17
Strictly speaking, when you're talking
about the tax computation,

281 00:14:17:04 00:14:19:10
it's what you've got
after step two here.

282 00:14:19:12 00:14:21:04

This is quite important to remember

283 00:14:21:06 00:14:25:00
because we'll come back to this
for the tapered annual allowance.

284 00:14:26:18 00:14:30:01
Step three: that's where you deduct
your personal allowance,

285 00:14:30:03 00:14:31:24
or if you've got
a blind person's allowance,

286 00:14:32:01 00:14:33:13
you would take it off here too.

287 00:14:34:02 00:14:37:18
Now, it says on the slide
"reduced where applicable".

288 00:14:37:20 00:14:40:21
That's just referring to the fact
that you might have somebody

289 00:14:40:23 00:14:42:10
who's a high earner

290 00:14:42:12 00:14:45:03
and because of that, they've had
a reduced personal allowance.

291 00:14:45:05 00:14:47:10
So, just remember
to bear that in mind as well.

292 00:14:48:14 00:14:49:24
After step three,

293 00:14:50:01 00:14:52:23
you arrive at what's called
somebody's taxable income

294 00:14:53:00 00:14:54:10
and it's that taxable income

295 00:14:54:12 00:14:56:24
that's then stacked up
against your tax bands

296 00:14:57:01 00:14:58:10
and taxed accordingly,

297 00:14:59:02 00:15:00:07
which is step four.

298 00:15:01:02 00:15:02:22
A few points to remember here,

299 00:15:03:08 00:15:06:13
your taxable income
is taxed in a specific order,

300 00:15:07:00 00:15:09:05
so, the statutory order
about how that's done

301 00:15:09:07 00:15:11:05
and I will come back to that shortly.

302 00:15:12:00 00:15:15:10
You also need to remember as well,
in terms of the tax bands,

303 00:15:15:12 00:15:18:04
not everybody's going to have
the same tax bands.

304 00:15:18:21 00:15:22:23
In Scotland, unfortunately,
we've got five different tax bands

305 00:15:23:00 00:15:24:04
to think about,

306 00:15:24:06 00:15:26:08
which makes things
a bit more complicated.

307 00:15:26:10 00:15:29:15
As we saw earlier, if you make
a relief at source contribution,

308 00:15:29:17 00:15:32:13
then that's going to increase
your basic rate band.

309 00:15:32:15 00:15:35:04
So, not everybody's
going to have the same bands.

310 00:15:35:18 00:15:38:15
Gift Aid contributions,
they extend your basic rate band

311 00:15:38:17 00:15:40:22
just like
relief at source contributions.

312 00:15:40:24 00:15:44:17
So, it's a gross amount and that
will push up your basic rate band.

313 00:15:46:03 00:15:48:21
Step five is simple:
you just add up all the tax

314 00:15:48:23 00:15:52:10
from the different components
of your income.

315 00:15:54:07 00:15:59:04
Step six: this is one of the steps
where a lot of people misunderstand.

316 00:15:59:16 00:16:02:14
This is where you take off
any tax reducers.

317 00:16:03:01 00:16:04:24
The name explains it pretty well,

318 00:16:05:01 00:16:07:14
these are things
that reduce your tax liability.

319 00:16:08:05 00:16:10:19
So, the sort of things
you'd be coming across here:

320 00:16:11:05 00:16:15:06
EIS and VCT income tax reliefs,
they'd be deducted here.

321 00:16:15:08 00:16:18:09
If you've got an onshore bond gain,
then you'll get a tax credit

322 00:16:18:11 00:16:21:03
to take account of the tax
paid by the life fund.

323 00:16:21:05 00:16:23:22
Again, that's a step-six reducer.

324 00:16:24:15 00:16:28:02
Top slicing relief, that's where
your top slicing relief comes in.

325 00:16:28:04 00:16:30:24
As I said, it is a separate,
stand-alone calculation

326 00:16:31:01 00:16:33:08
that produces a figure
that you take off here.

327 00:16:34:06 00:16:37:09
One of the interesting ones
is the marriage allowance.

328 00:16:37:11 00:16:40:02
I used to think
that the marriage allowance

329 00:16:40:04 00:16:43:16
where you can transfer ten percent
of the unused amount

330 00:16:44:05 00:16:46:03
to your spouse or civil partner,

331 00:16:46:05 00:16:50:13
I genuinely thought that increased
the recipient's personal allowance,

332 00:16:50:15 00:16:51:21
that's not the case.

333 00:16:51:23 00:16:54:10
The benefit
of that transferred allowance

334 00:16:54:12 00:16:55:21
is actually a tax reducer

335 00:16:55:23 00:16:58:04
and it's deducted
from your tax bill here.

336 00:17:00:01 00:17:03:20
Then, finally, you add in
any stand-alone tax charges.

337 00:17:04:07 00:17:05:13
This may be things like

338 00:17:05:15 00:17:08:07
if you're subject
to the child benefit tax charge,

339 00:17:08:09 00:17:09:17
you add that on here.

340 00:17:10:02 00:17:12:09
An annual allowance charge
is added on here

341 00:17:12:11 00:17:14:22
and also
your lifetime allowance charge.

342 00:17:15:06 00:17:18:06
So, it's only after you've completed
those seven steps

343 00:17:18:08 00:17:22:00
that you've accurately calculated
your client's tax liability.

344 00:17:22:17 00:17:25:05
So, there's quite a lot to that,

345 00:17:25:07 00:17:28:02
but it's important to understand
how it actually works.

346 00:17:28:04 00:17:31:18
It does help when you're dealing
with things like top slicing

347 00:17:31:20 00:17:34:07
or the tapered annual allowance, etc.

348 00:17:34:09 00:17:37:11
We're going to have a look at
a couple of the steps in more detail,

349 00:17:37:13 00:17:39:21
but there's another important figure

350 00:17:39:23 00:17:44:04
when you're considering
someone's tax position.

351 00:17:44:14 00:17:47:22
It's called the adjusted net income.

352 00:17:47:24 00:17:50:06
Basically, adjusted net income

353 00:17:50:08 00:17:54:14
is your net income
adjusted for relief at source

354 00:17:54:16 00:17:56:10
and Gift Aid contributions.

355 00:17:56:12 00:17:58:11
So, they're taken off your net income

356 00:17:59:00 00:18:01:01
to arrive at your adjusted net income.

357 00:18:01:11 00:18:03:04
One of the reasons it is important

358 00:18:03:06 00:18:07:24
is because if your adjusted net income
exceeds £100,000,

359 00:18:08:19 00:18:10:11
as it shows in the slide there,

360 00:18:11:00 00:18:12:24
for every £2 in excess of that,

361 00:18:13:01 00:18:15:17
you're going to lose a pound
of personal allowance.

362 00:18:16:07 00:18:18:00
So, it's quite important.

363 00:18:18:20 00:18:21:15
One of the things to highlight
at this stage is

364 00:18:21:17 00:18:24:08
when you're thinking
about adjusted net income,

365 00:18:25:00 00:18:28:05
all pension contributions
have been excluded by this stage

366 00:18:28:07 00:18:30:02
because it's after step two.

367 00:18:30:17 00:18:34:05
So, if you think about it,
your net pay contributions

368 00:18:34:07 00:18:37:05
are taken out before arriving
at your step one amount, anyway

369 00:18:37:07 00:18:39:11
because it's not included
in total income.

370 00:18:39:13 00:18:41:13
Your relief
when making a claim contributions

371 00:18:41:15 00:18:43:07
are taken out in step two

372 00:18:43:09 00:18:45:12
and your relief at source
contributions

373 00:18:45:14 00:18:46:21
are taken out here.

374 00:18:46:23 00:18:49:21
So, adjusted net income
can be manipulated

375 00:18:49:23 00:18:51:15
by pension contributions.

376 00:18:51:17 00:18:53:11
That's a key point here.

377 00:18:54:07 00:18:57:14
There's another couple of reasons
adjusted net income is important.

378 00:18:57:16 00:19:01:06
So, as well as
the high earner tax trap there,

379 00:19:01:08 00:19:02:23
which I was just talking about...

380 00:19:04:06 00:19:08:12
the high earner tax trap,
your effective rate of tax is 60%.

381 00:19:09:01 00:19:12:15
That's because
as well as paying higher rate tax,

382 00:19:12:17 00:19:15:05
you're going to be losing
personal allowance too.

383 00:19:15:07 00:19:18:12
So, that band of £25,140 there,

384 00:19:18:14 00:19:21:24
you're going to be paying
an effective rate of 60% tax.

385 00:19:22:16 00:19:24:23
You've also got
the child benefit tax charge.

386 00:19:25:10 00:19:29:17
If you've got an adjusted net income
of between £50,000 and £60,000,

387 00:19:29:19 00:19:33:02
then that's going to erode
your child benefit

388 00:19:33:21 00:19:35:16
and there will be a tax charge.

389 00:19:35:18 00:19:37:19
Depending on
how many children you've got,

390 00:19:37:21 00:19:41:03
that can be an effective rate of tax
of up to 70%.

391 00:19:41:14 00:19:43:05
So, again, that's quite high.

392 00:19:43:07 00:19:46:11
If you can manipulate that
by making pension contributions,

393 00:19:46:13 00:19:50:07

then you're going
to get extra tax relief, in effect.

394 00:19:50:18 00:19:53:19
Then, finally, you've got
your personal savings allowance.

395 00:19:54:10 00:19:56:06
I'll talk about that again
in a second,

396 00:19:56:08 00:20:00:00
but your personal savings allowance
is based on your adjusted net income.

397 00:20:00:02 00:20:02:23
If your adjusted net income
is you're a basic rate taxpayer,

398 00:20:03:00 00:20:05:08
you get £1,000
personal savings allowance.

399 00:20:05:10 00:20:07:06
If you're higher rate, it's £500.

400 00:20:08:00 00:20:10:17
And additional rate taxpayers,
they don't get one

401 00:20:10:19 00:20:13:04
and they probably don't need it,
so it's fine.

402 00:20:15:09 00:20:18:12
So, having a look at the allowances
and the bands here.

403 00:20:19:12 00:20:22:11
I said you deduct
your personal allowance at step three

404 00:20:22:13 00:20:24:19
and then you've got
your taxable income.

405 00:20:24:21 00:20:27:07
But there's one point
I'd like to highlight

406 00:20:27:09 00:20:29:00
about the personal allowance.

407 00:20:29:23 00:20:33:23
A lot of people don't realise that
you can deduct your personal allowance

408 00:20:34:00 00:20:35:16

from whatever income you want to.

409 00:20:36:13 00:20:39:04
This is referred to
as beneficial altering.

410 00:20:39:06 00:20:41:20
Usually, in 99% of cases,

411 00:20:41:22 00:20:44:01
the best result
is going to be achieved...

412 00:20:45:13 00:20:48:22
taking that from your non-savings,
non-dividend income

413 00:20:49:14 00:20:51:14
because that's taxed at a higher rate.

414 00:20:52:08 00:20:57:10
But you can, in some cases,
be better taking it from dividends

415 00:20:57:12 00:20:59:03
that are taxed in basic rate.

416 00:20:59:05 00:21:02:08
It's a bit of a niche scenario,
but it is something to be aware of.

417 00:21:03:05 00:21:06:04
So, you've got your taxable income
and you're going to tax that

418 00:21:06:06 00:21:08:09
depending on what bands it falls into,

419 00:21:09:00 00:21:11:05
so, basic higher additional rate.

420 00:21:11:07 00:21:13:20
There's also a few allowances
you need to consider

421 00:21:13:22 00:21:16:02
which can impact your tax position.

422 00:21:16:20 00:21:22:06
So, first of all, we're just looking
at your starting rate for savings.

423 00:21:24:07 00:21:27:10
The starting rate for savings
is a £5000 band

424 00:21:27:12 00:21:29:10
that applies to savings income.

425 00:21:29:12 00:21:32:23
Basically,
if you've got savings income

426 00:21:33:00 00:21:36:03
within the first £5,000
of your taxable income,

427 00:21:36:05 00:21:37:20
that's going to be taxed at zero.

428 00:21:37:22 00:21:40:17
Now, a lot of people
won't get the benefit of this.

429 00:21:41:06 00:21:42:19
If you're working full time,

430 00:21:42:21 00:21:47:04
your salary will probably exceed
your personal allowance plus £5,000

431 00:21:47:06 00:21:49:21
and you won't get the benefit
of that starting rate.

432 00:21:50:14 00:21:53:00
Or, if you've got
a half decent pension income,

433 00:21:53:02 00:21:56:12
you probably won't be able to use it,
but it is there for some people.

434 00:21:57:03 00:21:59:02
So, it's good to be aware of it.

435 00:22:00:08 00:22:03:01
I talked
about the personal savings allowance.

436 00:22:03:03 00:22:06:24
The personal savings allowance
can be £1,000 or £500,

437 00:22:07:01 00:22:09:00
depending on your tax position,

438 00:22:09:13 00:22:11:14
your adjusted net income, even.

439 00:22:11:16 00:22:17:19
So, this applies to the first £1,000
or £500 of taxable savings income

440 00:22:17:21 00:22:19:06
that you've got.

441 00:22:19:08 00:22:20:15
It kind of floats about.

442 00:22:20:17 00:22:23:03
It's a bit different
where the starting rate is fixed

443 00:22:23:05 00:22:25:04
at the beginning
of your basic rate band,

444 00:22:25:06 00:22:27:10
that personal savings allowance
will float around

445 00:22:27:12 00:22:32:15
and apply wherever the first
of your taxable savings income sits.

446 00:22:34:04 00:22:35:13
Dividend allowance as well,

447 00:22:35:15 00:22:37:24
that's similar
to the personal savings allowance

448 00:22:38:01 00:22:39:17
although it applies to dividend.

449 00:22:40:06 00:22:44:19
So, that's a £2,000 band
in which dividends are taxed at zero.

450 00:22:45:07 00:22:47:07
Like the personal savings allowance,

451 00:22:47:09 00:22:50:22
it's not an exempt amount,
it's actually a band

452 00:22:50:24 00:22:53:06
so it will use up
whatever band it sits in...

453 00:22:54:07 00:22:56:10
and it will, yeah...

