

A Golden Age?

Pension Tax Planning 2023/24 and beyond

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients



This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning Objectives

By the end of this session, you will be able to:

Describe the operation of individual tax relief and identify those who can get higher than marginal rate relief

Describe the tax benefits of employer pension contributions for SME business owners

Evaluate the impact on your client's retirement planning of the pensions Lifetime Allowance changes arising from Finance (no 2) Act 2023

BUDGET 2021

PROTECTING THE JOBS
AND LIVELIHOODS OF THE
BRITISH PEOPLE

AUTUMN STATEMENT 2022

SPRING BUDGET 2023



Corporation Tax Increase

All main allowances frozen

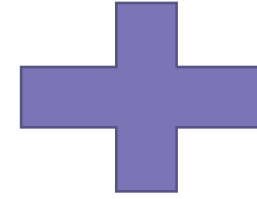
1.25% increase to Dividend Tax Rate

Additional Rate band reduction

Dividend Allowance reducing

Capital Gains Tax Exemption reducing

Tax traps unchanged



National Insurance alignment with Income Tax

Health and Care levy removed

Lifetime Allowance "abolished"

Annual Allowance increased

Money Purchase Annual Allowance Increased

Tapered Annual Allowance Increased

Trust taxation simplified

Estate Savings Income Improved

It's all Positive!

3.2 million new taxpayers

2.6 million new higher rate taxpayers

232,000 new additional rate taxpayers

c1.5m to 3m new dividend taxpayers

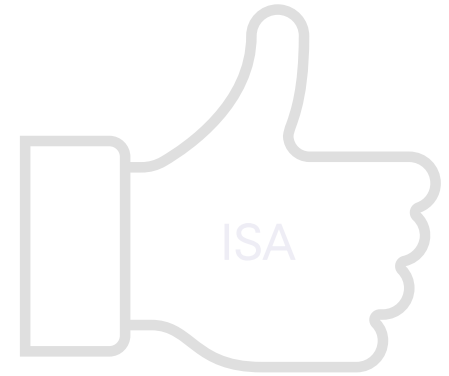
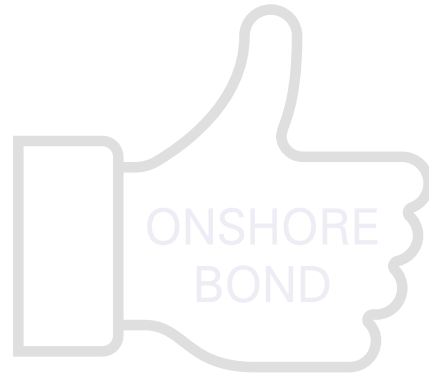
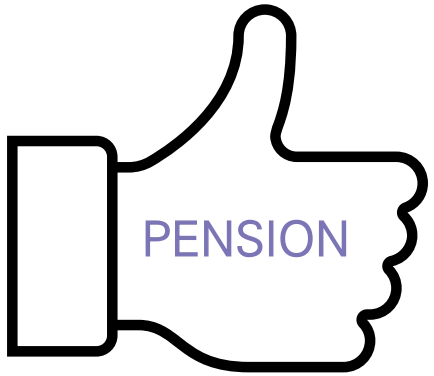
260,000 new Capital Gains Taxpayers

Ever increasing IHT receipts

30% of companies will pay increased corporation tax



“Wrappers”





Tax Landscape

Extracting Profits

HNW Pensions

Brain Teaser

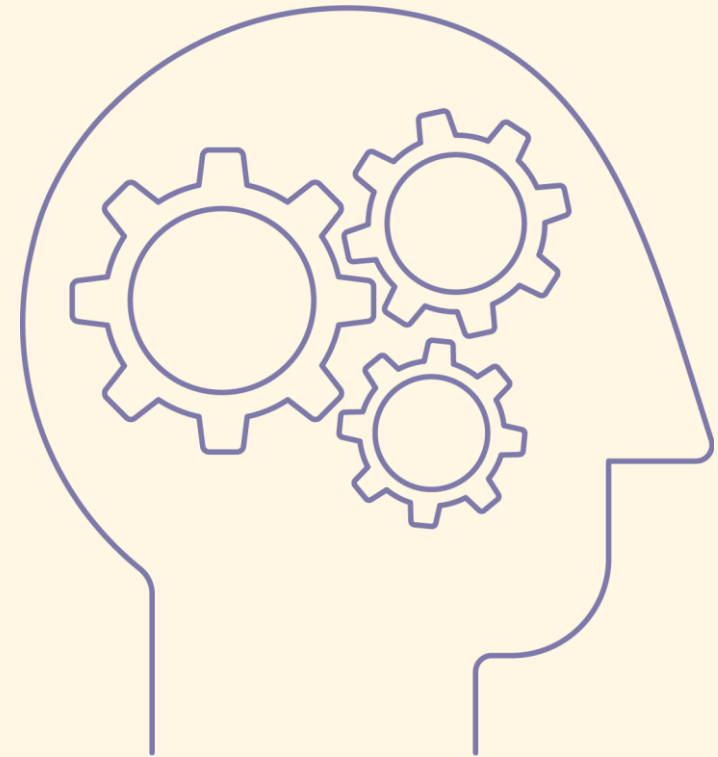
Bert and Ernie both pay £10,000 into their pensions.

