

Beware the taxman...

One of the biggest things you need to consider when deciding whether or not to take advantage of the new pension freedom is the tax implication.

If you don't take proper advice and do your sums, you could find that the taxman takes a huge chunk of your retirement savings.

Paying into a pension gets tax relief, but when you retire and live off an annuity, that income is treated like any other income as far as tax is concerned.

At the moment, you can take a quarter of your pension savings as a tax-free lump sum, and that will remain the case. But everything else you withdraw will be treated as taxable income.

James Wright, an IFA with Colchester-based Scrutton Bland, explains: "The government's new pension flexibility rules are here and many see this as a chance to deplete their pensions.

"If this is something you are considering, here are a few things to bear in mind before you do.

"It must be remembered pensions are funded during your working life to provide an income in retirement.



■ James Wright,
of Scrutton Bland.

"The short-term opportunity of accessing a large sum of money is very attractive but the consequences in say five or 10 years' time when the withdrawn money runs out should not be forgotten."

Mr Wright continues: "Have you taken account of your current income tax rate and how any withdrawal from a pension will be taxed? If you take withdrawals above the 25% tax free lump sum this will be taxed as income.

"Once income reaches £42,385 it's taxed at 40%; once income reaches £100,000 your personal allowance is reduced by £1 for every £2 of income. This creates an equivalent income tax rate of 60%; income over £150,000 is taxed at 45%. What about the benefits of leaving the funds undrawn? Pensions benefit from tax relief on contributions and are free from tax on growth.

"The changes to death benefits mean if death occurs before age 75 no tax liability arises; if death occurs after 75 the tax charged in 2015/16 is 45% but after this will be taxed as income on the beneficiary as withdrawals are taken.

"Therefore pensions are now an extremely effective way to pass monies to future generations without incurring inheritance tax."

Clearly the decision regarding withdrawing funds from pensions is not simple and it is important advice is sought.

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■ If you would like to review your retirement options please contact james.wright@scruttonbland.co.uk or call 01473 267000.