Abode FINANCIAL

Your pension guide

for high earners and company directors

We're about long-term partnerships and want nothing more than to see you reach your financial goals, **living the life you've worked for.**

Fairness	Integrity	Family first	Caring
We believe in fairness and treat people with respect and equality.	Being honest, reliable, and sticking to our promises. No shortcuts.	We are motivated to create happy, secure homes for our clients and ourselves.	We are empathetic and passionate about our service.

Hello

Welcome to our comprehensive pension guide tailored specifically for high earners and company directors. This guide aims to demystify pension planning and offer practical advice on maximising your retirement savings.

Navigating the complexities of pension contributions and tax relief can be challenging. That's where we come in. At Abode Financial Planning, we specialise in pensions and retirement planning; it's what we do.

Taking our experience of over 15 years, we have created a financial planning firm that is fiercely independent of providers and investment entities and strictly dedicated to our clients' best interests.

We started with a passion for giving clients the expertise and peace of mind they need to feel secure with their financial plans. We built our company values around our clients' needs and they guide us as we delivers results without compromising on personal service.

We hope you find this guide informative. If you have any questions or need personalised advice, we are here to help.

Daniel Boden CFP™ FPFS
Managing Director
& Chartered Financial Planner

"it's what we do"

Let's talk

For a no-obligation chat please email us at hello@abodefinancial.co.uk or call us on 01285 703 060

Here to **help.**

This guide provides a high-level overview of the legislation changes. The information is intended for general information only and does not constitute advice.

The information is aimed at retail clients only.

For personal financial advice, please get in touch:

hello@abodefinancial.co.uk

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

What's in this guide?

Pension contributions

Contributions can be made personally from your salary or made on your behalf from your company.

Personal contributions

Personal contributions from salary are limited to '100% of your relevant UK earnings' or the amount of your salary in plain English.

There is also a cap of £60,000 unless you have unused allowance from previous tax years; more on this to follow.

Company contributions

If like many business owners you choose to pay yourself a modest salary (say, £10,000) and the balance in dividends, then the amount you can contribute *personally* and get tax relief on is restricted to the value of your salary (£10,000 in this example).

With personal contributions, 20% tax relief is added to the contribution by the Government and invested in your pension. So, if your salary is £10,000 then you'd only need to contribute £8,000, then the Government would 'gross this up' by adding the extra £2,000. It is the gross contribution that is assessed against the salary.

Contributions made to your pension from the company are not restricted by your earnings, so there is scope to make a larger contribution of up to £200,000 in 2024/25.

Key considerations

1. Is the contribution within your 'annual pension allowance'
2. Is the contribution deemed to be 'wholly and exclusively for the purpose of trade' (speak with your accountant about this but generally it checks whether the contribution is reasonable).

Pension contributions from the company are usually an allowable business expense so can lead to a significant saving on the Corporation Tax bill (up to £50,000!)

However you decide to contribute to your pension, building a retirement war chest allows you to retire with confidence, on your terms.

Tax relief

on pension contributions

To encourage people to save for retirement, the Government offers tax relief on pension contributions.

For most people, tax relief is added to their pension by a government top-up to their contributions. This top-up is 'grossed-up' by 20% of the contribution that's made, so for a personal contribution of £10,000, a government top-up of £2,500 is added, bringing the total to £12,500.

For high earners, the tax relief regime is even more generous because the tax relief is at the highest rate of income tax you pay:

- 20% for basic rate taxpayers (here the tax relief is already added to the pension via the government top-up)
- 40% for higher rate taxpayers (20% added to the pension so an extra 20% tax relief can be reclaimed)
- and 45% for additional rate taxpayers (an extra 25% tax relief can be reclaimed).

You must complete a self-assessment tax return to reclaim the extra tax relief.

Your pension fund

Once the cash is added, then what?

It’s sensible to invest it. Common investments include:

- company shares
- bonds
- property
- commodities
- alternative assets

You can pick and manage these investments yourself or hire a qualified financial adviser to help you.