Bert's contribution gets full higher rate relief.

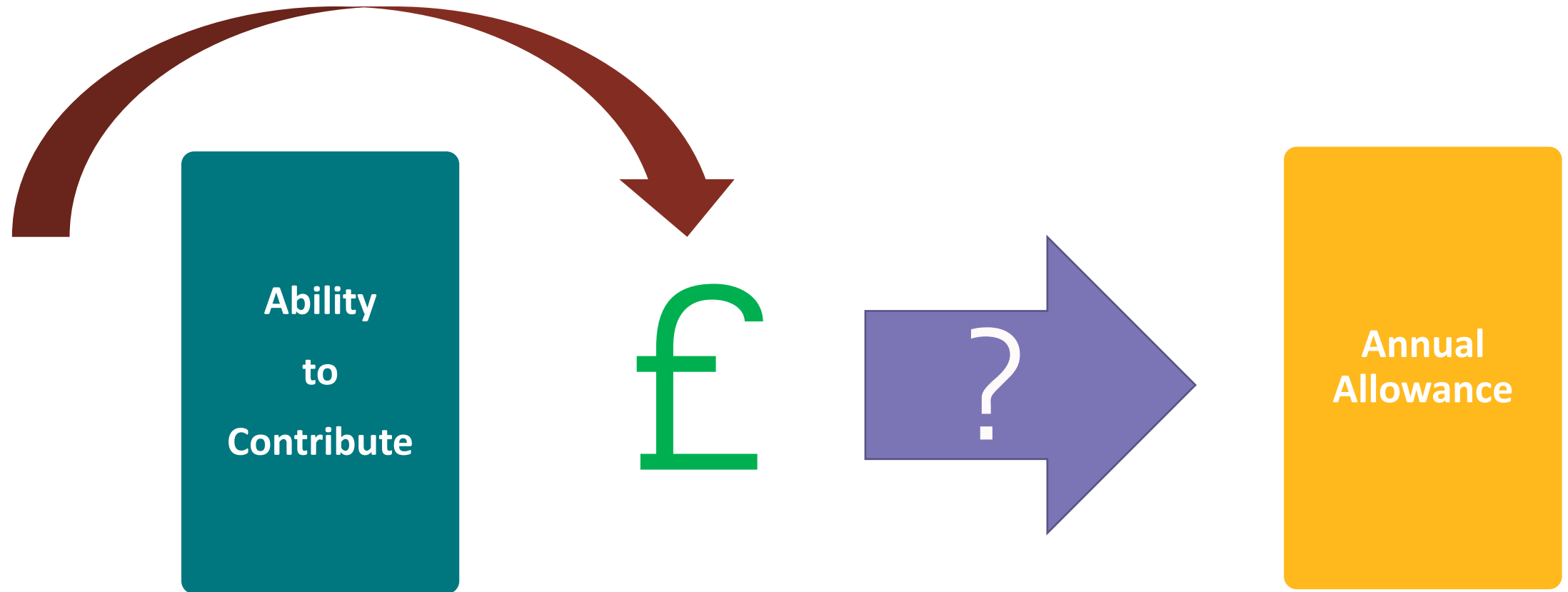
Ernie's contribution gets full additional rate relief.

Bert and Ernie's effective rate of relief is the same.

Why?



One before the other



Tax Relief v Annual Allowance

Tax relief

Individual / 3rd party Contributions

Tax Years

100% of relevant earnings or £3,600 if higher

Pension Input Amounts

Pension Input Periods

Various limits!