454 00:22:57:07 00:22:59:06
Importantly, dividend no rate,

455 00:22:59:08 00:23:02:04
that doesn't actually
depend on your adjusted net income,

456 00:23:02:06 00:23:03:21
you won't get one anyway.

457 00:23:04:16 00:23:07:21
The reason I'm showing you this slide
is you're probably thinking:

458 00:23:07:23 00:23:09:15
what's this got to do with pensions?

459 00:23:09:17 00:23:12:15
But if you extend
your basic rate band,

460 00:23:12:17 00:23:15:08
then the idea
is that you're bringing some income

461 00:23:15:10 00:23:16:19
into a lower tax rate.

462 00:23:17:07 00:23:18:14
But if, for example,

463 00:23:18:16 00:23:21:13
you're bringing dividends
that are already taxed at zero

464 00:23:21:15 00:23:24:04
because they sit
within that dividend allowance

465 00:23:24:06 00:23:26:11
from higher rate into basic rate,

466 00:23:26:21 00:23:29:16
you're not going to get
higher rate relief on that amount.

467 00:23:29:18 00:23:32:13
They do come
into the tax relief equation,

468 00:23:32:15 00:23:34:23
so you do need to have
an awareness about them.

469 00:23:36:04 00:23:38:08
Bands aren't the same
across the country,

470 00:23:38:10 00:23:42:01
in Scotland
we have these different tax bands,

471 00:23:42:03 00:23:44:23
but they apply to non-savings
and non-dividend income.

472 00:23:45:12 00:23:48:02
So, it'd be like your salary,

pension income, etc.

473 00:23:48:13 00:23:51:15
It doesn't apply when you're talking
about savings dividends

474 00:23:51:17 00:23:53:04
or capital gains.

475 00:23:53:06 00:23:56:22
Savings dividends and capital gains
are not a devolved matter,

476 00:23:56:24 00:23:59:05
so we don't control
the tax bands on them.

477 00:23:59:15 00:24:03:02
This can make
Scottish income tax calculations

478 00:24:03:04 00:24:05:03
pretty horrendous, to be honest,

479 00:24:05:05 00:24:08:10
because you start off using tax bands
that apply to Scotland

480 00:24:08:12 00:24:12:08
and then you have to flip
to the UK rates for other things.

481 00:24:12:21 00:24:15:03
Luckily, the tax relief modeller
that we've got

482 00:24:15:05 00:24:17:22
does incorporate
the Scottish rate of income tax

483 00:24:17:24 00:24:21:10
so if there's anyone
with Scottish clients out there,

484 00:24:21:12 00:24:23:21
you can use a tax relief modeller
for that.

485 00:24:25:17 00:24:27:18
I showed you this slide earlier.

486 00:24:28:14 00:24:31:05
I put on the side here
in the grey box, earnings,

487 00:24:31:07 00:24:34:23
but it's important to remember
that could actually be anything.

488 00:24:35:00 00:24:38:13
It could be savings,
dividends, capital gains, bond gains,

489 00:24:38:15 00:24:41:16
that grey box
could be full of all sorts of things.

490 00:24:42:01 00:24:44:16
The rate of tax relief
that you're going to get

491 00:24:44:18 00:24:48:19
will depend on what's in there
and where it fits

492 00:24:48:21 00:24:51:04
because when you extend
that basic rate band...

493 00:24:52:05 00:24:55:10
what is it actually bringing
into a lower tax rate?

494 00:24:55:20 00:25:00:18
Part of that is going to depend on
the order that your income's taxed.

495 00:25:00:20 00:25:03:18
Like I said, there's a statutory order
that this is taxed in,

496 00:25:03:20 00:25:05:09
so you need to be aware of this.

497 00:25:06:07 00:25:10:13
First of all, you look at
your non-savings, non-dividend income,

498 00:25:10:15 00:25:13:05
so, your pension, salary,
rental income, etc.

499 00:25:14:04 00:25:16:13
Then you need to tax
any savings income,

500 00:25:16:15 00:25:19:13
so it might be bank interest
if you're lucky enough to get any

501 00:25:19:15 00:25:22:21
and interest distributions from OEICs.

502 00:25:24:03 00:25:25:24
Offshore bond gains also sit here

503 00:25:26:01 00:25:29:00
because
they're technically savings income.

504 00:25:29:22 00:25:34:08
Then you've got your dividends,
redundancy payments.

505 00:25:34:18 00:25:37:08
A few points to highlight
about redundancy payments:

506 00:25:37:10 00:25:42:21
remember to exclude the first £30,000,
assuming that's going to be exempt,

507 00:25:42:23 00:25:46:11
Most of the time, your first £30,000
is going to be exempt.

508 00:25:46:13 00:25:51:04
You've also got your PILON payments,
so that's payments in lieu of notice.

509 00:25:51:06 00:25:54:20
PILON payments aren't taxed up there
with redundancy,

510 00:25:54:22 00:25:59:01
they're taxed along with your salary
down at the bottom

511 00:25:59:03 00:26:01:12
with your non-savings,
non-dividend income.

512 00:26:02:08 00:26:05:04
Finally, up at the top,
you've got your onshore bond gains.

513 00:26:05:22 00:26:10:10
Onshore bond gains
are strictly savings income,

514 00:26:10:24 00:26:14:11
but a point to note here
is they're taxed in a different place.

515 00:26:14:20 00:26:18:08
Offshore bond gains, just remember,
are taxed before dividends,

516 00:26:18:10 00:26:20:20
onshore bond gains
are taxed up at the top.

517 00:26:21:06 00:26:23:19
Then, it's not on this slide

because it's not income,

518 00:26:23:21 00:26:26:13
but you'd be putting
your capital gains away

519 00:26:26:15 00:26:27:23
on top of all this here.

520 00:26:30:01 00:26:32:08
Just to show you
how all of that comes together,

521 00:26:32:10 00:26:34:22
we've got a short case study here
for John.

522 00:26:34:24 00:26:37:19
John's got a salary of £45,000,

523 00:26:37:21 00:26:39:24
he's got savings interest of £500,

524 00:26:40:09 00:26:43:02
dividends of £4,770.

525 00:26:43:04 00:26:44:19
So, what's John's tax liability?

526 00:26:46:10 00:26:49:15
Well, his income
is going to look something like this.

527 00:26:49:17 00:26:51:17
You've got your tax bands on the left,

528 00:26:51:19 00:26:55:05
I've stacked up his income
on the right in the correct order,

529 00:26:55:16 00:26:59:13
and it just takes him
up to the higher rate threshold.

530 00:27:00:03 00:27:02:21
His income tax calculations
are going to look like this.

531 00:27:03:05 00:27:05:19
So, first of all, your salary,
personal allowance,

532 00:27:05:21 00:27:09:00
is going to cover the first £12,570,

533 00:27:09:02 00:27:11:21
the remainder of that
is going to be taxed at a basic rate.

534 00:27:12:12 00:27:17:01
His savings interest is going to fall
within the personal savings allowance,

535 00:27:17:03 00:27:18:17
it's going to be taxed at zero.

536 00:27:18:19 00:27:20:21
John isn't a higher-rate taxpayer,

537 00:27:20:23 00:27:24:00
so he has a personal savings allowance
of £1,000,

538 00:27:24:02 00:27:26:20
but he just doesn't have
enough savings income to use it.

539 00:27:27:14 00:27:28:23
Then he's got his dividends,

540 00:27:29:00 00:27:32:16
the first £2,000 will be covered
by the dividend no rate,

541 00:27:32:18 00:27:35:20
and then he's got
the remainder of them at basic rate.

542 00:27:35:22 00:27:40:22
So, overall, you've done all that,
his tax liability is £6,693.

543 00:27:42:23 00:27:46:15
But, like some clients, John decides
to go away off his own back

544 00:27:46:17 00:27:48:10
and cash in his onshore bond

545 00:27:48:12 00:27:53:10
and he triggers a chargeable gain
of £50,000.

546 00:27:53:12 00:27:55:18
That bond has been enforced
for ten years,

547 00:27:56:11 00:27:58:10
how does that change his tax position?

548 00:27:59:18 00:28:03:04
So, the first thing to point out
is his adjusted net income

549 00:28:03:06 00:28:06:16
is now exceeding

that £100,000 threshold.

550 00:28:07:07 00:28:11:14
So, he's actually lost £135
of his personal allowance

551 00:28:11:16 00:28:14:04
and part of the impact of that

552 00:28:14:06 00:28:18:01
is that it pushed
£135 of his dividends

553 00:28:18:03 00:28:19:14
into higher rate tax.

554 00:28:20:11 00:28:23:14
It's also meant he's got a reduction
in his personal savings allowance,

555 00:28:23:16 00:28:25:19
so that's now fallen to £500

556 00:28:25:21 00:28:28:02
and that's why
there's none remaining there

557 00:28:28:04 00:28:30:21
to offset
against that onshore bond gain.

558 00:28:31:13 00:28:34:11
So, the full onshore bond gain
is taxed at a higher rate

559 00:28:35:02 00:28:37:01
and before any tax reducers,

560 00:28:37:03 00:28:41:09
his tax liability
has now gone up to £26,754.

561 00:28:42:14 00:28:45:20
But, as I was saying earlier,
you've got your tax reducers,

562 00:28:45:22 00:28:47:13
so it's an onshore bond gain,

563 00:28:47:15 00:28:50:16
so he's going to get a tax credit
for that.

564 00:28:51:04 00:28:54:22
The tax credit is 20% of your gain

565 00:28:54:24 00:28:57:03
that sits with the personal allowance.

566 00:28:57:05 00:28:59:12

In this case,
John's going to get a tax reduction

567 00:28:59:14 00:29:01:00
of £10,000.

568 00:29:01:21 00:29:04:10
But you've also got top slicing relief
to consider.

569 00:29:06:11 00:29:10:13
So, top slicing relief, I don't want
to go into it in too much detail,

570 00:29:10:15 00:29:13:18
but there's been various changes to it
over the last few years,

571 00:29:13:20 00:29:16:19
but, broadly speaking,
it hasn't changed the intention

572 00:29:16:21 00:29:18:02
of what it's trying to do.

573 00:29:18:18 00:29:21:05
It's really just
a three-step calculation

574 00:29:21:07 00:29:22:13
if you simplify it.

575 00:29:22:15 00:29:25:06
Basically,
you work out the higher rate tax

576 00:29:25:08 00:29:26:17
on the full bond gain,

577 00:29:26:19 00:29:29:06
that's referred to
as an individual's liability.

578 00:29:29:08 00:29:32:12
You then work out the higher rate tax
on the slices

579 00:29:33:03 00:29:35:06
and that's the relief liability.

580 00:29:35:16 00:29:37:07
You deduct one from the other

581 00:29:37:09 00:29:39:18
and that gives you
your top slicing relief figure

582 00:29:39:20 00:29:41:09
that you take off your tax bill.

583 00:29:42:09 00:29:46:20
So, if you think about it, the way
to maximise your top slicing relief

584 00:29:46:22 00:29:49:15
is to have no higher rate tax
on that slice.

585 00:29:49:17 00:29:52:23
If you have no higher rate tax
on that slice, it's at zero,

586 00:29:53:00 00:29:56:05
and you deduct that from something
that will give the best outcome.

587 00:29:56:07 00:29:58:16
Here's an example:
there's somebody without a slice

588 00:29:58:18 00:30:00:11
that's got higher rate tax
payable on it

589 00:30:00:13 00:30:02:11
because it's straddling the tax bands.

590 00:30:02:22 00:30:05:05
If you make
a relief at source contribution,

591 00:30:05:19 00:30:07:11
that's going to extend the tax band.

592 00:30:07:13 00:30:10:03
So, you can bring that slice
into basic rate

593 00:30:10:05 00:30:12:07
and maximise your top slicing relief.

594 00:30:12:20 00:30:15:10
Alternatively,
if you make a gross contribution,

595 00:30:15:12 00:30:19:08
so, if you make a net pay or a relief
when making a claim contribution...

596 00:30:20:09 00:30:23:00
that's going to reduce
your taxable income

597 00:30:23:02 00:30:24:14

and it'll have a similar impact

598 00:30:24:16 00:30:29:11
because it's going to bring that slice
into the basic rate tax band.

599 00:30:31:21 00:30:34:23
A few things to remember
with the top slicing calculation:

600 00:30:35:00 00:30:37:02
it's not just a question
of taxing the slice

601 00:30:37:04 00:30:40:24
because there's a few differences
to the main tax calculation.

602 00:30:41:09 00:30:44:18
First of all,
offshore and onshore bond gains,

603 00:30:44:20 00:30:47:06
for the purposes
of the top slicing calculation,

604 00:30:47:08 00:30:49:12
they all go at the top.

605 00:30:49:14 00:30:53:01
So, the order doesn't apply, unlike
in the main income tax calculation,

606 00:30:53:03 00:30:54:18
but when you get to top slicing,

607 00:30:54:20 00:30:57:18
you just amalgamate them together,
put them at the top.

608 00:30:58:09 00:31:00:14
Also, you take off
your redundancy payments,

609 00:31:00:16 00:31:03:17
just don't count them at all
when you're doing the calculation.

610 00:31:04:18 00:31:07:13
And, obviously,
a relief at source contribution

611 00:31:07:15 00:31:09:19
is going to extend your tax band,

612 00:31:09:21 00:31:14:09
but for the purposes of top slicing,
Gift Aid contributions, don't.

613 00:31:15:14 00:31:19:16
I'm going to show you a short video
using our tax relief modeller

614 00:31:19:18 00:31:22:21
about how our pension contribution
can help John,

615 00:31:22:23 00:31:24:21
how it might reduce his tax bill.

616 00:31:25:16 00:31:29:03
Our tax relief modeller
was offline for a while

617 00:31:29:14 00:31:32:11
due to some of the changes
in the top slicing relief figures.

618 00:31:32:13 00:31:35:15
It was very popular, many people
were asking for it back.

619 00:31:36:02 00:31:38:01
We managed to get it back last July

620 00:31:38:14 00:31:41:07
and between July
and the end of the tax year,

621 00:31:41:09 00:31:43:07
it got over 9,000 hits.