Also..

Any investment growth inside the pension is **tax-free** and pensions are normally outside of your estate so not liable to **Inheritance Tax.**

Withdrawing your cash

When you’re over age 55 (this is rising to 57 in 2028) you can take money from the pension. There are several ways to do this, each with pros and cons, but you can normally take a quarter of the pension out tax-free, with the rest being added to your other income and taxed.

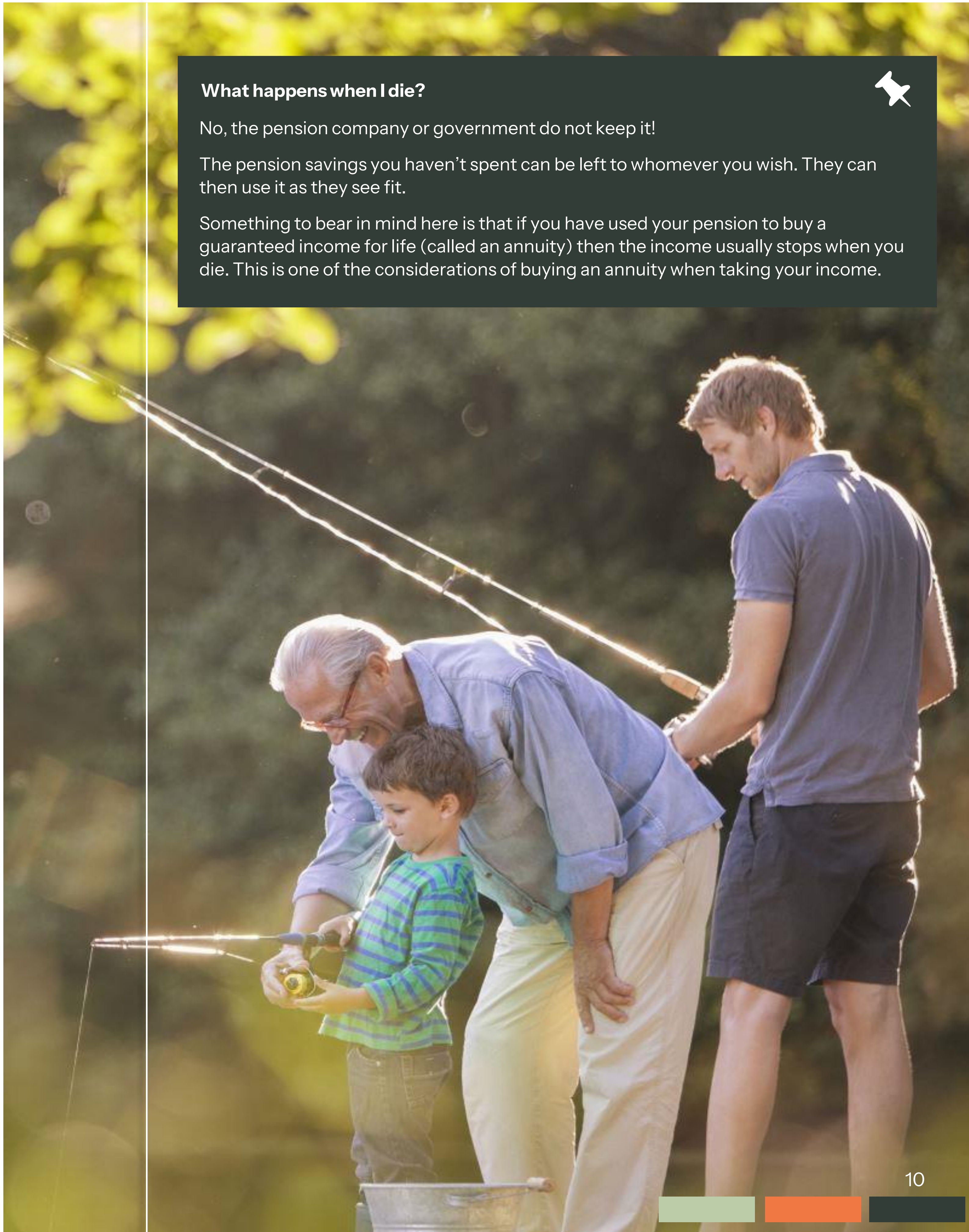
For guidance about withdrawal options, speak with a qualified financial adviser for personal advice or Moneyhelper for generic guidance and a good grounding in the basics.