Annual allowance

The image features three overlapping triangles. The central triangle is a medium purple color. It is flanked by two triangles in a light pinkish-purple hue. The triangles overlap in the center, creating a darker purple area. The text 'Annual Allowance(s)' is centered horizontally across the middle of the triangles.

Annual Allowance(s)

Annual Allowances

Standard AA

Was
£40,000

Now
£60,000

Money
Purchase AA

Was £4,000

Now
£10,000

Tapered AA

Adjusted
Income was
£240,000

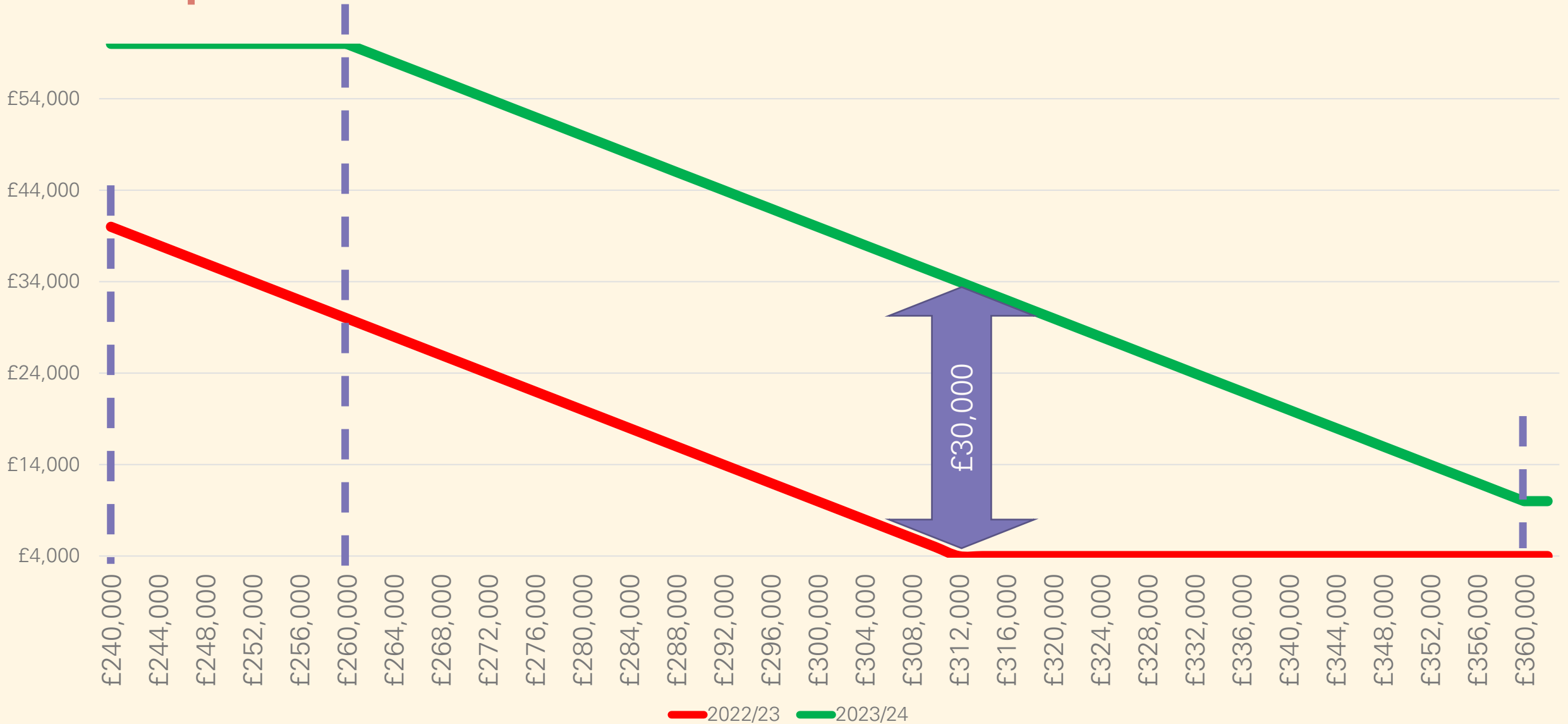
Now
£260,000

Tapered AA

Minimum
was
£4,000

Now
£10,000

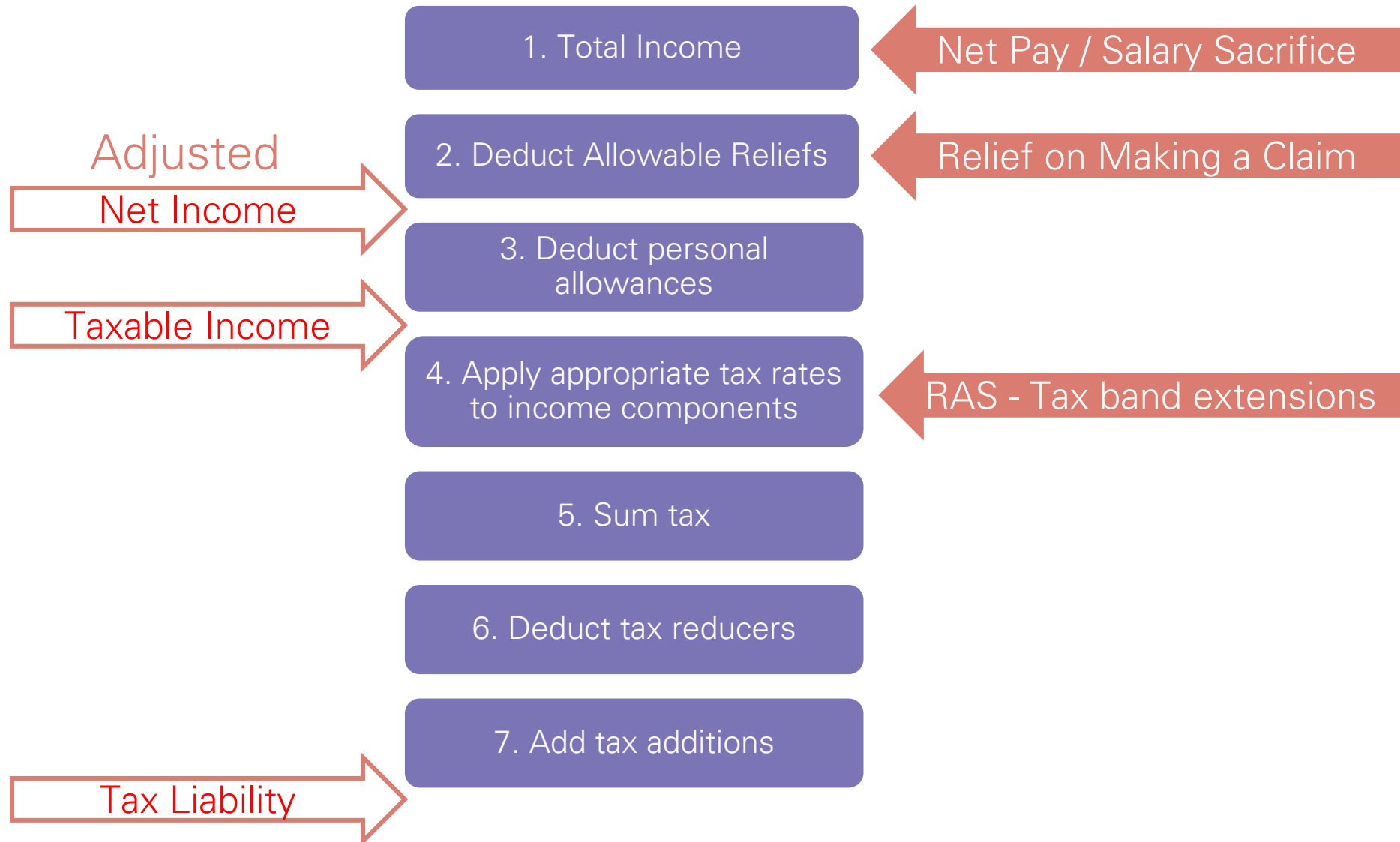
Tapered annual allowance



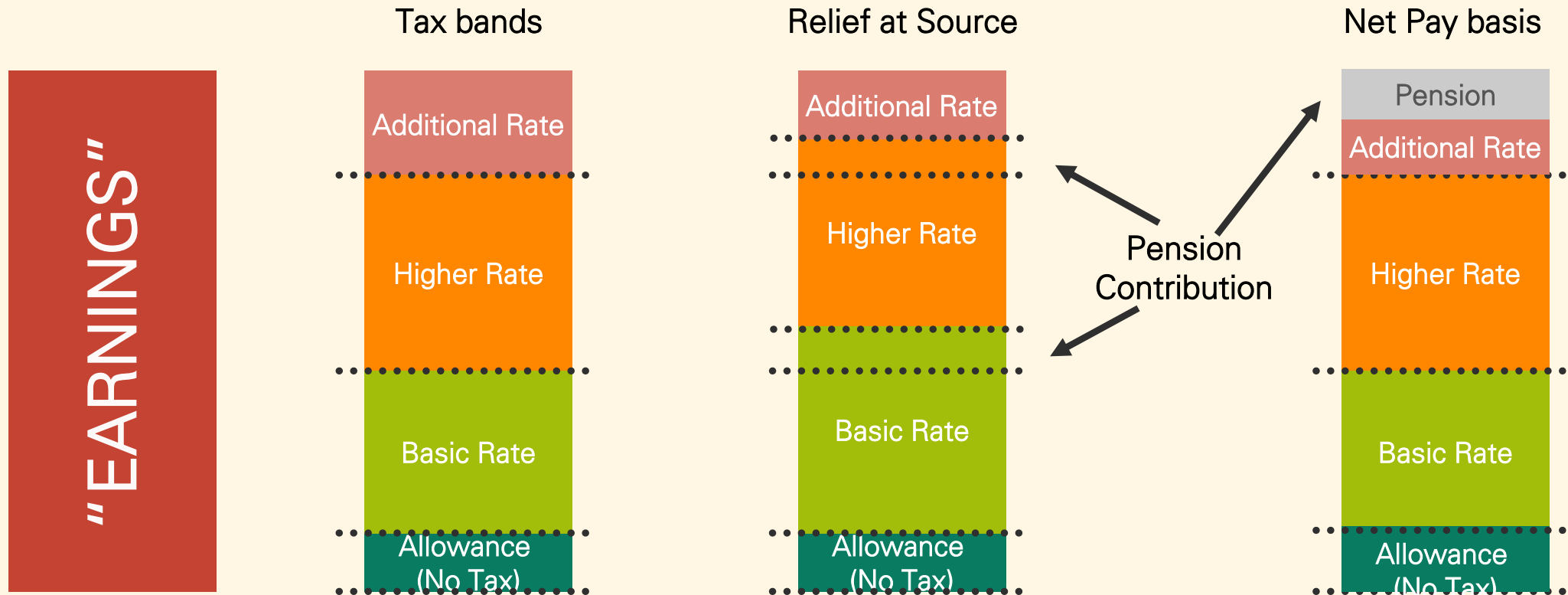


Tax Relief

UK income tax computation



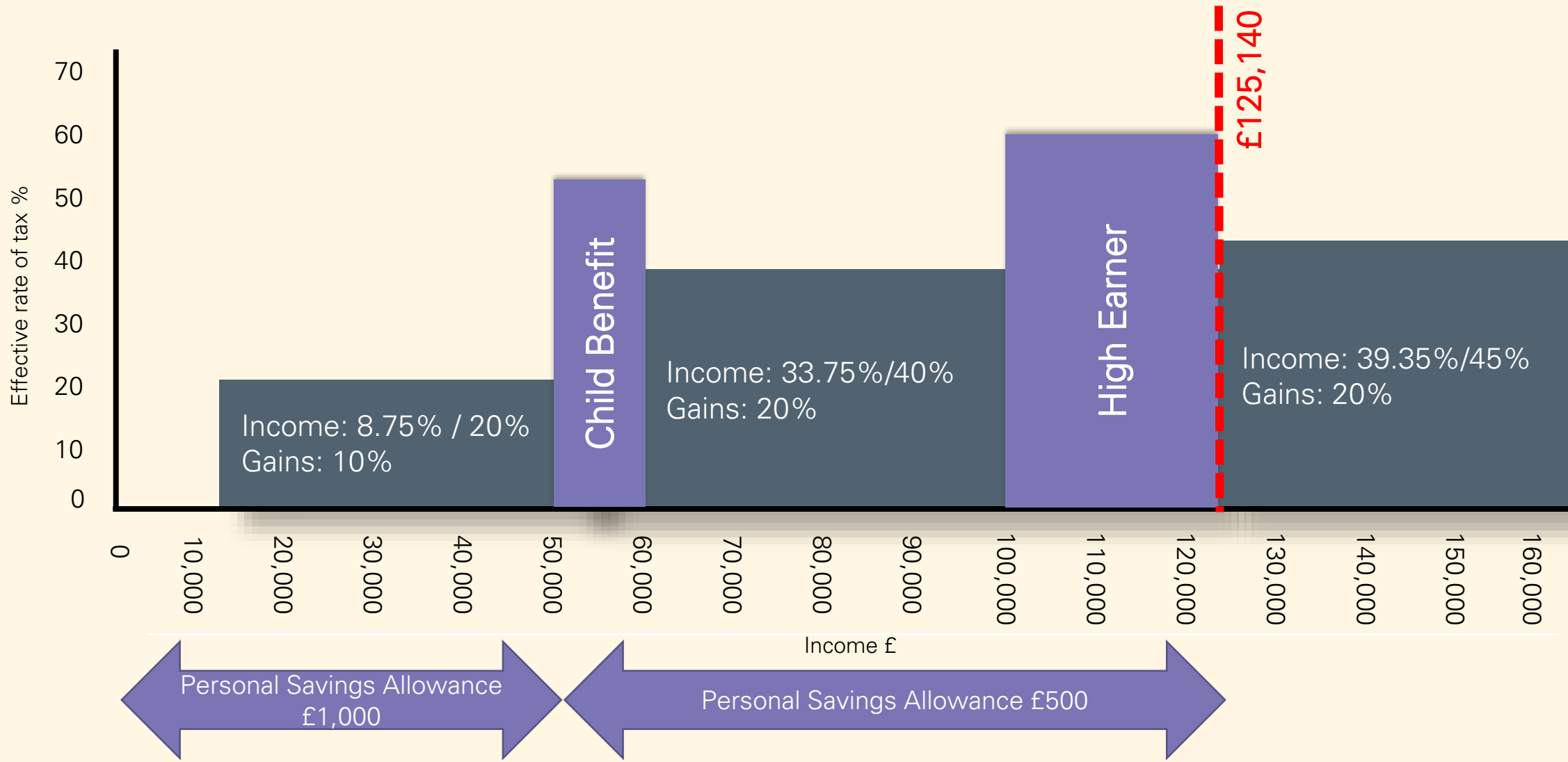
How pension tax relief works



“Step 2.5” Adjusted Net Income

Adjusted Net Income
Net Income
<u>Less</u> Relief at Source
<u>Less</u> Gift Aid Payments
<u>Add</u> Tax relief for certain union payments
<u>Add</u> Tax relief for certain police payments
Adjusted Net Income

UK Income Tax Landscape



The full amount of bond gains and interest and dividends are included at Step 1 of the UK income tax computation.