622 00:31:43:09 00:31:45:22
So, it's still proving
a really popular tool.

623 00:31:48:03 00:31:50:07
Here's Prudential's
tax relief modeller.

624 00:31:50:24 00:31:54:05
The front page lists all the
assumptions used in the calculations,

625 00:31:54:07 00:31:58:06
but it's this second tab here
where you put in the details.

626 00:32:00:00 00:32:02:10
So, it's really self-explanatory.

627 00:32:03:03 00:32:06:04
You put in whether your client
is over or under 75.

628 00:32:06:06 00:32:07:13

This is just so the tool knows

629 00:32:07:15 00:32:11:04
whether tax relief can be given
for pension contributions.

630 00:32:11:06 00:32:14:10
Its default setting
is for UK taxpayers,

631 00:32:14:12 00:32:15:24
but it can also do calculations

632 00:32:16:01 00:32:18:22
based on the Scottish rates
of income tax as well.

633 00:32:18:24 00:32:22:19
If you're dealing with a Scottish
client, you just change that to Yes.

634 00:32:23:11 00:32:26:16
If child benefit's being claimed,
you also put in the number of children,

635 00:32:26:18 00:32:29:02
so it can work out
any child benefit charge.

636 00:32:29:04 00:32:31:00
And if you've made
any gift aid contributions

637 00:32:31:02 00:32:33:05
which extend the basic rate band,

638 00:32:33:07 00:32:34:20
these would go in here.

639 00:32:34:22 00:32:37:17
So for our case we don't need
to change any of these.

640 00:32:37:19 00:32:40:24
Aside from that, you just need
to put in your client's income

641 00:32:41:01 00:32:43:13
in the boxes here,
depending on its source.

642 00:32:43:15 00:32:46:06
Any bond gains go up here

643 00:32:46:08 00:32:49:04
and pension contributions go in here.

644 00:32:50:00 00:32:53:21

The tool also works out
tax on capital gains as well.

645 00:32:53:23 00:32:57:18
So you put them in here depending on
whether they're taxed at the lower rate,

646 00:32:57:20 00:33:00:18
so the higher rate's
for residential property.

647 00:33:01:06 00:33:05:15
So, anyway, in this scenario,
John's got £45,000 of salary.

648 00:33:06:14 00:33:08:17
He's got £500 of interest.

649 00:33:10:12 00:33:13:13
£4,770 of dividends.

650 00:33:13:15 00:33:17:14
And then you've got
this onshore bond gain of £50,000.

651 00:33:17:16 00:33:20:05
The bond's been in force
for ten full years,

652 00:33:20:07 00:33:21:24
so you put that in there.

653 00:33:22:01 00:33:25:00
And then the calculator
will work out the slide.

654 00:33:25:19 00:33:28:22
So there's a summary down here
at the bottom of the tax position.

655 00:33:28:24 00:33:31:24
It shows John's adjusted net income,

656 00:33:32:01 00:33:34:18
personal allowance deduction,

657 00:33:34:20 00:33:38:00
and it's also got a summary
in relation to the bond gain as well.

658 00:33:38:02 00:33:43:03
So the overall tax liability is £16,755.

659 00:33:43:05 00:33:49:09
The tax attributable to the bond gain
after top slicing relief is £10,000.

660 00:33:49:11 00:33:52:00

If you look at the tax tab here,

661 00:33:52:02 00:33:56:09
it gives you a full breakdown of
the seven-step calculation, if you like.

662 00:33:57:03 00:34:00:08
Then it's got your total tax,
less your tax reducers,

663 00:34:00:10 00:34:02:12
and your income tax payable as well.

664 00:34:03:07 00:34:08:12
Top slicing tab details
the top slicing calculation.

665 00:34:08:14 00:34:11:20
I said top slicing is essentially
a three-step process.

666 00:34:11:22 00:34:14:22
So you're working out
your tax on the gain

667 00:34:14:24 00:34:18:18
and then deducting the tax
on the slices as well.

668 00:34:18:20 00:34:22:05
So when you're trying to maximise
top slicing relief,

669 00:34:22:07 00:34:26:01
the idea is you make the tax
on the slice

670 00:34:26:03 00:34:29:00
after the deduction
of the basic rate tax nil,

671 00:34:29:02 00:34:31:21
because if you deduct zero
from the figure at the top

672 00:34:31:23 00:34:34:21
that's going to give you
the greatest top slicing figure

673 00:34:34:23 00:34:36:18
to take from your tax liability.

674 00:34:36:20 00:34:39:17
So, currently John doesn't have
any top slicing relief,

675 00:34:39:19 00:34:41:22
because that full gain's in higher rate

676 00:34:41:24 00:34:45:00
and he's used
his personal savings allowance.

677 00:34:45:02 00:34:47:03
Now, it used to be the case

678 00:34:47:05 00:34:49:07
you would just make
a gross pension contribution

679 00:34:49:09 00:34:52:20
equivalent to the amount of the slice
which fell into higher rate,

680 00:34:52:22 00:34:56:06
because if you extend the basic rate
band to cover the slice,

681 00:34:56:08 00:34:58:02
then deduct basic rate tax,

682 00:34:58:04 00:35:00:13
you'll end up with zero here.

683 00:35:00:15 00:35:03:00
Nowadays it can be a bit quirky
due to the saving rates,

684 00:35:03:02 00:35:06:10
but this is still effectively
your starting point.

685 00:35:06:12 00:35:09:24
I know, from having obviously
looked into this case study,

686 00:35:10:01 00:35:16:00
that the pension contribution required
is actually going to be £5,000 gross

687 00:35:16:02 00:35:18:10
to maximise the top slicing relief.

688 00:35:18:12 00:35:20:16
So if we put that figure in here...

689 00:35:20:18 00:35:24:08
So it's £4,000 because, when
it's a relief at source contribution,

690 00:35:24:10 00:35:27:15
you put it in net here
and it grosses it up.

691 00:35:28:20 00:35:33:08
So, the new position is

the top slicing relief here is £9,000,

692 00:35:33:10 00:35:37:07
so the liability on that bond gain
has now been wiped out.

693 00:35:37:09 00:35:45:09
So that reduces the tax liability
from £16,755 to £6,694.

694 00:35:45:11 00:35:52:24
And that's an effective rate
of tax relief of 221.22%,

695 00:35:53:01 00:35:55:15
which I think is pretty significant.

696 00:35:55:17 00:35:57:00
There have been some scenarios

697 00:35:57:02 00:35:59:11
where the tax relief's
been much higher than this.

698 00:35:59:13 00:36:04:12
I think the record, if you want to call
it that, is currently about 500% or so.

699 00:36:05:08 00:36:06:14
If you look at the tax tab,

700 00:36:06:16 00:36:10:09
it shows you how that figure's
been worked out as well down here.

701 00:36:10:11 00:36:16:14
So the tax relief at source,
so on top of the £4,000, is £1,000.

702 00:36:16:16 00:36:21:24
You've also got a reduction
in the individual's tax bill of £10,061.

703 00:36:22:01 00:36:25:09
So you divide that
by the amount of the gross contribution

704 00:36:25:11 00:36:29:24
and that's how it comes up with
that 221% figure.

705 00:36:33:11 00:36:35:24
So I hope that gave you
a bit of an understanding

706 00:36:36:01 00:36:38:18
about how the tax relief modeller works.

707 00:36:38:20 00:36:42:18

In John's scenario,
he got 220% tax relief,

708 00:36:42:20 00:36:47:10

but, as I said, I think the record
I've heard of is probably about 550%.

709 00:36:47:12 00:36:52:01

This slide just shows you the different
rates of relief that you might get.

710 00:36:52:03 00:36:54:19

I think the point of all this is,

711 00:36:54:21 00:36:56:05

the tax relief that you get

712 00:36:56:07 00:37:01:14

depends on the tax bands
that apply to the individual's income,

713 00:37:01:16 00:37:04:10

the type of income
that sits within them,

714 00:37:04:12 00:37:07:10

and also if you're getting out
of any tax traps as well.

715 00:37:07:12 00:37:09:24

So this slide here is quite interesting.

716 00:37:10:01 00:37:13:00

It just shows you
some of the effective rates of relief.

717 00:37:13:02 00:37:17:06

So, for example, your dividends.
If you've got higher rate dividends

718 00:37:17:08 00:37:20:09

that aren't covered
by the dividend allowance,

719 00:37:20:11 00:37:22:12

if you can pull them
back into basic rate

720 00:37:22:14 00:37:24:11

with a relief at source contribution,

721 00:37:24:13 00:37:27:20

then you're going to get 45% relief.

722 00:37:27:22 00:37:30:12

And that's because you've got
your 20% relief at source

723 00:37:30:14 00:37:34:24
and then you've got the difference
between higher and basic rate

724 00:37:35:01 00:37:37:08
on your dividends.

725 00:37:37:10 00:37:41:21
And I said, I think, the child benefit -
70% if you've got four children.

726 00:37:41:23 00:37:45:08
Obviously it's a bit less if you've got
a different amount of children.

727 00:37:45:10 00:37:49:15
It says bond gains there - 100%,
but it can be much more than that.

728 00:37:49:17 00:37:51:16
If you've got 20 slices,

729 00:37:51:18 00:37:54:23
that's going to increase
the amount of tax relief you get.

730 00:37:56:02 00:37:57:16
So that's tax relief.

731 00:37:57:18 00:37:59:22
Now we need to have a look
at annual allowance,

732 00:37:59:24 00:38:03:07
because you can't just think about
tax relief in isolation.

733 00:38:04:14 00:38:08:05
So, annual allowance.
Here's our current limits.

734 00:38:08:07 00:38:10:16
I'll just move on there - sorry.

735 00:38:10:18 00:38:14:18
So, the standard annual allowance
is £40,000.

736 00:38:14:20 00:38:17:23
You've also got the money purchase
annual allowance - £4,000.

737 00:38:18:00 00:38:22:02
And your tapered annual allowance can be
anything between £4,000 and £40,000

738 00:38:22:04 00:38:26:00

depending on what
your calculations work out at.

739 00:38:28:06 00:38:29:20
But what do you measure against these?

740 00:38:29:22 00:38:31:23
It's your pension input amount.

741 00:38:32:00 00:38:34:24
And your pension input amount
is calculated differently

742 00:38:35:01 00:38:38:04
depending on the type of arrangement
that you're in.

743 00:38:38:06 00:38:40:13
So, looking at money purchase schemes
first,

744 00:38:40:15 00:38:42:12
these are relatively straightforward.

745 00:38:42:14 00:38:45:17
All you've got to do
is add in the gross value,

746 00:38:45:19 00:38:49:24
any of your personal contributions,
any employer contributions,

747 00:38:50:01 00:38:52:06
and any third party contributions.

748 00:38:52:08 00:38:54:22
So that will be
your pension input amount.

749 00:38:55:09 00:38:58:14
DB schemes, on the other hand,
are a little bit more complicated.

750 00:38:58:16 00:39:03:12
With a DB scheme, obviously you've got
an increase from year to year usually

751 00:39:03:14 00:39:05:03
when you're looking at the statement

752 00:39:05:05 00:39:08:22
in terms of what that pension income
accrued is today.

753 00:39:08:24 00:39:10:23
What you need to do with a DB scheme

754 00:39:11:00 00:39:14:08

is look at the value of the benefits
at the end of the year,

755 00:39:14:10 00:39:16:06
the pension input period,

756 00:39:16:08 00:39:22:19
and deduct the value
at the start of the year uprated by CPI.

757 00:39:23:17 00:39:26:00
You then multiply that by 16

758 00:39:26:02 00:39:28:16
and that's your pension input amount.

759 00:39:28:18 00:39:30:21
So, you also need to consider as well

760 00:39:30:23 00:39:35:22
you might have somebody who's accruing
a separate tax-free cash pot.

761 00:39:36:19 00:39:38:01
If that's happening,

762 00:39:38:03 00:39:41:07
then you need to carry out
the same calculation for that amount,

763 00:39:41:09 00:39:46:07
but instead of multiplying that by 16,
you just multiply that by one.

764 00:39:46:09 00:39:49:20
Now, quite a lot of advisers
I've come across

765 00:39:49:22 00:39:53:11
will try and calculate these
pension input amounts for DB schemes

766 00:39:53:13 00:39:55:00
from pension statements.

767 00:39:56:03 00:39:57:23
That's fine for some cases.

768 00:39:58:00 00:39:59:18
It can give you a good indication

769 00:39:59:20 00:40:02:03
of what the pension input amount
is going to be,

770 00:40:02:05 00:40:05:14
but if you're doing a pretty complex
carry forward exercise

771 00:40:05:16 00:40:08:06
where you really need
the figures to be accurate,

772 00:40:08:08 00:40:12:03
then I would probably avoid doing that.
There's a couple of reasons for that.

773 00:40:12:05 00:40:17:12
Basically, the pension statement figures
aren't necessarily based on values

774 00:40:17:14 00:40:20:20
at the beginning and the end
of the pension input period.

775 00:40:20:22 00:40:24:11
So you could be working on figures
that aren't quite correct anyway.

776 00:40:24:13 00:40:26:02
The other reason is,

777 00:40:26:04 00:40:29:06
if you get the scheme to provide
the pension input amount,

778 00:40:29:08 00:40:31:05
then it takes the risk away from you,

779 00:40:31:07 00:40:33:19
because they've calculated
the figures themselves.

780 00:40:33:21 00:40:37:14
Basically, what you're asking for
is a pension savings statement.

781 00:40:37:16 00:40:41:13
So pension savings statements apply
to money purchase schemes as well.

782 00:40:41:15 00:40:44:11
But if you ask the scheme
for a pension savings statement,

783 00:40:44:13 00:40:51:01
they will give you a note of the last
three tax years' pension input amounts.

784 00:40:51:03 00:40:53:13
So, basically you just use those figures

785 00:40:53:15 00:40:55:18
and it takes a lot of the effort
out of it.

786 00:40:58:06 00:41:01:12
Carry forward is always a very important
part of annual allowance planning,

787 00:41:01:14 00:41:04:13
so we can have a little look
at that here.

788 00:41:04:15 00:41:05:23
So, what's it for?