What happens when I die?

No, the pension company or government do not keep it!

The pension savings you haven’t spent can be left to whomever you wish. They can then use it as they see fit.

Something to bear in mind here is that if you have used your pension to buy a guaranteed income for life (called an annuity) then the income usually stops when you die. This is one of the considerations of buying an annuity when taking your income.



Maximising your fund

You can carry forward the unused annual allowance if you haven't used your full annual allowance in the previous **three tax years.** This can significantly boost your pension savings and the amount of tax relief you receive.

The most you can save into a pension is limited to the pension annual allowance. In the 2024/25 tax year the pension annual allowance is £60,000 but it is possible to 'carry forward' unused annual allowance from previous (up to 3) tax years.

Here's an example:

Tax Year	Annual Allowance	Used	Unused
2024-25	£60,000	£0	£60,000
2023-24	£60,000	£30,000	£30,000
2022-23	£40,000	£20,000	£20,000
2021-22	£40,000	£10,000	£30,000
			£140,000

In this example, £140,000 could be contributed to a pension in the 2024/25 tax year. If this was made by a **personal** contribution from salary, it would 'cost' you £112,000 and the £28,000 tax relief would be added by the Government (£112,000 + £28,000 = £140,000).

To do this you'd need a salary of at least £140,000 in the same tax year that the contributions is made. If your company made the contribution, it's not restricted to your salary and £140,000 would usually lead to a Corporation Tax saving of £35,000.

We'd recommend agreeing any large contributions with your accountant before proceeding.

Annual allowance for high earners

The tapered annual allowance is a reduced annual allowance for high earners. It gradually reduces the standard annual allowance for those with an 'adjusted income' over £260,000. The minimum tapered allowance can go down to as low as £10,000.

For every £2 over an adjusted income of £260,000, your annual allowance reduces by £1.

How do I work out if my annual allowance is tapered?

To determine if your annual allowance is tapered, you need to calculate two key figures: **your threshold income** and **your adjusted income**.

Threshold income

Threshold income includes all taxable income, such as

- salary (including any salary you've sacrificed for pension contributions)
- bonuses
- rental income
- dividends,

less

- personal pension contributions (but the contributions your employer made for you)
- charity donations

Section 24 of the Income Tax Act 2007 lists all the reliefs you can deduct.