The order of income

Onshore bond gain

Redundancy

Dividend income

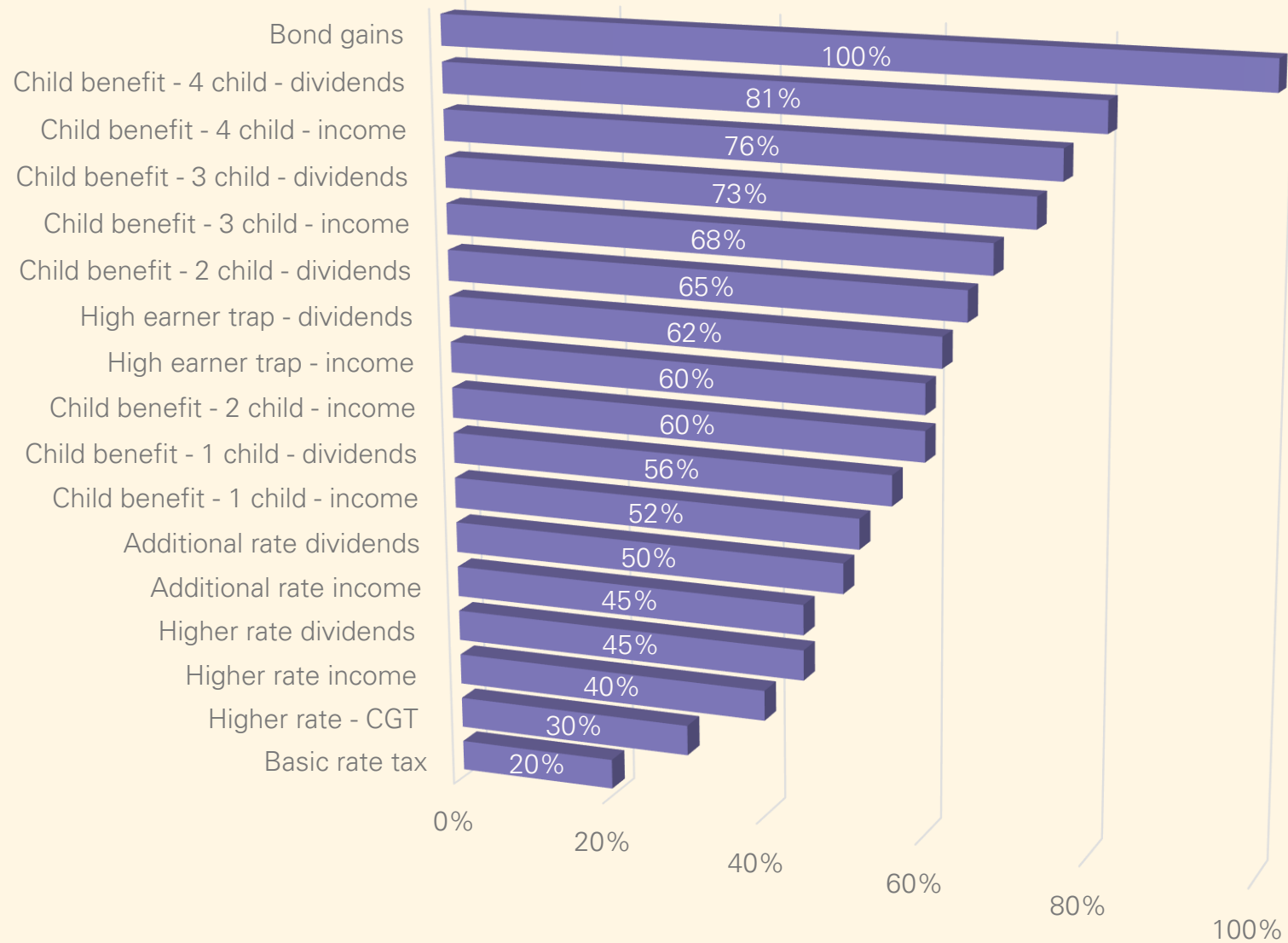
Offshore bond gain

