Things to think about for the tax year end 2019-20: pensions

The tax year end provides a great opportunity for you to review your clients' portfolios and ensure they're making the most of tax-free allowances available to them. In this factsheet we highlight some upcoming changes to pensions that you need to be aware of in the approach to the tax year end 2019-20.

Change to lifetime allowance

The lifetime allowance increased from £1,030,000 to £1,055,000 on 6 April 2019. Although this sounds like only a small increase, it could have a big effect for those who want to crystallise their benefits and are close to using up 100% of their lifetime allowance. By delaying taking benefits until after the tax year ending 5 April 2019, they will have used up a lower percentage of their lifetime allowance, meaning less chance of paying a lifetime allowance charge later. And if they're already over their lifetime allowance delaying taking benefits until the 2020-21 tax year could reduce their tax bill, if the LTA increases further.

Example – Tommy

Tommy has a Sipp fund worth £1.2 million, and no lifetime allowance protection.

If he entered drawdown on 1 March 2019, he'll have paid a lifetime allowance charge of 55% of £170,000 = £93,500.

If he delayed taking benefits until after 6 April 2019, he'll have paid a lower lifetime allowance charge of 55% of £145,000 = £79,750 – a saving of £13,750 lifetime allowance charge.

Scottish rates of income tax

The Scottish Government has announced the income tax tiers and rates for Scottish residents for the 2020-21 tax years.

Scottish		
Band name	Band	Tax rate
Personal allowance	£0 - £12,500	0%
Starter	£12,501 - £14,585	19%
Basic	£14,586 - £25,158	20%
Intermediate	£25,159 - £43,430	21%
Higher	£43,431 - £150,000*	41%
Top	Over £150,000*	46%

rUK (2019-20)		
Band name	Band	Tax rate
Personal allowance	£0 - £12,500	0%
Basic	£12,500 - £50,000	20%
Higher	£50,000 - £150,000*	40%
Additional	Over £150,000*	45%

* Personal allowance is reduced by £2 for every £1 earned over £100,000

Those earning between £43,430 and £50,000 pay more income tax and national insurance contributions (NICs) in Scotland than the rest of the UK (rUK) and this may influence their savings and investment decisions.

The order in which additional funds are accessed from investments and tax-efficient wrappers to supplement earned income is especially relevant for these Scottish taxpayers. They may wish to consider tax-free withdrawals from other investments in preference to drawing on their pension income which will be taxed at the higher rate of 41%.

Those still earning and paying into a pension may want to use pension salary sacrifice to reduce their earnings, and so their marginal rate, in exchange for a higher employer pension contribution.

For more information on the Scottish rates of income tax and the differences with rUK, see our separate factsheet called 'Pensions and the Scottish rates of income tax'.

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Paying into a pension and the annual allowance

The annual allowance in 2019-20 is £40,000, the money purchase annual allowance (MPAA) is £4,000 a year, and the annual allowance is tapered gradually downwards to £10,000 for higher earners. Pension savers may want to consider making additional contributions to use up any unused annual allowance for this tax year, and previous tax years.

Higher earners (those earning over £150,000) need to consider the effect of the tapered annual allowance, which gradually reduces the amount that can be contributed to a minimum of £10,000. As the current tax year draws to a close, they will need to work out their total remuneration for the year and what their tapered annual allowance will be.

If they have paid in contributions higher than their annual allowance, then individuals may be able to use carry forward of unused annual allowance from previous years to mop up any excess. But as many people may have used carry forward in previous years, using up their unused annual allowance, they may find their options this year more limited.

Advisers and clients need to document the use of carry forward, but don't need to report it to HMRC.

Clients can use their self-assessment to declare any excess over their annual allowance. It may be possible for the scheme to pay the annual allowance charge.

If you only read one thing…

- Consider advising clients to delay taking benefits until next tax year if they are close to 100% of their lifetime allowance.
- Pension savers may want to consider making additional contributions to use up any unused annual allowance for this tax year. By doing so they will reduce their gross income to below certain thresholds.
- Individuals can also reduce their gross income by paying pension contributions into others' pension plans. Non-taxpayers will receive 20% tax relief on any contributions (if paid to a pension scheme operating relief-at-source).
- Higher earners need to work out their tapered annual allowance once total remuneration for the tax year is known.
- It may be possible to carry forward unused annual allowance if pension contributions are higher than the individual's annual allowance.

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