789 00:41:06:00 00:41:09:19
Carry forward is to mitigate
annual allowance charges

790 00:41:09:21 00:41:13:12
where you've exceeded
the current year's annual allowance.

791 00:41:13:14 00:41:16:23
It's probably a good idea
to point out here what it's not for.

792 00:41:17:00 00:41:21:02
It's not for carrying forward
unused tax relief.

793 00:41:21:04 00:41:24:08
If you've got somebody
who's got no relevant earnings,

794 00:41:24:10 00:41:28:05
fine, they can put in £3,600 this year
and get tax relief on it.

795 00:41:28:07 00:41:33:01
It doesn't mean they can pay in
four years' worth of £3,600.

796 00:41:33:03 00:41:36:08
You can't carry forward
unused tax relief.

797 00:41:36:10 00:41:41:07
And in the same way, if you've got
somebody who's earning £30,000 a year,

798 00:41:41:09 00:41:45:13
you can't carry forward the relevant
earnings from previous years

799 00:41:45:15 00:41:49:16
to make a large contribution and get
tax relief on it in the current year.

800 00:41:49:18 00:41:53:15
So it's completely to do with
annual allowances, not tax relief.

801 00:41:55:00 00:41:57:11
In terms of being eligible
to use carry forward,

802 00:41:57:13 00:42:02:15
you need to have been a member
of a UK-registered pension scheme

803 00:42:02:17 00:42:05:20
in the year that
you're trying to carry forward from.

804 00:42:05:22 00:42:08:14
Now, you don't have to have
contributed to that pension

805 00:42:08:16 00:42:10:18
during that particular year,

806 00:42:10:20 00:42:13:09
you just have to have been
a member of it.

807 00:42:13:11 00:42:16:00
As well, you don't even have
to have been in the country.

808 00:42:16:02 00:42:18:15
So there's quite a lot of cases,
they're quite common.

809 00:42:18:17 00:42:20:12
Somebody's in a pension scheme

810 00:42:20:14 00:42:24:20
and they get the opportunity to go
and work in Dubai for a few years,

811 00:42:24:22 00:42:27:21
so they go over there,
build up their savings, come back,

812 00:42:27:23 00:42:30:00
and they want to put a big lump sum
in their pension.

813 00:42:30:02 00:42:32:08
How much can I pay into my pension?

814 00:42:32:10 00:42:35:02
As long as they've been
a member of a UK scheme

815 00:42:35:04 00:42:36:23
for the years that they've been away,

816 00:42:37:00 00:42:40:19

they can carry forward unused allowance from those years.

817 00:42:40:21 00:42:43:16
So that is quite a common scenario.

818 00:42:45:03 00:42:46:21
In terms of who benefits,

819 00:42:46:23 00:42:51:02
anyone who's going to exceed their annual allowance for this year.

820 00:42:51:04 00:42:53:18
Most people, excluding money purchase annual allowance -

821 00:42:53:20 00:42:57:00
I'll come back to that, obviously, shortly.

822 00:42:57:02 00:43:00:07
In terms of using it, it's the last three years' unused allowance

823 00:43:00:09 00:43:02:23
that you're looking at, that you can potentially carry forward

824 00:43:03:00 00:43:04:12
to the current tax year.

825 00:43:05:10 00:43:08:01
Importantly, there's no need to make a claim.

826 00:43:08:21 00:43:12:02
But if you are going to recommend somebody makes use of carry forward,

827 00:43:12:04 00:43:13:21
you would want something on your file

828 00:43:13:23 00:43:16:07
to show the calculations that have been done.

829 00:43:16:09 00:43:20:18
HMRC can and do come back and query it and say, "Where..."

830 00:43:21:18 00:43:24:06
"Show me that you can pay in that amount."

831 00:43:24:08 00:43:28:11
So I would just make sure you've always got the calculations on your file.

832 00:43:29:20 00:43:31:12
Carry forward - use it or lose it...

833 00:43:31:14 00:43:34:07
So, right, let's say 2021/22...

834 00:43:34:09 00:43:37:12
So that is actually the tax year.
That's fine. Just checking.

835 00:43:37:14 00:43:40:19
So you've got somebody
who's a member of a scheme this year.

836 00:43:40:21 00:43:45:06
They can potentially go back three tax
years looking for unused allowance

837 00:43:45:08 00:43:48:03
to carry forward
and use in the current year.

838 00:43:49:12 00:43:51:21
You've got to use
your current year's allowance first,

839 00:43:51:23 00:43:54:14
and then what happens is
you go back to the earliest year

840 00:43:54:16 00:43:55:18
and use that.

841 00:43:55:20 00:44:00:09
If you fully use that,
you would move forward to 2019/20,

842 00:44:00:11 00:44:01:18
and then the other year,

843 00:44:01:20 00:44:03:17
so you start moving forward.

844 00:44:03:19 00:44:05:20
The use it or lose it aspect, I suppose,

845 00:44:05:22 00:44:11:05
if you didn't make use of
2018/19's unused allowance this year,

846 00:44:11:07 00:44:13:14
you can't make use of it next year.

847 00:44:13:16 00:44:15:12
So, it's quite important

848 00:44:15:14 00:44:19:15

if you're trying to maximise
somebody's annual allowance

849 00:44:19:17 00:44:23:09
that you mop up the earliest years
when you can.

850 00:44:24:09 00:44:28:24
Now, I say you can only claim carry
forward for the previous three years.

851 00:44:29:01 00:44:32:00
That's true. But you might have
to go back further than that

852 00:44:32:02 00:44:35:14
to work out how much annual allowance
is actually available.

853 00:44:35:16 00:44:37:17
So if we stick with
the current tax year,

854 00:44:37:19 00:44:40:16
say we're in 21/22,
we're in this tax year,

855 00:44:40:18 00:44:42:18
and maybe the person in this slide

856 00:44:42:20 00:44:47:17
has made no contributions in any
of these years other than last year,

857 00:44:47:19 00:44:49:20
where they paid £80,000 in,

858 00:44:49:22 00:44:51:04
you might look at that and think,

859 00:44:51:06 00:44:56:15
"That's fine. It's going to be covered
by 2018/19's excess."

860 00:44:56:17 00:44:58:04
But what you would really need to do

861 00:44:58:06 00:45:03:04
is go back and find out what their
pension input amount was for 17/18,

862 00:45:03:06 00:45:06:16
because if that could cover
their excess instead,

863 00:45:06:18 00:45:10:03
you've got more annual allowance
available for now.

864 00:45:10:05 00:45:12:03
So, the general rule of thumb,

865 00:45:12:05 00:45:15:24
if you're looking at
someone's annual allowance history,

866 00:45:16:01 00:45:19:04
you need to go back three clear years

867 00:45:19:06 00:45:23:05
before the year when they've exceeded
their annual allowance.

868 00:45:23:07 00:45:27:06
So it isn't always a question
of just looking at the last three years.

869 00:45:29:04 00:45:30:20
If you do exceed your annual allowance,

870 00:45:30:22 00:45:33:06
you'll get
an annual allowance tax charge,

871 00:45:33:08 00:45:36:05
and, if you remember back to step seven,

872 00:45:36:07 00:45:39:21
that's where the amount's
added on to your income...

873 00:45:39:23 00:45:43:24
Or that's where the tax amount's
added on to your tax liability.

874 00:45:44:01 00:45:48:14
So what happens is you get the excess,
you add it on to your taxable income,

875 00:45:48:16 00:45:52:15
and then it's taxed depending on
what bands it fits in.

876 00:45:52:17 00:45:55:03
So, in this example here,
we've got a chargeable amount

877 00:45:55:05 00:45:58:09
that's straddling the higher
and additional rate bands,

878 00:45:58:11 00:46:01:02
so part of that is going to be taxed
at higher rate

879 00:46:01:04 00:46:04:01

and part of it will be taxed
at additional rate.

880 00:46:04:03 00:46:07:15
So, basic rate taxpayers,
it's going to be 20%,

881 00:46:07:17 00:46:09:01
higher rate's 40%,

882 00:46:09:03 00:46:11:10
additional rate's 45%.

883 00:46:12:02 00:46:15:11
Now, I don't want to go into
scheme pays in too much detail,

884 00:46:15:13 00:46:18:01
but basically you can,
in some circumstances,

885 00:46:18:03 00:46:21:03
arrange for the scheme
to pay the tax charge.

886 00:46:21:05 00:46:24:12
So, there's quite a lot of conditions
and things that need to be met

887 00:46:24:14 00:46:26:01
and there's rules around that.

888 00:46:26:03 00:46:29:22
We do have an article on PruAdviser
about scheme pays.

889 00:46:29:24 00:46:32:18
If you're interested in the deadlines
and processes involved,

890 00:46:32:20 00:46:35:02
then I would go and have a look at that.

891 00:46:35:22 00:46:38:09
Importantly, just one thing
to point out here,

892 00:46:38:11 00:46:40:22
just remember
the annual allowance charge

893 00:46:40:24 00:46:44:06
doesn't increase
your adjusted net income.

894 00:46:44:18 00:46:46:11
Remember it's a charge that's added on

895 00:46:46:13 00:46:48:17
right at the end
of the income tax calculation,

896 00:46:48:19 00:46:50:13
so if you do have
an annual allowance charge,

897 00:46:50:15 00:46:54:23
it's not going to lose your personal
allowance or affect your taper as well,

898 00:46:55:00 00:46:57:06
which we'll have a look at in a minute.

899 00:46:58:01 00:47:01:21
Moving on, you've got
the money purchase annual allowance.

900 00:47:01:23 00:47:07:02
The money purchase annual allowance
was introduced on 6 April 2015.

901 00:47:08:08 00:47:12:02
For the first two tax years
it was £10,000.

902 00:47:12:04 00:47:15:05
So that was great.
Well, it wasn't too bad.

903 00:47:15:07 00:47:18:16
And then they reduced it in 17/18
to £4,000.

904 00:47:18:18 00:47:21:14
So, a lot of people thought
this was a bit sneaky.

905 00:47:21:16 00:47:25:09
You did have people
who flexibly accessed their benefits

906 00:47:25:11 00:47:26:21
in the first couple of years,

907 00:47:26:23 00:47:30:05
but they were still a member
of their workplace pension.

908 00:47:30:07 00:47:32:01
They thought, "Fine. £10,000."

909 00:47:32:03 00:47:36:13
"Easily enough to cover my pension input
amount. It's not going to be a problem."

910 00:47:36:15 00:47:40:16

But not necessarily the case,
because they brought it down to £4,000.

911 00:47:42:16 00:47:43:16
In terms of triggers,

912 00:47:43:18 00:47:47:09
the seven things that will trigger
your money purchase annual allowance,

913 00:47:47:11 00:47:51:11
the most common one's probably income
from flexi-access drawdown pots,

914 00:47:51:13 00:47:54:08
so if you take £1 of income,
any income at all,

915 00:47:54:10 00:47:55:23
that's going to trigger it.

916 00:47:57:04 00:48:01:01
An UFPLS, uncrystallised funds
pension lump sum -

917 00:48:01:03 00:48:02:18
just make I say that correctly.

918 00:48:02:20 00:48:07:01
If you take an UFPLS, that will trigger
your money purchase annual allowance.

919 00:48:07:03 00:48:09:09
If you've got a client
who's in capped drawdown,

920 00:48:09:11 00:48:13:06
if they take income above the GAD
limits, again that will trigger it.

921 00:48:14:20 00:48:19:07
Flexible drawdown. So, you probably
remember, prior to pensions freedom,

922 00:48:19:09 00:48:22:03
if you met
your minimum income requirement,

923 00:48:22:05 00:48:24:10
then you could go into
flexible drawdown,

924 00:48:24:12 00:48:27:14
and the restrictions were removed
about how much you could take there.

925 00:48:27:16 00:48:31:07
If you were in flexible drawdown, then

you would automatically have triggered

926 00:48:31:09 00:48:34:22
the money purchase annual allowance
as at 6 April 15.

927 00:48:36:12 00:48:41:21
This is an interesting one. Payment
from post-April 15 flexible annuity.

928 00:48:41:23 00:48:43:19
You need to be careful with this.

929 00:48:43:21 00:48:46:18
There were some annuities around,
obviously pre-pensions freedom,

930 00:48:46:20 00:48:48:18
that were flexible.

931 00:48:48:20 00:48:51:18
Prudential's got one,
the income choice annuity,

932 00:48:51:20 00:48:55:09
so you can change the amount of income
that you take from it,

933 00:48:55:11 00:49:00:05
but, importantly, they vary in a way
that was allowed pre-pensions freedom.

934 00:49:00:07 00:49:05:00
It's only annuities that vary in a way
that wasn't allowed before that date

935 00:49:05:02 00:49:08:13
that's going to trigger your money
purchase annual allowance.

936 00:49:08:15 00:49:11:09
If you take a scheme pension
from a scheme of less than 12 members,

937 00:49:11:11 00:49:12:22
that's going to trigger it.

938 00:49:12:24 00:49:17:12
And a standalone lump sum
for somebody with primary protection,

939 00:49:17:14 00:49:19:13
protected tax-free cash.

940 00:49:20:02 00:49:22:23
But I suppose equally important
from a planning perspective

941 00:49:23:00 00:49:26:23
is knowing what isn't going to trigger
the money purchase annual allowance.

942 00:49:27:00 00:49:30:24
So, what doesn't trigger it?
We get asked about this quite a lot.

943 00:49:31:01 00:49:33:22
If somebody accesses their DB scheme,

944 00:49:33:24 00:49:36:21
just under the normal rules
and the normal methods,

945 00:49:36:23 00:49:40:15
you're fine. You're not going to trigger
the money purchase annual allowance.

946 00:49:40:17 00:49:43:23
Small pots, DB triviality payment,
again, you're OK.

947 00:49:45:12 00:49:49:16
If you do go into flexi-access drawdown
and you don't take any income,

948 00:49:49:18 00:49:50:23
then, again, that's fine.

949 00:49:51:00 00:49:55:12
So you can take your PCLS, don't take
any income, and you won't trigger it.

950 00:49:57:13 00:50:01:23
If you're the beneficiary
of a pension pot

951 00:50:02:00 00:50:03:16
and you go into flexi-access drawdown,

952 00:50:03:18 00:50:07:20
but as a successor, nominee
or dependent,

953 00:50:07:22 00:50:09:17
you're allowed to take income
from that pot

954 00:50:09:19 00:50:12:00
and that won't trigger your allowance.

