



Retirement planning

Have you considered what your retirement might look like financially?

It's important to think about what you want to do and achieve in your retired years. We can then help you understand how much you need to save to secure the income you'll need and how your saving can be optimised for tax purposes.

Retirement plans should be reviewed periodically to check that they're still appropriate for the ever-changing tax and legislative regime.

Will the state pension suffice?

Being able to retire when and how you would like is likely to be one of your most important financial objectives at some point. But achieving this goal takes planning and perseverance. You could spend a third of your life in retirement. Will you find those years the happy times we all dream of or a constant struggle to pay the bills?

Your state pension is worth just over £5,800 at current rates provided you have a full national insurance record, which is now 30 years' worth of national insurance contributions (NICs). In 2016, new retirees will receive a flat-rate state pension which, based on current estimates, will be around £150 a week.

Pensions contributions

Large contributions

The annual limit for contributions into a pension fund is currently £40,000. The lifetime allowance for pension contributions is now capped at £1.25 million.

In occupational schemes, the limit applies to both the employer's and employee's contributions.

For final salary or defined benefit schemes, the contribution limit applies to the increase in the value of the member's pension entitlement during the year. A significant pay rise, for example, can result in a significant increase in entitlement value.

If you make a contribution above £40,000 a year or your pension entitlement value increases by this amount, it may be possible to claim further relief under a transitional provision or by using any unused allowance from 1 of the 3 previous years.

If you make a pension contribution above the limit you will still get tax relief on the whole contribution at your highest rate of income tax. However, you will also incur a tax charge on the excess amount.

Salary sacrifice

Salary sacrifice saves both the employer and employee money by reducing NICs. This can save the employee income tax too.

Even so, taking a reduction in take-home salary now in exchange for a longer-term benefit is not everyone's first choice and should only be used in conjunction with proper financial planning. This technique may not be effective for high income individuals.

Self-Invested Personal Pensions (SIPPs)

SIPPs allow you the freedom to choose how your pension funds are invested. Subject to approval by the SIPP provider, SIPP investors can choose what assets are bought, leased and sold, and when those assets are acquired or disposed. However, certain items - such as classic cars and residential property - are inadvisable because they are subject to heavy tax penalties.

The investor may also enjoy ownership of the assets via an individual trust, so long as the provider or administrator is listed as a co-trustee. Potentially, SIPPs can even borrow 50% of the net value of the pension fund to invest in further assets.

Retirement investing alternatives

If you want an alternative to pensions, or not to rely on them entirely, there are a large number of different options to consider.

Common savings and investment vehicles include:

- new ISAs (NISAs)
- equities
- bonds
- insurance policies
- property
- fine art.

However innovative or unusual your retirement planning, it should stand the 'reality and adequacy' test. Each of these alternatives has differing tax treatments and taking these into account is an important step.

Investment bonds

Investment bonds can offer unique opportunities to aspiring retirees. An investment bond is considered a life policy because it is offered by a life assurance company.

It is, therefore, not subject to capital gains tax (CGT). Instead, a tax liability arises on a 'chargeable event', such as the death of the owner or maturity. You can take a 5% tax-free withdrawal every year and, excepting the events mentioned, this can be carried forward for up to 20 years.

This arrangement is a deferment of tax, not an exemption from tax. There is a tax advantage if you believe that you will be paying income tax at a lower rate at the end of the 20-year period.

A higher-rate taxpayer would pay 20% of the total gain (or 20% on withdrawals above 5%) with an additional rate taxpayer bearing 25% instead, but there is no further tax liability over and above this.

With foresight, a taxpayer bearing either 40% or higher rate of tax on income could enjoy 5% tax-free withdrawals while working. Then, in retirement, they could withdraw large sums if they were in a lower tax bracket without incurring a tax liability.

Further, a policyholder in a higher tax bracket can transfer ownership of the bond to a lower tax-paying spouse. This is not a chargeable event because the transfer is made by deed of assignment.

How much capital will your business realise?

Many business owners expect their business to provide a substantial injection of capital into their retirement pot. However, before you bank the proceeds from sale there may well be CGT to consider.

Entrepreneurs' Relief means that CGT is due at 10% on all qualifying gains up to the maximum lifetime limit of £10 million. This means Entrepreneurs' Relief provides a reduction in CGT on the disposal of an interest in a qualifying business or qualifying business asset(s) up to a maximum of £1,800,000. There is no minimum age requirement and the business need only meet the qualifying conditions for 1 year immediately prior to the disposal.

If your retirement will coincide with the disposal of business assets and your planning has not yet considered the tax impact, please discuss this relief and your tax planning with us.