Savings interest

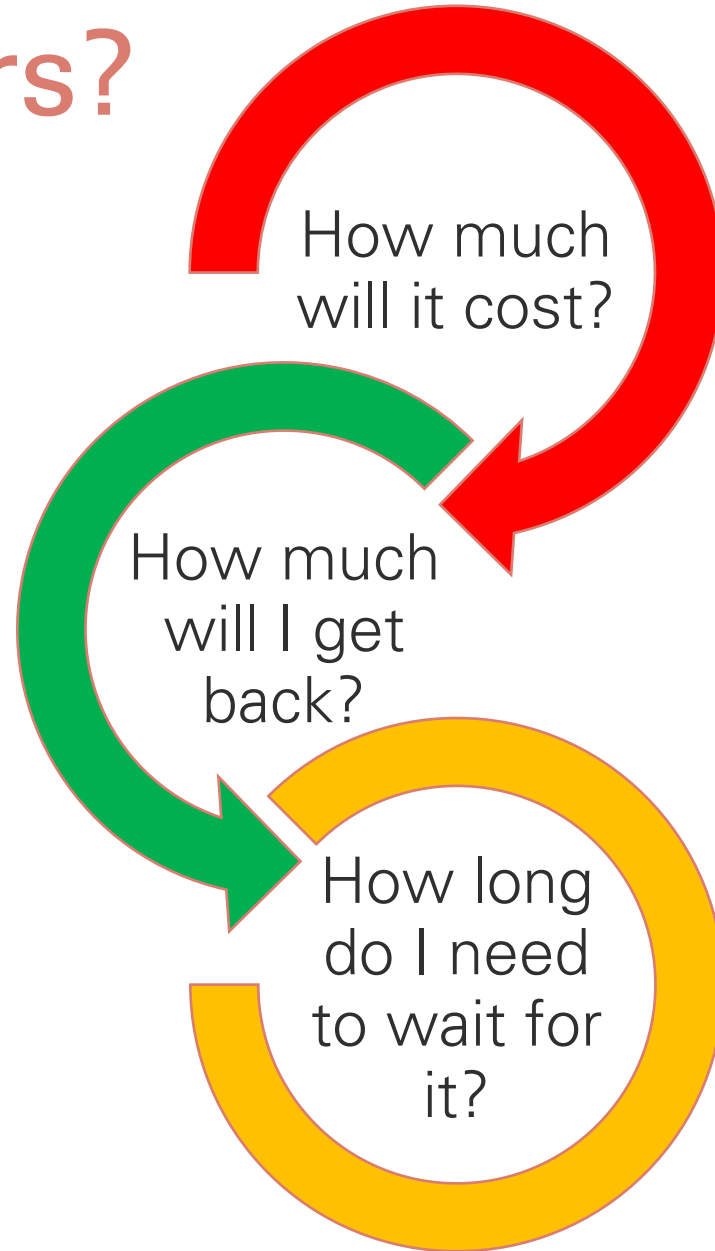
Rental Income

Salary / Pension

Tax Relief – Effective rates



What matters?