955 00:50:13:11 00:50:14:23
Disqualifying pension credit.

956 00:50:15:00 00:50:19:05
So, disqualifying pension credit,
if you get divorced

957 00:50:19:07 00:50:23:23
and you get a share of your spouse's
pension that's already in payment,

958 00:50:24:00 00:50:26:19
then that's classed
as a disqualifying pension credit,

959 00:50:26:21 00:50:29:13
because there's no tax-free cash
available from that.

960 00:50:29:15 00:50:31:17
Obviously, when you're accessing
that pot,

961 00:50:31:19 00:50:35:09
you're just drawing income.
It's not going to trigger anything.

962 00:50:36:15 00:50:39:02
And if you're
in a capped drawdown contract

963 00:50:39:04 00:50:41:01
and you stick within your GAD limits,

964 00:50:41:03 00:50:43:14
again, you're going to be fine
with that.

965 00:50:44:07 00:50:46:14
Now, just having a look
at what you should be considering

966 00:50:46:16 00:50:49:05
if you've got somebody who has

967 00:50:49:07 00:50:51:21
or is going to trigger
the money purchase annual allowance.

968 00:50:51:23 00:50:55:22
Here we've got your pension input period
start date and end date.

969 00:50:55:24 00:50:58:01
At some point in between

970 00:50:58:03 00:51:00:18
you're going to trigger
your money purchase annual allowance.

971 00:51:00:20 00:51:04:03
You need to kind of split it and think
about it from two points of view.

972 00:51:04:05 00:51:08:00
You've got your money purchase inputs
after the trigger date,

973 00:51:08:02 00:51:11:08
and for those you'll get
your annual allowance of £4,000,

974 00:51:11:10 00:51:13:01
your money purchase annual allowance,

975 00:51:13:03 00:51:16:05
and you cannot use carry forward
to increase that.

976 00:51:16:07 00:51:19:22
So if your post-trigger
money purchase inputs exceed £4,000,

977 00:51:19:24 00:51:22:07
you're going to have
an annual allowance charge.

978 00:51:23:08 00:51:26:14
But obviously you've also got...
If you're a member of a DB scheme,

979 00:51:26:16 00:51:28:04
you've also got that to consider,

980 00:51:28:06 00:51:31:22
and you've got your money purchase
inputs prior to the trigger date.

981 00:51:31:24 00:51:35:06
These are all tested against
an alternative annual allowance,

982 00:51:35:08 00:51:39:06
so that can be anything up to £36,000
plus carry forward.

983 00:51:39:23 00:51:45:06
The reason I say up to £36,000 is it's
possible for that amount to be tapered,

984 00:51:45:08 00:51:46:23
and we'll look at that in a second,

985 00:51:47:00 00:51:49:05
but that could be tapered away to zero.

986 00:51:49:19 00:51:53:24
But, importantly, you can use
carry forward for those pension inputs.

987 00:51:56:00 00:51:58:01
I think the thing to remember

with this is,

988 00:51:58:03 00:51:59:24
if you know somebody
who's going to trigger

989 00:52:00:01 00:52:02:05
the money purchase annual allowance,

990 00:52:02:07 00:52:04:00
make your contributions before,

991 00:52:04:02 00:52:06:24
especially if you do have
carry forward to use up.

992 00:52:07:01 00:52:09:01
Make your money purchase contributions
before,

993 00:52:09:03 00:52:12:11
because they're going to benefit
from a greater allowance.

994 00:52:13:17 00:52:15:21
And that brings us on to the taper.

995 00:52:17:02 00:52:19:17
So, tapered annual allowance.

996 00:52:19:19 00:52:22:12
There's two calculations
you need to do for this.

997 00:52:23:09 00:52:25:24
You need to work out
somebody's threshold income

998 00:52:26:01 00:52:27:23
and their adjusted income.

999 00:52:28:00 00:52:30:12
It's only if they breach
both of these limits

1000 00:52:30:14 00:52:32:14
that you're going to be tapered.

1001 00:52:32:16 00:52:35:19
You can breach one of them,
either one and then not the other,

1002 00:52:35:21 00:52:37:06
and it's fine, it's not a problem.

1003 00:52:37:08 00:52:40:20
So normally what I would do
is calculate someone's threshold income.

1004 00:52:40:22 00:52:42:24
As long as you haven't breached
that £200,000,

1005 00:52:43:01 00:52:45:20
don't bother with the adjusted income.

1006 00:52:45:22 00:52:49:11
Now, the limits have changed.
When it was first introduced,

1007 00:52:49:13 00:52:54:24
the threshold income limit was £110,000,
adjusted was £150,000.

1008 00:52:55:01 00:52:59:08
But from last tax year
they were both increased by £90,000.

1009 00:52:59:10 00:53:01:21
So it's taken a lot of people
out of that taper,

1010 00:53:01:23 00:53:02:24
which is pretty good.

1011 00:53:03:01 00:53:05:21
But you still need to consider
what they were tapered,

1012 00:53:05:23 00:53:07:13
if someone was tapered previously,

1013 00:53:07:15 00:53:10:02
if you're going to be doing
any carry forward.

1014 00:53:10:04 00:53:14:19
The first step for both of them is
basically your step two income figure,

1015 00:53:14:21 00:53:16:20
your net income.

1016 00:53:16:22 00:53:19:23
So, you add up the total income,
deduct any reliefs,

1017 00:53:20:00 00:53:23:24
and that is your starting point
for both calculations.

1018 00:53:24:01 00:53:26:04
When you're looking at
the adjusted income,

1019 00:53:26:06 00:53:30:08

you need to add in any pension contributions deducted above,

1020 00:53:30:10 00:53:34:19
so that would be your net pay or relief on making a claim contributions.

1021 00:53:34:21 00:53:37:21
You then add in the total annual allowance used,

1022 00:53:37:23 00:53:41:06
so that's the pension input amounts for all schemes.

1023 00:53:41:08 00:53:43:02
And then you deduct the value

1024 00:53:43:04 00:53:46:14
of the individual's tax relievable contributions.

1025 00:53:46:16 00:53:50:12
This is how it's specifically laid out in the legislation.

1026 00:53:50:14 00:53:54:09
I personally tend to think about it slightly differently,

1027 00:53:54:11 00:53:58:24
and add in net pay contributions, your relief on making a claim contributions,

1028 00:53:59:01 00:54:01:00
and employer contributions.

1029 00:54:01:02 00:54:03:05
Employer contributions, if it's money purchase,

1030 00:54:03:07 00:54:05:04
is just the amount of the contribution.

1031 00:54:05:06 00:54:08:04
If it's a DB scheme, it's the pension input amount

1032 00:54:08:06 00:54:13:01
less the monetary amount that that member paid into that DB scheme.

1033 00:54:15:15 00:54:18:06
Threshold income. You take your net income

1034 00:54:18:08 00:54:22:15
and then you add in

any new salary sacrifice arrangements

1035 00:54:22:17 00:54:24:21
post 9 July 15.

1036 00:54:26:16 00:54:28:12
That's just an anti-avoidance measure,

1037 00:54:28:14 00:54:32:18
because they didn't want everybody
sacrificing a big chunk of their salary

1038 00:54:32:20 00:54:34:10
to try and get out of this,

1039 00:54:34:12 00:54:36:06
so you need to add them back in.

1040 00:54:36:08 00:54:39:19
And you deduct any relief at source
pension contributions.

1041 00:54:40:14 00:54:41:22
And then from both of these

1042 00:54:41:24 00:54:45:21
you take off the amount
of any taxable lump sum death benefits.

1043 00:54:46:14 00:54:48:14
So, what I would say is,

1044 00:54:48:16 00:54:52:15
if you're going to be doing
any tapered calculations,

1045 00:54:52:17 00:54:55:23
calculate threshold first, and then you
don't have to bother about the adjusted

1046 00:54:56:00 00:54:57:16
if you haven't breached the threshold.

1047 00:54:58:12 00:55:01:11
One important point to note here is,

1048 00:55:01:13 00:55:05:00
threshold income is basically
your taxable income

1049 00:55:05:02 00:55:07:01
excluding pension contributions.

1050 00:55:07:03 00:55:10:23
Adjusted income is your taxable income
including pension contributions.

1051 00:55:11:00 00:55:15:17

So, you can actually use pension contributions to get out of the taper.

1052 00:55:15:19 00:55:17:02
It's a bit of a strange one.

1053 00:55:17:04 00:55:20:09
But if you can make a relief at source or even a net pay contribution

1054 00:55:20:11 00:55:24:05
to reduce your threshold income below that £200,000,

1055 00:55:24:07 00:55:28:18
you can end up in a better position and get your annual allowance back.

1056 00:55:28:20 00:55:30:16
You do need to be careful, though.

1057 00:55:31:09 00:55:33:04
If you don't get under that threshold

1058 00:55:33:06 00:55:35:03
and you start making pension contributions,

1059 00:55:35:05 00:55:38:04
then they can potentially increase your adjusted income

1060 00:55:38:06 00:55:42:13
and wipe out more of your annual allowance, so you do need to be careful.

1061 00:55:44:15 00:55:46:14
So, that brings us on to the case study.

1062 00:55:46:16 00:55:48:19
I'm going to show you a short video in a second

1063 00:55:48:21 00:55:52:08
about how to use our annual allowance calculator.

1064 00:55:52:10 00:55:55:18
The annual allowance calculator, I think, is the most commonly used.

1065 00:55:55:20 00:55:59:00
It's the most used calculator we've got on PruAdviser.

1066 00:55:59:02 00:56:02:23
Last tax year, it had over 20,000 hits,

1067 00:56:03:00 00:56:06:24
so I think some of you already have
probably used it, I would imagine.

1068 00:56:07:01 00:56:09:12
I'm just going to run through
this scenario.

1069 00:56:09:14 00:56:10:15
We've got Sarah

1070 00:56:10:17 00:56:13:19
who's wondering how much she can
pay into her DC pension this year.

1071 00:56:13:21 00:56:17:10
These are the pension inputs
she's had for previous years.

1072 00:56:17:12 00:56:21:17
And for the current year
she's got a salary of £93,000

1073 00:56:21:19 00:56:25:20
and she's paying in 6% of her salary
under net pay,

1074 00:56:25:22 00:56:28:06
and that's being matched
by her employer.

1075 00:56:28:08 00:56:31:19
So, hopefully this video will show you
how useful the tool can be.

1076 00:56:33:09 00:56:35:22
This is our annual allowance calculator.

1077 00:56:35:24 00:56:39:00
There's basically three pages
which you need to complete.

1078 00:56:39:02 00:56:40:21
First you need to confirm
in which tax year

1079 00:56:40:23 00:56:43:00
the member joined the pension scheme.

1080 00:56:43:02 00:56:44:19
This is because
you can only carry forward

1081 00:56:44:21 00:56:46:06
from a year in which an individual

1082 00:56:46:08 00:56:49:00
was a member

of a UK-registered pension scheme.

1083 00:56:49:15 00:56:54:23
Say they first joined the pension scheme
in 2016/17, so we put that in here.

1084 00:56:55:19 00:56:58:21
Next, you need to look
at the inputs tab.

1085 00:56:58:23 00:57:00:09
The easiest way to establish these

1086 00:57:00:11 00:57:02:11
is by asking the scheme
or the schemes involved

1087 00:57:02:13 00:57:04:18
for a pension savings statement.

1088 00:57:04:20 00:57:06:16
Sarah's had
her pension savings statement

1089 00:57:06:18 00:57:08:19
and we know what her inputs were.

1090 00:57:08:21 00:57:12:23
She had £5,000 there, £6,000 in 17/18,

1091 00:57:14:15 00:57:16:24
£7,000 in 18/19,

1092 00:57:20:10 00:57:26:02
and then the current year
she's had inputs of £9,960.

1093 00:57:26:04 00:57:28:22
So that's a combination
of net pay contributions

1094 00:57:28:24 00:57:32:22
and the employer contributions for the
tax year that she's expected to have.

1095 00:57:34:12 00:57:36:05
Next, you go to the third tab.

1096 00:57:36:07 00:57:39:05
This gives you the option to calculate
the tapered annual allowance

1097 00:57:39:07 00:57:41:08
for the year that it might apply.

1098 00:57:41:10 00:57:43:06
In our case the taper
isn't going to apply,

1099 00:57:43:08 00:57:46:13
so you just need to scroll down
and look at the summary.

1100 00:57:46:15 00:57:49:24
It shows the carry forward available
from the last three years here,

1101 00:57:50:01 00:57:53:01
as well as the total allowance
for the current year,

1102 00:57:53:03 00:57:55:15
including the carry forward available.

1103 00:57:55:17 00:57:58:13
So, Sarah's total annual allowance
available for the current tax year

1104 00:57:58:15 00:58:03:12
after the existing contributions
is £126,040.

1105 00:58:04:07 00:58:05:17
For argument's sake, let's say,

1106 00:58:05:19 00:58:11:04
instead of Sarah's taxable income
being £87,420 this tax year,

1107 00:58:11:06 00:58:13:04
it's going to be £300,000.

1108 00:58:13:06 00:58:16:01
Then you would need
to think about the taper.

1109 00:58:16:03 00:58:20:05
These are automatically defaulted
to the standard annual allowance.

1110 00:58:20:07 00:58:21:21
If you did want to change them manually

1111 00:58:21:23 00:58:24:00
and you knew
what the tapered amount would be,

1112 00:58:24:02 00:58:26:08
you just change it there.

1113 00:58:26:10 00:58:28:14
However, if you want to calculate it,

1114 00:58:28:16 00:58:31:05
then you need to go in here
and input the details it needs

1115 00:58:31:07 00:58:33:15
to carry out that calculation.

1116 00:58:34:19 00:58:38:13
So, we know her total taxable income
is going to be £300,000.

1117 00:58:39:23 00:58:42:08
She's not got any allowable reliefs.

1118 00:58:42:10 00:58:45:21
Her net pay contributions are £4,980.

1119 00:58:46:14 00:58:49:13
She's not made
any relief at source contributions.