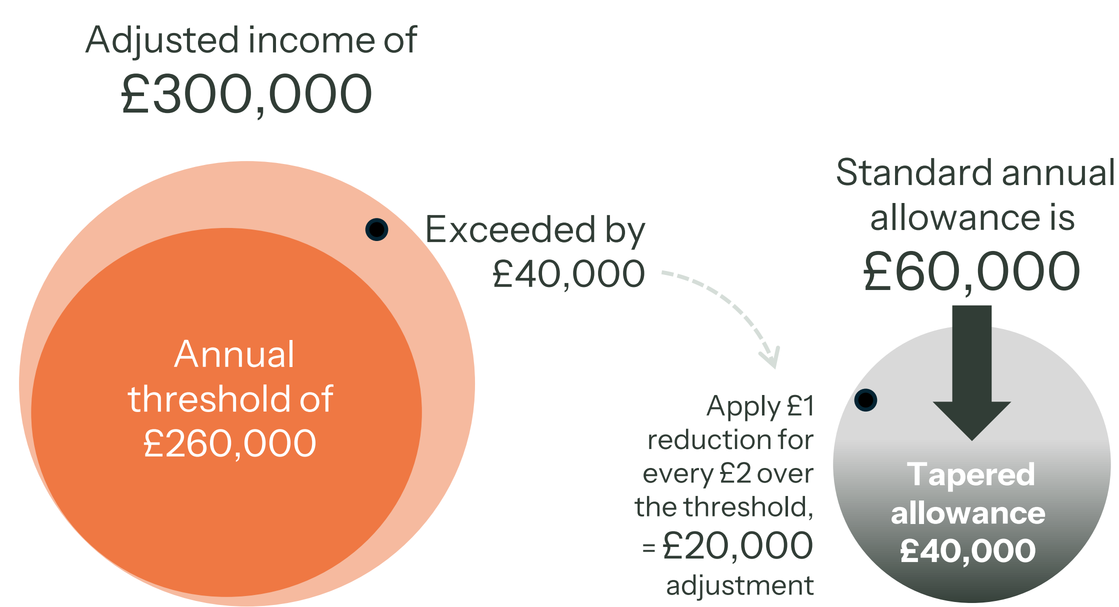
If your threshold income exceeds **£200,000** , you may be subject to the tapered annual allowance.

Adjusted income

Adjusted income includes your threshold income **plus** any pension contributions made by your employer.

If your adjusted income exceeds £260,000, your annual allowance starts to taper down from £60,000 to a minimum of £10,000.

For example:



Adjusted Income	Tapered annual allowance
£260,000	£60,000
£280,000	£50,000
£300,000	£40,000
£320,000	£30,000
£340,000	£20,000
£360,000	£10,000

New lifetime allowance rules from April 2024

The lifetime allowance was abolished on the 6th April 2024 and replaced with three new allowances. This is a complex piece of legislation, so if you have built up a significant pension pot (around £1 million), it's important to understand.

Briefly, what *was* the Lifetime Allowance?

If the value of your pension savings exceeded the lifetime allowance, which was most recently set at £1,073,100, you were taxed on the excess. The rate of tax applied to the overage was either 25% or 55%, depending on how benefits taken from the pension.

Three new allowances:

Lump Sum Allowance

This allowance is the limit of the amount of tax-free lump sum benefits that can be paid without a tax charge being applied.

The lump sum allowance is fixed at £268,275, which is 25% of the abolished lifetime allowance of £1,073,100.

Lump Sum and Death Benefit Allowance

Like the lump sum allowance, this also limits the tax-free benefits but includes provisions for death benefits.

This is set at £1,073,100 and applies when a tax-free lump sum is taken or when someone dies.

Overseas Transfer Allowance

Before the lifetime allowance was abolished, a transfer to a Qualifying Recognised Overseas Pension Scheme (QROPS) was tested against the lifetime allowance.

The overseas transfer allowance is also set at £1,073,100 and applies to the transfer of pension benefits overseas.

Transitional tax-free amount certificates

Now the lifetime allowance is abolished, the amount of allowance used before 6 April 2024 must be converted into remaining lump sum allowance and lump sum and death benefit allowance.

A transitional tax-free amount certificate will state the tax-free lump sum benefits taken before 6th April 2024.

Most people shouldn't need to apply for a certificate as the standard calculation will reflect the tax-free lump sums taken (and lifetime allowance used) before 6th April 2024.

And it is important to note that if you're over 75 the remaining lump sum and death benefit allowance is effectively NIL. This is because all death benefits will be taxable after age 75.

Working with a financial adviser

The pension tax rules are notoriously complicated and constantly in a state of flux. As qualified and experienced financial planners we can help you to navigate this complexity and ensure you don't land an unexpected tax bill.

Not only do we help our clients navigate these (ever changing) rules, we help our clients...

- understand how much they need to contribute to fund their dream retirement.
- Find the right balance between enjoying today and funding tomorrow
- Invest pension monies sensibly
- Agree a sustainable withdrawal strategy
- Retire confidently!

Let's talk

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We'd love to hear from you!