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PRESSON TAX MONTHLY NEWSLETTER

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TYPES OF PENSIONS

There are numerous pensions schemes in the UK nowadays. Whereas the point of each is to provide an income during retirement, they work totally in different ways. p. 2

PENSION PLANNING

If you save hard and invest it wisely and do not incur too much in the way of charges, there's a very good chance you will build a very useful pension pot by the time you come to retire. p. 3

BENEFITS OF PENSIONS

The change in pension rules in 2015 enables retiree to draw their entire pension in one go if you wish. It affect those age 55 and over who have savings in a defined contribution pension scheme. p. 3

20 TAX EFFICIENT WAYS TO PREPARE TOWARDS YOUR RETIREMENT BOUNTY

PENSION could be a support into which an entirety of cash is included amid an employee's work over a period and from which payments are drawn to support the person's retirement from work within the frame of periodic payments.

Celebrating one of our clients(Janeatte) birthday

Tax efficient way of saving money

A pension is a tax efficient way of saving money for retirement. **For every £100 you pay in, the taxman will add a further £25.** This will be more if you're a higher rate taxpayer. You can save as much as you earn, however tax relief on contribution is currently capped at £40,000 per year. **The lifetime pension pot is currently £1.055m.** You can have more than one pension. Anyone can save in a pension at any age including children and those not in paid employment. You cannot normally take benefits from a personal pension until age 55 years. Up to 25% of your pension can be taken as a tax-free lump sum. Pension income including state pension is taxable. The state pension age will rise for both men and women to 66 years from 2020.You can check your state pension age including pension credit qualifying age at any time. Just ask us how when you are ready.

Types of Pensions

i. State pension
ii. Defined benefit pension e.g. Occupational or company pension.
iii. Defined contribution pension e.g. Personal pension, SIPP, etc

State Pension

The Old & The New

Entitlement to the state pension is built up over the working life through payment of national insurance contributions. Originally the rules were that men need 44 years of contribution and women 39 years. In 2010, this was reduced to 30 years for both men and women. Credits were usually given to periods of unemployment and for parents (usually women) taking time away from work to bring up children or time spent as a carer. From April 2018 the old basic state pension increased to £126 per week. People who reached state pension age before April 2016 will continue under the old system which has two basic elements, the basic pension and secondly for many but all additional

In April 2016, the government introduced its non means tested flat rate state pension. The starting point amount was £155 per week, and will rise in line with inflation, average wages or a minimum of 2.5% each year. As at April 2019 the rate is £168.60 per week (8767 p.a).The period of qualifying years by way of NI contributions or credits has increased from 30 to 35 years. You will need a minimum of 10 years NICs before you qualify for the new pension. The increase to £168 per week, is designed to provide a basic income for everyone with a full 35-year NIC record however, not everyone will receive this flat rate amount. It will be reduced for those workers who do not have the full 35-year NIC record e.g. someone with only 25 years NI contribution would get 25/35th or £120 per week. For each missing year, the amount would be reduced by £4.81. Workers will get no additional pension when they pay in for more than 35 years.

Class 3 voluntary contribution

You would need to consider paying voluntary class 3 contributions to cover the gap in your NI record. The current rate for 2018/19 is £15 per week or £770 p.a. Each year's contributing will add 1/35th to your state pension in the future.

To book an appointment and for more information kindly reach us on the following;

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DEFINED BENEFIT PENSION SCHEME

E.g. Occupational pension

A defined benefit (DB) pension scheme is one where the amount you're paid is based on how many years you've worked for your employer and the salary you've earned. How defined benefit pensions work
Defined benefit pensions pay out a secure income for life which increases each year. You might have one if you've worked for a large employer or in the public sector. e.g. NHS. Your employer contributes to the scheme and is responsible for ensuring there's enough money at the time you retire to pay your pension income. You can contribute to the scheme too. They usually continue to pay a pension to your spouse, civil partner or dependants when you die.

DEFINED CONTRIBUTIONS PENSION SCHEME

Eg. Personal pension

Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in, the fund's investment performance, tax relief and the choices you make at retirement. If you're a member of the scheme through your workplace, then your employer usually deducts your contributions from your salary before it is taxed. If you've set the scheme up for yourself, you arrange the contributions yourself. It helps to think of defined contribution pensions as having two stages. They are, while you are working and when you retire.

KEY POINTS ON PENSION PLANNING

- Work out your likely retirement salary
- Don't take risks with the investment funds you've built up
- Consider ways to grow your pension
- Have a check on your spending after retirement
- Consider paying off all debts before retirement
- Have a date when you want to start taking your pension
- Speak to a professional before making a final choice

PROS AND CONS OF PENSIONS & ISA

FOR PENSION·

- You get tax relief on contributions at your highest rate, so more beneficial for higher rate taxpayers·
- You can save more each year in pension i.e. up to £40k than an isa up to £20k·
- Pensions do not count for Inheritance Tax (IHT) purposes·
- Pensions are not taken into account should you ever need means tested benefits

AGAINST PENSION·

- The fund is locked away, the earliest you can access it is age 55 years·
- With the exception of 25% tax – free lump sum, the benefits are taxable·
- Some pensions can involve high charges which impact on returns

FOR ISA·

- There are no tax breaks on the way in, but interest and returns on investments are tax-free·
- You can access money at any time·
- ISAs can be inherited without penalty·
- They do not need to be declared on your tax returns

AGAINST ISA·

- You can freely access the money – it is tempting to dip in, and you have to be very disciplined.·
- You are limited in the amount you can put away every year i.e. £20000 from April 19·
- Some investment products levy high charges which limit returns· They will count as saving should you need to resort to means tested benefits.

Kindly visit our web page for a detailed article on PENSIONS.

Our **next seminar will be held on the 28th of January, 2020** at The Beeches Hotel, 69 Wilford lane, Nottingham, NG2 7RN.

The THEME is **DIKTATS WITHIN TAX**