1120 00:58:49:15 00:58:51:11
Her employer's matched
her contributions,

1121 00:58:51:13 00:58:56:00
so you've got £4,980 in there.
So that's a money purchase scheme.

1122 00:58:56:14 00:58:58:23
She doesn't have any DB pension inputs.

1123 00:58:59:00 00:59:00:20
She's not giving up any salary.

1124 00:59:00:22 00:59:03:22
And she's got
no taxable lump sum death benefits.

1125 00:59:03:24 00:59:05:08
So, when you are completing this,

1126 00:59:05:10 00:59:07:11
if you've got any doubts
about what to put in,

1127 00:59:07:13 00:59:10:05
if you click on the little question mark
at the side,

1128 00:59:10:07 00:59:12:17
it gives you a bit of guidance
on that as well.

1129 00:59:12:19 00:59:16:06
So, this changes things
and now Sarah's been tapered.

1130 00:59:16:08 00:59:20:08
So it shows you that
her threshold income is £300,000

1131 00:59:20:10 00:59:24:18
and her adjusted income is £309,960.

1132 00:59:24:20 00:59:30:24
So that's reduced her annual allowance
down for the current tax year to £5,020.

1133 00:59:31:01 00:59:32:19
So if you just click confirm,

1134 00:59:32:21 00:59:35:11
then that will update everything here.

1135 00:59:35:13 00:59:36:15
So the summary now shows

1136 00:59:36:17 00:59:39:22
that her inputs exceed
her tapered annual allowance here,

1137 00:59:39:24 00:59:42:10
so that's by £4,940,

1138 00:59:42:12 00:59:47:05
and that means she's got no unused
allowance left for this tax year.

1139 00:59:47:07 00:59:50:14
But she's got plenty of
carry forward available from 18/19,

1140 00:59:50:16 00:59:52:05
so it's used that up.

1141 00:59:52:07 00:59:53:21
And the current position now is

1142 00:59:53:23 01:00:00:07
that her annual allowance available
for the rest of the tax year is £91,060.

1143 01:00:00:22 01:00:05:14
So the summary's great if you've got
a fairly straightforward example,

1144 01:00:05:16 01:00:10:06
but you can also print off a detailed
summary here for all years concerned.

1145 01:00:10:17 01:00:14:12
You can choose what results to show in
your report by amending these buttons,

1146 01:00:14:14 01:00:20:08
it's defaulted to include everything,
and then you can put this on your file,

1147 01:00:20:24 01:00:25:15
which is a really useful thing to have
for your compliance requirements.

1148 01:00:30:11 01:00:34:21
I hope you found that video useful,
and indeed the whole session.

1149 01:00:35:22 01:00:40:18
The points I've been trying to get
across, from a tax relief point of view,

1150 01:00:40:20 01:00:44:10
it's not just a question of telling your
client they're going to get basic rate,

1151 01:00:44:12 01:00:49:18
higher rate, additional rate tax relief;
you can make a pension contribution

1152 01:00:49:20 01:00:52:14
and get no tax relief, or you can
make a pension contribution

1153 01:00:52:16 01:00:59:00
and get considerably more, and although
you need to consider tax relief

1154 01:00:59:02 01:01:04:07
and annual allowance separately, you
also need to consider how they interact.

1155 01:01:04:19 01:01:11:06
You might have a client with £160,000
unused annual allowance including their

1156 01:01:11:08 01:01:16:21
carry forward, but if they're only
earning £20,000 a year it's unlikely

1157 01:01:16:23 01:01:18:12
they're going to be able to
make use of that

1158 01:01:19:02 01:01:21:08
unless someone makes
an employer contribution.

1159 01:01:21:22 01:01:25:22
On the other hand, you might have
somebody who's got £160,000 in relevant

1160 01:01:25:24 01:01:30:04
earnings, which they can make a pension
contribution and get tax relief on, but

1161 01:01:30:06 01:01:36:04
they might have no annual allowance, so

you need to consider both aspects of it.

1162 01:01:37:17 01:01:39:04

Like I say, I hope you've found that useful,

1163 01:01:39:06 01:01:43:22

and with that I will hand back over to Les for the Q&A.

1164 01:01:45:08 01:01:48:08

Thanks Neil, I think that was a really good session, and if we're

1165 01:01:48:10 01:01:51:15

going to have a future of retirement income advice we need a future of people

1166 01:01:51:17 01:01:56:03

building up pensions, and I think when you understand tax relief especially and

1167 01:01:56:05 01:01:59:23

how that can push you over all returns, I think that's really important.

1168 01:02:00:00 01:02:03:05

I call tax relief 'free investment return'.

1169 01:02:04:14 01:02:09:03

We've covered a lot today, I'm sure you all think we've met

1170 01:02:09:05 01:02:14:13

our learning objectives; I'll get on to the Q&A in a second but we've got

1171 01:02:14:15 01:02:19:24

some more housekeeping, or as I call it, 'add this to your to-do list, please'.

1172 01:02:20:14 01:02:26:14

First step is your CPD certificate, that's generated by you inputting

1173 01:02:26:16 01:02:30:20

your feedback on the feedback button you'll see on your screen somewhere,

1174 01:02:31:08 01:02:35:10

so if you complete your feedback and that will generate your CPD.

1175 01:02:35:22 01:02:40:24

That will probably come out by Friday afternoon.

1176 01:02:41:01 01:02:46:06
By all means, if you haven't got it by
Monday morning, have a check in your

1177 01:02:46:08 01:02:52:06
trash or junk folder and look out for
an email from Pru, it might be there.

1178 01:02:52:11 01:02:56:02
If it's not there, get in contact
with your account manager

1179 01:02:56:04 01:02:58:16
and they can organise it
to get to you.

1180 01:02:59:07 01:03:03:12
As I said, this is the third of our 3
seminars, so we'll be loading all 3

1181 01:03:03:14 01:03:08:04
with the videos and the slides on
our seminar pages on PruAdviser,

1182 01:03:08:06 01:03:10:10
so if you haven't been
to one of the other ones

1183 01:03:10:12 01:03:14:09
or you want to refresh what you've seen
in any of them, by all means put a note

1184 01:03:14:11 01:03:19:07
in your diary to go back website
next week and you can have a look there.

1185 01:03:19:14 01:03:24:03
And finally, anybody who is leaving us
and isn't staying for the Q&A,

1186 01:03:24:05 01:03:27:22
thanks for joining us, the Q&A will be
recorded so you can go and see that

1187 01:03:27:24 01:03:34:08
on the website next week if you want to,
and thanks Neil for his presentation.

1188 01:03:34:12 01:03:37:15
So, without further ado,
we have got some questions in,

1189 01:03:37:17 01:03:41:01
and we have got a sneaky one that's got
nothing to do with annual allowance

1190 01:03:41:11 01:03:44:19
or tax relief, so I might

leave that one till last.

1191 01:03:45:13 01:03:49:20
-But here goes, are you ready Neil?
-This is the bit I've been dreading!

1192 01:03:50:04 01:03:52:16
I hope you don't fling any of your own
questions in there, Les!

1193 01:03:53:00 01:03:55:10
No, no, I've got enough questions
come in from the audience,

1194 01:03:55:12 01:03:58:07
I don't need to test you myself -
we can leave that for your one-to-one!

1195 01:04:00:13 01:04:04:11
With regards to the annual allowance,
is it the pension contribution

1196 01:04:04:13 01:04:09:22
plus the basic rate tax relief that gets
tested against annual allowance?

1197 01:04:09:24 01:04:12:00
What happens to higher rate relief?

1198 01:04:15:02 01:04:19:18
-For a relief at source contribution?
-I guess that's what it's about, yes.

1199 01:04:19:20 01:04:25:15
If you pay 80, the gross contribution's
100, and that's what's going to be

1200 01:04:25:17 01:04:30:22
tested against your annual allowance,
the fact that a higher or additional

1201 01:04:30:24 01:04:35:22
rate tax payer makes a tax saving off
the back of that, that's money that's in

1202 01:04:35:24 01:04:41:10
their hand, it's not entered the pension
system, so it would just be the £100.

1203 01:04:42:01 01:04:46:15
Yes - the next one's about
buy-to-let income:

1204 01:04:46:17 01:04:50:24
can you clarify how buy-to-let income
can be used in pension planning?

1205 01:04:51:13 01:04:54:18

This person believed it couldn't be.

1206 01:04:56:12 01:04:59:01
I think from a personal
point of view, you're really

1207 01:04:59:03 01:05:05:24
looking at furnished holiday lettings,
I think they qualify for tax relief from

1208 01:05:06:01 01:05:10:18
a personal point of view; buy-to-let
income normally isn't going to qualify.

1209 01:05:11:17 01:05:16:13
I take it if you had a company that had
buy-to-let properties you could

1210 01:05:16:15 01:05:20:11
potentially get an employer contribution
and they would get tax relief on it

1211 01:05:20:13 01:05:23:16
though, so that would be one way
of getting the money in.

1212 01:05:23:24 01:05:27:12
Yes, I guess the point is buy-to-let
income might give you the necessary

1213 01:05:27:14 01:05:32:21
funds to make a pension contribution but
it's always not relevant earnings,

1214 01:05:32:23 01:05:36:21
unless, as you say, there's a
furnished holiday letting business.

1215 01:05:37:18 01:05:40:08
Jumping over into the tax world
in general now, you said

1216 01:05:40:10 01:05:44:03
the marriage allowance is accounted
for at the end as a tax reducer,

1217 01:05:44:14 01:05:48:03
could you explain how that
tax reduction is calculated?

1218 01:05:48:15 01:05:52:02
Do you run through the calculation twice
with and without the marriage allowance

1219 01:05:52:04 01:05:55:24
added to the personal allowance but then
deduct the difference at the end?

1220 01:05:59:12 01:06:08:18
My understanding of it is: if you
transfer £1,000 of your unused allowance

1221 01:06:08:20 01:06:16:15
then you'll benefit from 20% of that,
so it would be a £200 reduction

1222 01:06:16:17 01:06:21:10
in your tax bill, but Les I think you're
better on the marriage allowance...

1223 01:06:21:12 01:06:26:07
I'm glad that's your understanding given
employ you to answer pension questions,

1224 01:06:26:09 01:06:31:00
you're absolutely correct, yes, if you
get £100 of marriage allowance

1225 01:06:31:02 01:06:35:15
transferred you get to take £20 off
your tax bill at the end basically,

1226 01:06:35:17 01:06:38:10
it's 20% of the transferred
allowance that comes off.

1227 01:06:39:18 01:06:42:18
Here's another one, it's a classic,
we get this quite a lot:

1228 01:06:43:12 01:06:46:11
if you're using carry forward for
someone who has worked abroad,

1229 01:06:46:13 01:06:50:21
what income figures can you use for the
periods they were abroad, please?

1230 01:06:54:07 01:06:57:22
Income figures - I think the point there
would be, carry forward is to do with

1231 01:06:57:24 01:07:04:13
annual allowance, so your income figures
don't come into it, I suppose you'd have

1232 01:07:04:15 01:07:08:13
to consider if you've got UK income for
the purposes of the taper or something

1233 01:07:08:15 01:07:11:10
like that, because you could still be
tapered, but it's unlikely if you'd

1234 01:07:11:12 01:07:16:14
never had any UK income, but it's purely

to do with annual allowance so their

1235 01:07:16:16 01:07:18:13
income wouldn't really come into it.

1236 01:07:19:06 01:07:23:11
Yes, I think that's one of the key
points we get asked quite a lot.

1237 01:07:23:20 01:07:26:03
The only thing is whether you're a
member of a registered pension scheme

1238 01:07:26:05 01:07:29:18
in the last 3 years, and did you use
any annual allowance, and if you didn't

1239 01:07:30:01 01:07:36:13
you've got all that annual allowance
this year and then you just have to

1240 01:07:36:15 01:07:39:20
decide if you've got the relevant
earnings to be able to make use of it.

1241 01:07:39:22 01:07:42:15
I think that's a good point
you're making there:

1242 01:07:42:22 01:07:45:10
were you a member of a
UK-registered pension scheme?

1243 01:07:45:14 01:07:48:16
Even if someone doesn't appear like
they're going to be making huge

1244 01:07:48:18 01:07:53:18
contributions, it is worth getting
somebody to make a nominal contribution

1245 01:07:53:23 01:07:57:01
and become a member of a pension
scheme

1246 01:07:57:03 01:08:01:00
so in future years they can
use carry forward.

1247 01:08:01:02 01:08:03:15
Yes, one of the classic ones is someone
who is starting a new business and

1248 01:08:03:17 01:08:05:22
doesn't want to touch their pension
because they're building up their

1249 01:08:05:24 01:08:10:11

business, and 4 years later the business has been a success and unfortunately

1250 01:08:10:13 01:08:14:15
they can only use one annual allowance, so had they flung £20 in a stakeholder

1251 01:08:15:21 01:08:19:06
4 years ago they'd have been looking at being able to put £160,000 in their

1252 01:08:19:08 01:08:23:11
pension, so join at the very first time, especially when it's

1253 01:08:23:13 01:08:27:00
probably quite uncommon to find somebody that hadn't been in a pension scheme.

1254 01:08:27:08 01:08:30:06
This is a linked question, which was one of mine that isn't in

1255 01:08:30:08 01:08:32:05
but I'll probably ask it here because it's relevant:

1256 01:08:32:07 01:08:36:07
what is the definition of being a member in a pension scheme?

1257 01:08:37:05 01:08:42:09
You can be an active member if you're actively contributing, you can be a

1258 01:08:42:11 01:08:48:16
deferred member, so you might have been a member of a DB scheme, left the scheme

1259 01:08:48:18 01:08:51:24
and not done anything since, you're still basically a deferred member,

1260 01:08:53:01 01:08:57:20
a pensioner member if you're in receipt of a scheme pension

1261 01:08:58:10 01:09:01:18
then you would be classed as a member of a pension scheme;

1262 01:09:01:21 01:09:07:24
I think if all you have is an annuity then it can differ

1263 01:09:08:01 01:09:10:08
depending on how the annuity has been set up,

1264 01:09:10:23 01:09:14:21
but I think in most circumstances
you would still be classed as a member.

