Emily McAlister <emilym@pensionpractitioner.com>

Re: Pension Contributions

2 messages

Gavin <gavinm@pensionpractitioner.com> 15 April 2021 at 22:04
To: Mike Holmes <mikemholmes@outlook.com>, Emily McAlister <emilym@pensionpractitioner.com>

Hi Mike,
Many thanks for the note on this. There is a fair bit to cover, I will write everything up tomorrow afternoon and get this to you to review over the weekend.
Hope you and Janet and keeping well
tks
Gavin

Pension Practitioner

T: 0800 634 4862
F: 020 8906 6611

Administration Centre: Venture Wales, Pentrebach. Merthyr Tydfil. CF48 4DR
Pension Practitioner is a tradestyle of The Practitioners Partnership LP
Registered Number: 00159
Registered Office: 1st Floor, World Trade Centre, Baytree Road, Gibraltar GX11 1AA

On Mon, 12 Apr 2021 at 20:09, Mike Holmes <mikemholmes@outlook.com> wrote:

> Hi Gavin
> I hope all is well with you.
> My accountant tells me there have been some changes in what we are allowed to put into the pension.
> In this current year we anticipate an income of about £170,000 each from the businesses. Are we allowed to pay into the pension from the companies a further £40,000 each and stay within the rules.
> I also wanted to ask, what are the rules on drawdown? The pension is between Janet and I and the two children. We have all contributed. Are Janet and I allowed to draw out all of the pension income or just a percentage related to what we put in? What happens when Janet and I die will the full pension fund pass to the children?
> Mant thanks in anticipation.
> Cheers
> Mike Holmes

Gavin <gavinm@pensionpractitioner.com> 16 April 2021 at 18:51
To: Mike Holmes <mikemholmes@outlook.com>
Cc: Emily McAlister <emilym@pensionpractitioner.com>

Dear Mike,

Further to our email correspondence I confirm the following:

Pension Contributions

The Annual Allowance is currently £40,000 and represents the total amount from all sources. Amounts in excess of this threshold level, will be subject to taxation unless you can carry forward unused relief.

There is some unused relief available from previous years, presently HMRC's system is offline but I will check on Monday the available relief beyond £80,000 combined. Before you make contributions there are new rules in the place from the 20/21 tax year onwards but based on earnings given you should be within the limits, even with the £40,000 contribution amount for each of you.

The annual allowance can be reduced through a method known as tapering. The 20/21 tax year the tapered annual allowance applies for individuals with "threshold income" of over £200,000 plus "adjusted income" of over £240,000. Your adjusted income is calculated in summary as your taxable income less any reliefs that qualify, plus the amount of any pension contributions that have been paid in the tax year. As your gross earnings from the business does not exceed £240,000, you would not be caught by the threshold income test, and you need to break both rules to be affected, which does not appear to be the case here.

So to summarise, if your total earnings in the tax year does not exceed the limits set out above, you will be able to contribute £40,000 each into the pension fund. You may wish to share this information with your accountant. The same position applies to your wife, Janet. There is some flexibility to carry forward some previous years unused allowances, and as soon as I can get onto HMRC's system I will confirm this to you.

The Rules on Drawdown

The Pension Commencement Lump Sum. The maximum amount you can take is the lower of 25% of the fund you have crystallised and 25% of your available lifetime allowance. You can take this as one lump sum or in different chunks as you wish. You can take benefits up to age 75 (to enjoy the 25% tax-free part) and there is no requirement for you to stop working or 'retire' when you take your benefits.

Flexi Access Drawdown which is the new type of pension that can be drawn, allows you to continue to invest your and draw an income from it. There is no minimum or maximum limit on the amount of income that you can draw up to and including taking the whole fund.

Your income will be subject to income tax at source. You can draw your income via regular payments (either monthly, quarterly, half yearly or annually). One off payments are permitted at any time. By taking money from your SSAS now, it will have a significant impact on making future contributions to your "pot".

In essence, the contribution threshold will reduce from £40,000 p.a. to £4,000 p.a. Therefore, it is important to only draw any benefits if there is no intention to pay future contributions to you, or Janet above £4000 p.a.

You can only draw out the amounts that have been paid in for the two of you, there may be some flexibility to reallocate contributions paid in favour of the children to each of you. Let me know if you wish me to explore this further for you.

Passing the funds to the children

In the event of your demise, or both the entire fund passes to the children. As things stand now, the distribution would be entirely tax free but this can change where you have taken income in respect of the funds built up and also if you passed over after age 75.

As we have admitted them both to the pension fund, this would make the process a lot more straightforward, but it may be worth considering, for the funds to be ringfenced so that in the event of either one of them divorcing for example, their former partner would not be able to claim on their interest in the fund in future.

Hopefully this covers everything for now, happy to cover this over the phone next week if it helps.

Have a good weekend

Gavin

[Quoted text hidden]