1265 01:09:15:11 01:09:19:17
Yes, there's a good bit in the pension
tax manual about that sort of thing.

1266 01:09:20:09 01:09:22:21
Popping back to an
income tax calculation again,

1267 01:09:23:08 01:09:27:19
where does income from a discretionary
trust fit into the tax calculation?

1268 01:09:30:18 01:09:36:09
That is non-savings, non-dividend
income, it's trust income - you've got

1269 01:09:36:11 01:09:41:10
to remember with discretionary trusts,
the trustees might receive dividends or

1270 01:09:41:12 01:09:45:13
savings income or whatever, but when
they distribute that to a beneficiary,

1271 01:09:45:20 01:09:50:15
it's trust income, so it's non-savings,
non-dividend income, you can't use your

1272 01:09:51:04 01:09:56:22
savings or dividend allowances
against it, it's just your normal rate.

1273 01:09:57:08 01:10:01:24
Yes, I'll probably be questioning the
sanity of the person who decided having

1274 01:10:02:01 01:10:05:14
income producing assets not
discretionary trusts was a good idea,

1275 01:10:06:18 01:10:08:14
but that's another story
for another Webex.

1276 01:10:10:04 01:10:12:22
I've heard of cases where an employer
is making contributions

1277 01:10:12:24 01:10:17:22
under salary sacrifice and the provider
is also claiming 20% tax relief,

1278 01:10:17:24 01:10:20:18

how has this happened
and what are the consequences?

1279 01:10:21:20 01:10:24:16
I'll take this one for you Neil,
I've had to deal with this before.

1280 01:10:25:23 01:10:31:13
It's gone wrong, it will need to get
fixed, the provider will need to update

1281 01:10:31:15 01:10:33:23
its records to make it
an employer contribution

1282 01:10:34:00 01:10:37:05
instead of an individual contribution,
and the provider will need to send

1283 01:10:37:07 01:10:41:13
any relief at source it claimed back to
the Revenue and the customer will need

1284 01:10:41:15 01:10:44:20
to go back to the Revenue and amend
any tax returns where they've claimed

1285 01:10:44:22 01:10:50:00
any higher or additional rate tax relief
- but that's just a complete mess-up,

1286 01:10:50:02 01:10:53:23
but the circumstances will
sort it out at the end of the day.

1287 01:10:57:10 01:11:01:13
With regards to scheme pays,
what options, if any, are available to

1288 01:11:01:15 01:11:05:10
members who have not made an election
by their scheme deadline date?

1289 01:11:07:10 01:11:10:15
They're saying they assume HMRC
will apply late charges.

1290 01:11:14:04 01:11:18:18
You've not met your mandatory
scheme pays deadline for--

1291 01:11:18:20 01:11:22:23
I think you'd be just as well
explaining the difference between

1292 01:11:23:00 01:11:24:16
mandatory and voluntary
scheme pays.

1293 01:11:24:18 01:11:25:18

That's a good point.

1294 01:11:25:21 01:11:28:24

You've got mandatory scheme pays
and voluntary scheme pays.

1295 01:11:29:13 01:11:34:05

Mandatory scheme pays only applies
in certain circumstances,

1296 01:11:34:08 01:11:38:00

you need to have exceeded the standard
annual allowance with that particular

1297 01:11:38:02 01:11:44:02

scheme and you need to have had
a tax charge of over £2,000 as well.

1298 01:11:44:16 01:11:49:10

The deadline for notifying them,
I think, is the 31st of July

1299 01:11:50:24 01:11:54:00

two years after the
tax year concerned,

1300 01:11:54:04 01:12:03:08

so for 18/19 it would be July...correct
me if I'm wrong! July this year.

1301 01:12:03:15 01:12:06:04

I need to look it up all the time,
I wouldn't remember it.

1302 01:12:07:18 01:12:12:15

Basically you do get a while to tell
them about it, but the problem with

1303 01:12:12:17 01:12:16:20

voluntary scheme pays is they need to be
told very, very quickly because the

1304 01:12:16:22 01:12:25:21

scheme needs to report it a lot quicker,
so if you've missed the deadlines

1305 01:12:25:23 01:12:29:07

for both of these then you're going to
have to pay the tax charge, and yes,

1306 01:12:29:09 01:12:31:23

you're going to have some kind of fine
from HMRC because you're supposed

1307 01:12:32:00 01:12:36:10

to have paid it on the 31st of January

following the tax year it occurred, so

1308 01:12:36:12 01:12:40:04
if you haven't paid it you're going to
have a fine - but you can always grovel.

1309 01:12:40:06 01:12:45:15
You've basically delivered an incorrect
tax return and then you have to go back

1310 01:12:45:17 01:12:48:04
and amend it, and take your medicine.

1311 01:12:52:09 01:12:55:11
Somebody said they missed some of the
material because their broadband was

1312 01:12:55:13 01:13:01:21
wonky - you will get a copy of the
slides and the recording, which will be

1313 01:13:01:23 01:13:06:10
on the website, PruAdviser, it should be
up over the weekend, so if you check

1314 01:13:06:12 01:13:12:12
Monday or Tuesday you'll be able to get
a copy of the slides and the recording.

1315 01:13:12:14 01:13:13:14
So that's that one done.

1316 01:13:14:09 01:13:20:22
Could you explain less than 12 members
triggering the MPA again please?

1317 01:13:23:11 01:13:28:19
Basically, if you're in a scheme of
less than 12 members and you get a

1318 01:13:28:21 01:13:33:07
scheme pension then it does trigger it,
I think the whole point behind that was

1319 01:13:33:09 01:13:42:07
to stop people just setting up a SSAS
or something to avoid triggering it.

1320 01:13:42:10 01:13:44:19
Yes, I think those scheme pensions
don't trigger it

1321 01:13:44:21 01:13:48:01
but you can get scheme pensions from
money purchase schemes, I think it was,

1322 01:13:48:03 01:13:52:05
so as you're saying, there's a bit of

an anti-avoidance measure, I think

1323 01:13:52:07 01:13:56:04
they think people in schemes with more
than 12 members are probably not

1324 01:13:57:05 01:14:00:23
able to manipulate the money purchasing
you're allowing them to trigger.

1325 01:14:03:00 01:14:07:12
Back to the taper, I like a taper
question: can you explain how bond gains

1326 01:14:07:14 01:14:12:03
impact threshold and adjusted income for
tapered annual allowance purposes?

1327 01:14:14:03 01:14:19:18
The starting point for both calculations
is your step 2 net income figure,

1328 01:14:20:00 01:14:22:04
and if you remember, at step 1,

1329 01:14:22:10 01:14:26:13
you have to add in the full amount of
taxable income including the full amount

1330 01:14:26:15 01:14:30:17
of your bond gains, so if you did have
a very large bond gain,

1331 01:14:31:06 01:14:39:20
it could taper you, it is the full
amount that would be taken into account.

1332 01:14:40:04 01:14:45:12
Yes, and this is tapered, really,
here as well. Two in a row.

1333 01:14:45:14 01:14:51:19
For salary sacrifice, is it
the scheme that had to exist in 2015,

1334 01:14:51:21 01:14:54:08
or did the member
have to have joined before that date?

1335 01:14:54:10 01:14:57:20
I think this is about the add-back
in threshold income.

1336 01:14:57:22 01:15:03:03
Yes, so basically if you've got
a salary sacrifice arrangement

1337 01:15:03:05 01:15:06:01

that was in place before that date,

1338 01:15:06:03 01:15:09:00
so I think it was 9th July, 2015,

1339 01:15:09:02 01:15:11:11
if it was before that date,
then that's fine.

1340 01:15:11:13 01:15:14:01
But if you amend it afterwards...

1341 01:15:14:03 01:15:17:01
Or you might have
an arrangement in place

1342 01:15:17:03 01:15:20:01
where your salary
increases each year

1343 01:15:20:03 01:15:22:10
and therefore
the amount you're sacrificing

1344 01:15:22:12 01:15:24:14
increases each year
in line with that,

1345 01:15:24:16 01:15:27:24
that could still just be
an unchanged arrangement

1346 01:15:28:01 01:15:31:01
that was entered into prior to 2015.

1347 01:15:31:03 01:15:34:02
But you might be with an employer

1348 01:15:34:04 01:15:39:03
where you have to re-agree the
amount to be sacrificed every year,

1349 01:15:39:05 01:15:43:07
in which case you're entering
into a new arrangement.

1350 01:15:43:09 01:15:46:05
And similarly
some people will sacrifice

1351 01:15:46:07 01:15:48:09
some of their bonus each year.

1352 01:15:48:11 01:15:50:10
That's going to be added back in.

1353 01:15:50:12 01:15:51:22
So if you're in any doubt,

1354 01:15:51:24 01:15:54:19

I think I would always
just get them to contact

1355 01:15:54:21 01:15:58:04

their HR department or something
and just say I'm just checking

1356 01:15:58:06 01:16:02:04

if I've entered into
a new salary sacrifice arrangement.

1357 01:16:02:06 01:16:06:23

And by definition
if you joined the scheme after 2015,

1358 01:16:07:00 01:16:10:18

you can't have anything other than
a new salary sacrifice arrangement,

1359 01:16:10:20 01:16:13:16

so that would be getting added in.

1360 01:16:15:12 01:16:18:23

Do you need to prove that you've
relevant earnings of £40,000 plus

1361 01:16:19:00 01:16:21:00

to use carry forward?

1362 01:16:23:17 01:16:28:20

So, again, there's no need
to prove or claim carry forward

1363 01:16:28:22 01:16:33:13

unless HMRC turn round and ask you
where your calculations are,

1364 01:16:33:15 01:16:38:13

but the relevant earnings point,
that's not to do with carry forward.

1365 01:16:38:15 01:16:41:09

If you're making
a personal contribution,

1366 01:16:41:11 01:16:43:24

you need relevant earnings
in that tax year

1367 01:16:44:01 01:16:47:17

to support the maybe
£160,000 contribution

1368 01:16:47:19 01:16:50:11

and get tax relief on it.

1369 01:16:50:13 01:16:52:24
With regards to proving the...

1370 01:16:53:01 01:16:55:19
I think if you're contributing
to a relief at source scheme,

1371 01:16:55:21 01:16:57:19
then there's going to be
a declaration on there

1372 01:16:57:21 01:17:01:06
that says confirm
you've got relevant earnings

1373 01:17:01:08 01:17:02:13
to support this contribution.

1374 01:17:02:15 01:17:07:11
So if you lie on that,
then, yes, so...

1375 01:17:07:13 01:17:10:20
It's not that you're asked for proof.
It would be more please confirm.

1376 01:17:10:22 01:17:12:06
It's not proof.

1377 01:17:12:08 01:17:14:07
If you basically put money
in a pension scheme

1378 01:17:14:09 01:17:16:15
and claim more tax relief
than you're entitled to,

1379 01:17:16:17 01:17:20:15
you're a tax avoider
and you've broken the law, basically,

1380 01:17:20:17 01:17:24:06
so you shouldn't put in
more than your relevant earnings.

1381 01:17:24:08 01:17:26:23
Unless you find a scheme that accepts
more than your relevant earnings,

1382 01:17:27:00 01:17:31:24
and then you'll need to make sure
they don't take tax relief in excess.

1383 01:17:32:01 01:17:36:00
Which gives us a related question
which has come in.

1384 01:17:36:02 01:17:38:09

When you breach
your relevant earnings,

1385 01:17:38:11 01:17:40:12
you can sometimes
get your contributions back.

1386 01:17:40:14 01:17:43:21
So maybe some people
don't know their final earnings.

1387 01:17:43:23 01:17:46:22
It turns out they went over their
relevant earnings for the tax year,

1388 01:17:46:24 01:17:48:23
they can get a refund sometimes.

1389 01:17:49:00 01:17:52:05
If you breach your annual allowance,
can you get a refund?

1390 01:17:55:07 01:17:58:04
- Well, a refund?
- Yes.

1391 01:17:58:06 01:18:00:00
If you breach a...

1392 01:18:00:02 01:18:04:05
I suppose if you've paid in too much
from a tax relief point of view,

1393 01:18:04:07 01:18:05:23
so if you've paid in
more than your relevant earnings

1394 01:18:06:00 01:18:09:19
and you get a refund
of excess contributions lump sum,

1395 01:18:09:21 01:18:13:14
then that amount won't be included
for annual allowance purposes.

1396 01:18:13:16 01:18:16:18
But if you actually do have
a genuine annual allowance charge,

1397 01:18:16:20 01:18:19:05
then, yes, you're kind of stuffed.

1398 01:18:19:07 01:18:22:22
Yes, you can only get a refund
if you breach your tax relief limits.

1399 01:18:22:24 01:18:26:03
You can't get a refund breaching

your annual allowance limits,

1400 01:18:26:05 01:18:28:23
which is another wee difference
between them.

1401 01:18:30:12 01:18:32:00
On the basis of salary sacrifice

1402 01:18:32:02 01:18:35:18
being used to benefit from
an increase in pension contributions

1403 01:18:35:20 01:18:37:05
and being an advantage to members,

1404 01:18:37:07 01:18:40:00
what are the disadvantages
of salary sacrifice?

1405 01:18:41:23 01:18:42:23
Well, I suppose...

1406 01:18:43:00 01:18:45:00
We could be here all day, I suppose.

1407 01:18:45:02 01:18:48:13
Yes. I think some of that
is like your, maybe...

1408 01:18:48:15 01:18:50:14
I'm not a mortgage expert,

1409 01:18:50:16 01:18:53:14
but I think sometimes
if you've sacrificed...

1410 01:18:53:16 01:18:57:07
They're going to look at what
your earnings are, and they might...

1411 01:18:57:09 01:19:00:07
if you've got a low salary, then
they might take that into account.

1412 01:19:00:09 01:19:01:09
Like I say, I'm not an expert.

1413 01:19:01:11 01:19:04:21
It's just something
I've heard people talking about.

1414 01:19:04:23 01:19:06:16
And your salary is reduced,

1415 01:19:06:18 01:19:08:21
so you need to think
about your HR department

1416 01:19:08:23 01:19:11:05
and all the different
types of benefits you can get

1417 01:19:11:07 01:19:13:16
linked to your salary.

1418 01:19:13:18 01:19:15:21
I know some employers
will have a notional salary

1419 01:19:15:23 01:19:18:06
at the gross amount,
a pre-sacrifice amount,

1420 01:19:18:08 01:19:20:09
and kind of use that,

1421 01:19:20:11 01:19:21:21
as opposed to using
the reduced amount.

1422 01:19:21:23 01:19:24:21
That's quite personal
to circumstances, that one.

1423 01:19:24:23 01:19:27:11
What's the downflow impact
of having a lower salary?

1424 01:19:27:13 01:19:29:00
It could affect what you get
from your work,

1425 01:19:29:02 01:19:31:14
and, as you say,
if the mortgage company's running

1426 01:19:31:16 01:19:33:13
on net disposable income,

1427 01:19:33:15 01:19:36:16
then having a lower salary means
a lower net disposable income,

1428 01:19:36:18 01:19:40:22
so it's all that sort of what have
you got that's linked to salary,

1429 01:19:40:24 01:19:43:24
and do they use your reduced salary
or do they keep your notional salary?

1430 01:19:44:01 01:19:46:16
I think is where we're going.

1431 01:19:48:09 01:19:51:23

If a client has made personal
pension contributions for many years

1432 01:19:52:00 01:19:54:21
but has only recently become a higher
rate tax payer three years ago,

1433 01:19:54:23 01:19:58:02
can she go back
and claim the additional tax relief?

1434 01:19:58:04 01:20:01:00
She is an employee
and had not done her self-assessment.

1435 01:20:01:02 01:20:02:16
One of the millions of people

1436 01:20:02:18 01:20:04:17
that forget to claim
their higher rate relief.

1437 01:20:04:19 01:20:07:07
She has been making contributions?

1438 01:20:07:09 01:20:09:13
Yes, she just hasn't been claiming.

1439 01:20:09:15 01:20:12:10
Yes, so I think you've got...

1440 01:20:12:12 01:20:15:14
I'm trying to remember if it's four
or six years to go back and amend it.

1441 01:20:15:16 01:20:18:01
If I was you,
I would go with the first number.

1442 01:20:18:03 01:20:21:14
Yes, four.
Six years applies to something else.

1443 01:20:21:16 01:20:25:00
Yes, I think you can go back
four years and amend it

1444 01:20:25:02 01:20:26:16
and get your higher rate relief.

1445 01:20:26:18 01:20:29:23
I think, like you say,
it is quite common, especially...

1446 01:20:30:00 01:20:33:07
The amount of people that pay
into retirement annuity contracts

1447 01:20:33:09 01:20:37:15
who've never completed a tax return
and have never had tax relief on it

1448 01:20:37:17 01:20:38:24
is just absolutely astonishing,

1449 01:20:39:01 01:20:42:24
so just remind them they should be
completing their tax return.

1450 01:20:43:01 01:20:44:22
The surveys come out all the time

1451 01:20:44:24 01:20:46:16
about the hundreds of thousands
of people

1452 01:20:46:18 01:20:49:21
that forget to claim
their higher rate tax relief.

1453 01:20:49:23 01:20:54:22
Maybe if Making Tax Digital actually
gives us a digital tax system,

1454 01:20:54:24 01:20:56:20
it might take the problem away,

1455 01:20:56:22 01:20:58:07
but I dare say that's...

1456 01:20:58:09 01:20:59:09
Might take a while.

1457 01:20:59:11 01:21:01:11
...millions of miles away.

1458 01:21:02:06 01:21:08:06
To clarify, can you use carry forward
if you only earn £39,000 per annum?

1459 01:21:09:19 01:21:12:17
So you wouldn't be able to...

1460 01:21:12:19 01:21:14:04
I suppose
there are two aspects to this.

1461 01:21:14:06 01:21:16:14
So you couldn't really make
a personal contribution

1462 01:21:16:16 01:21:19:01
in excess of your relevant earnings
and get tax relief on it,

1463 01:21:19:03 01:21:20:19

so you're unlikely
to be able to do it.

1464 01:21:20:21 01:21:23:04
But if you are...

1465 01:21:23:06 01:21:26:11
This is where I think some people
think it's a bit unfair, me included.

1466 01:21:26:13 01:21:30:00
If you're in control,
if you've got your own company,

1467 01:21:30:02 01:21:32:13
you can get
an employer contribution made.

1468 01:21:32:15 01:21:33:23
So you've got people who,

1469 01:21:34:00 01:21:36:18
they might only have £12,000 salary
or something like that,

1470 01:21:36:20 01:21:38:12
and then the rest of it is dividends,

1471 01:21:38:14 01:21:41:04
so from a personal point of view
they can only pay in £12,000,

1472 01:21:41:06 01:21:43:01
but the company they have,

1473 01:21:43:03 01:21:45:12
they can pay themselves
a big pension contribution,

1474 01:21:45:14 01:21:47:22
get tax relief via the company,

1475 01:21:47:24 01:21:51:23
and they haven't breached
any tax relief rules either way,

1476 01:21:52:00 01:21:53:16
and they've been able to use

1477 01:21:53:18 01:21:57:06
their unused annual allowance
from previous years.

1478 01:21:57:08 01:22:00:06
But if this person earning £39,000

1479 01:22:00:08 01:22:03:02
was employed by, say, Prudential,

1480 01:22:03:04 01:22:07:10
you might struggle to be able
to make a contribution obviously

1481 01:22:07:12 01:22:10:12
and manipulate your situation
in the same sort of way.

1482 01:22:11:09 01:22:13:14
Yes, I suppose it's getting back
to that point you made

1483 01:22:13:16 01:22:14:17
right at the very beginning,

1484 01:22:14:19 01:22:18:06
tax relief and annual allowance
are two different things.

1485 01:22:18:08 01:22:20:13
Tax relief's how much you can put in,

1486 01:22:20:15 01:22:23:20
and it's only when you then
go over £40,000

1487 01:22:23:22 01:22:26:10
is when you need to start considering
annual allowance.

1488 01:22:26:12 01:22:29:06
Yes, so in theory I have got

1489 01:22:29:08 01:22:31:20
bucketloads of unused
annual allowance available,

1490 01:22:31:22 01:22:36:13
but I'm not really in a position to
pay it from a personal point of view,

1491 01:22:36:15 01:22:38:10
and Prudential wouldn't either, so...

1492 01:22:38:12 01:22:41:04
Yes, although I'm not sure
you should be starting

1493 01:22:41:06 01:22:43:12
pay negotiations with your boss
on a live webinar,

1494 01:22:43:14 01:22:45:22
so we'll skip to the next question.

1495 01:22:45:24 01:22:47:19
Yes, £160,000 a year, please.

1496 01:22:47:21 01:22:50:22

Yes, that'd be nice.

As long as I get more.

1497 01:22:50:24 01:22:52:18

Yes, somebody...

1498 01:22:52:20 01:22:54:21

I didn't know you could get

a refund of contributions

1499 01:22:54:23 01:22:58:00

if relevant earnings had exceeded,

at the start of the tax year,

1500 01:22:58:02 01:23:01:21

any lump sum contributions we need

to assume earnings for the tax year.

1501 01:23:01:23 01:23:03:13

This runs the risk

of exceeding the limit,

1502 01:23:03:15 01:23:06:07

as circumstances could change.

1503 01:23:06:09 01:23:08:09

Is this correct?

1504 01:23:09:02 01:23:10:16

- Sorry.

- Did you catch that?

1505 01:23:10:18 01:23:13:00

So, yes, you are running the risk,

1506 01:23:13:02 01:23:17:23

if you make your contribution

at the beginning, of paying in more.

1507 01:23:18:00 01:23:20:08

I would just check with the scheme

that they are actually in a position

1508 01:23:20:10 01:23:23:03

to do the refund

of excess contributions lump sum,

1509 01:23:23:05 01:23:25:05

in which case

it's not really that big a deal.

1510 01:23:25:07 01:23:27:15

Or you just wait

until later in the tax year,

1511 01:23:27:17 01:23:30:17

just to get a better idea.

1512 01:23:30:19 01:23:34:07
And this has been issue
since the beginning of time.

1513 01:23:34:09 01:23:36:03
People with retirement
annuity contracts

1514 01:23:36:05 01:23:38:12
don't know their earnings
until the 5th of April

1515 01:23:38:14 01:23:41:05
when they want to pay in
in the May before.

1516 01:23:41:07 01:23:42:10
There's always been the issue

1517 01:23:42:12 01:23:44:20
of you don't know
your final relevant earnings

1518 01:23:44:22 01:23:46:01
until the tax year's ended,

1519 01:23:46:03 01:23:48:14
so there's always been
this risk, yes.

1520 01:23:48:16 01:23:51:03
I suppose your point is relevant,

1521 01:23:51:05 01:23:55:13
that a refund of excess contributions
lump sum is not a right.

1522 01:23:55:15 01:23:57:22
It's up to the scheme
whether they want to do it.

1523 01:23:57:24 01:23:59:01
Yes.

1524 01:23:59:03 01:24:02:10
And I suppose the other point is
you need to tell the scheme anyway

1525 01:24:02:12 01:24:03:19
if you've breached
your relevant earnings,

1526 01:24:03:21 01:24:05:24
because whilst they might not
give you all the money back,

1527 01:24:06:01 01:24:08:13
they need to send the relief
at source back to the Revenue,

1528 01:24:08:15 01:24:10:16
because you'd be entitled to it.

1529 01:24:10:18 01:24:13:07
So I suppose
there's that aspect to it as well.

1530 01:24:15:00 01:24:16:00
We've got another.

1531 01:24:16:02 01:24:18:04
Can you benefit from carry forward
of annual allowance

1532 01:24:18:06 01:24:20:21
if your relevant earnings
are below £40,000

1533 01:24:20:23 01:24:22:12
and have been
for the last three years?

1534 01:24:22:14 01:24:25:05
That's the same as the last answer,
I think. No.

1535 01:24:25:07 01:24:27:07
If you don't have the ability
to make contributions

1536 01:24:27:09 01:24:28:15
in excess of the annual allowance,

1537 01:24:28:17 01:24:30:23
you don't need to know
anything about it.

1538 01:24:33:05 01:24:36:03
How long have we got?
A couple of minutes.

1539 01:24:36:05 01:24:37:14
Right, I've managed to do

1540 01:24:37:16 01:24:42:24
all the tax relief
and annual allowance questions,

1541 01:24:43:01 01:24:44:01
which just leaves us

1542 01:24:44:03 01:24:47:00
with the sneaky lifetime allowance
question that we got in.

1543 01:24:47:02 01:24:48:12
Right.

1544 01:24:48:14 01:24:50:01
And I'm going to
take the answer myself,

1545 01:24:50:03 01:24:51:13
because I don't think
you've been involved

1546 01:24:51:15 01:24:54:02
in this sort of thing before.

1547 01:24:54:04 01:24:59:07
Some pension schemes
do not allow membership after age 75.

1548 01:24:59:09 01:25:01:10
If the seeding scheme
transfers benefits

1549 01:25:01:12 01:25:04:02
before the member's 75th birthday

1550 01:25:04:04 01:25:09:03
but the receiving scheme receives
the transfer after the 75th birthday,

1551 01:25:09:05 01:25:11:07
which scheme do you think
should be accountable

1552 01:25:11:09 01:25:16:14
for carrying out BCE 5A
and paying any LTA charge?

1553 01:25:17:14 01:25:18:17
That's quite a stinker.

1554 01:25:18:19 01:25:23:03
I think there's probably a grey bit
in the law here,

1555 01:25:23:05 01:25:25:03
because it would be the scheme
you were a member of

1556 01:25:25:05 01:25:28:21
on your 75th birthday
that has to do it,

1557 01:25:28:23 01:25:31:17
and I think whether you're a member
of the scheme

1558 01:25:31:19 01:25:35:19

will be a matter of fact
based on the circumstances.

1559 01:25:35:21 01:25:39:12
The receiving scheme could say
you become a member of the scheme

1560 01:25:39:14 01:25:41:19
when we receive your application,

1561 01:25:41:21 01:25:45:01
so you would be in the receiving
scheme at your 75th birthday.

1562 01:25:45:03 01:25:47:07
You could, in theory,
be between schemes.

1563 01:25:47:09 01:25:51:05
You could be in no scheme
on your 75th birthday, technically.

1564 01:25:51:07 01:25:53:07
But I think
the long and the short of it is

1565 01:25:53:09 01:25:55:24
both schemes
might have a little fight,

1566 01:25:56:01 01:25:59:12
but I suspect in the real world
the receiving scheme,

1567 01:25:59:14 01:26:00:21
given they've got the money,

1568 01:26:00:23 01:26:03:06
and the money has to go
to the Revenue if there's an excess,

1569 01:26:03:08 01:26:06:15
I suspect it's the receiving scheme
that would actually do it.

1570 01:26:06:17 01:26:10:00
But I suspect, in fact, they'll be
having a wee fight at the beginning,

1571 01:26:10:02 01:26:11:23
but it'll end up being
the transferring scheme,

1572 01:26:12:00 01:26:15:14
because nothing else makes sense.

1573 01:26:15:16 01:26:18:13
So we're nearly up to our half hour.

1574 01:26:18:15 01:26:20:11

I've remembered
not to run over again

1575 01:26:20:13 01:26:23:15

because we were having so much fun
with the Q&As.

1576 01:26:23:17 01:26:25:09

Thanks for answering those, Neil.

1577 01:26:25:11 01:26:29:08

Everyone, thanks for sending in
your questions.

1578 01:26:30:11 01:26:31:17

There were
some really good ones there,

1579 01:26:31:19 01:26:34:18

even though there was
a sneaky lifetime allowance one.

1580 01:26:34:20 01:26:37:05

All that leaves me to do
is thank Neil again

1581 01:26:37:07 01:26:39:24

for the great presentation,
I thought.

1582 01:26:40:01 01:26:43:01

Thank you all for coming along
and listening,

1583 01:26:43:03 01:26:45:00

and we hope to see you again soon

1584 01:26:45:02 01:26:47:08

at one of our future
webinars or seminars,

1585 01:26:47:10 01:26:48:20

so goodbye.