Tax Status		Questions			Return Over	
Entry (tax relief)	Exit (tax on balance after PCLS)	How much did i spend?	How much did i get back	What's the return?	5 years	10 years
20%	0%	£80.00	£100.00	25.00%	4.56%	2.26%
20%	20%	£80.00	£85.00	6.25%	1.22%	0.61%
30%	0%	£70.00	£100.00	42.86%	7.39%	3.63%
30%	20%	£70.00	£85.00	21.43%	3.96%	1.96%
40%	0%	£60.00	£100.00	66.67%	10.76%	5.24%
40%	20%	£60.00	£85.00	41.67%	7.21%	3.54%
40%	40%	£60.00	£70.00	16.67%	3.13%	1.55%
45%	20%	£55.00	£85.00	54.55%	9.10%	4.45%
45%	40%	£55.00	£70.00	27.27%	4.94%	2.44%
45%	45%	£55.00	£66.00	20.45%	3.79%	1.88%
60%	20%	£40.00	£85.00	112.50%	16.27%	7.83%
60%	40%	£40.00	£70.00	75.00%	11.84%	5.76%
60%	45%	£40.00	£66.25	65.63%	10.62%	5.18%
70%	20%	£30.00	£85.00	183.33%	23.16%	10.98%
70%	40%	£30.00	£70.00	133.33%	18.47%	8.84%
70%	45%	£30.00	£66.25	120.83%	17.17%	8.24%

Tax Relief Modeller Tool

built by M&G

ABOUT YOUR CLIENT

What is the client's age?	<input type="text" value="Under 75"/>
Scottish Tax Payer?	<input type="text" value="No"/>
Number of Children	<input type="text"/>
Gift Aid (Gross amt)	<input type="text"/>

CHARGEABLE EVENTS - BOND GAINS

Onshore Gain 1	<input type="text" value="250,000"/>	Years Gain 1 (N)	<input type="text" value="37"/>	Slice 1	<input type="text" value="6,757"/>
Onshore Gain 2	<input type="text"/>	Years Gain 2 (N)	<input type="text"/>	Slice 2	<input type="text"/>
Onshore Gain 3	<input type="text"/>	Years Gain 3 (N)	<input type="text"/>	Slice 3	<input type="text"/>
Onshore Gain 4	<input type="text"/>	Years Gain 4 (N)	<input type="text"/>	Slice 4	<input type="text"/>
Offshore Gain 1	<input type="text"/>	Years Gain 1 (N)	<input type="text"/>	Slice 1	<input type="text"/>
Offshore Gain 2	<input type="text"/>	Years Gain 2 (N)	<input type="text"/>	Slice 2	<input type="text"/>
Offshore Gain 3	<input type="text"/>	Years Gain 3 (N)	<input type="text"/>	Slice 3	<input type="text"/>
Offshore Gain 4	<input type="text"/>	Years Gain 4 (N)	<input type="text"/>	Slice 4	<input type="text"/>

INCOME SOURCES

Employment Income	<input type="text"/>
Benefits in Kind	<input type="text"/>
Taxable Self Employed Profits	<input type="text"/>
UFPLS (taxable element)	<input type="text"/>
Drawdown / Annuity Income	<input type="text"/>
State Pension Income	<input type="text" value="8,000"/>
Purchased Life Annuity Income	<input type="text"/>

Gross Savings Interest	<input type="text"/>
Dividends	<input type="text"/>
Taxable Capital Gains (10%/20%)	<input type="text"/>
Taxable Capital Gains (18%/28%)	<input type="text"/>
Taxable Redundancy Payment	<input type="text"/>
Rental Income - Relevant	<input type="text"/>
Rental Income - Not relevant	<input type="text" value="38,000"/>

EXISTING PENSION CONTRIBUTIONS

Relief at Source (Net Amount)	<input type="text"/>
Contributions paid gross	<input type="text"/>

NEW PENSION CONTRIBUTIONS

Relief at Source (Net Amount)	<input type="text" value="2,880"/>
Contributions paid gross	<input type="text"/>

R
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S
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T

BEFORE NEW CONTRIBUTIONS

"Total Income"	£296,000
Adjusted Net Income	£296,000
Personal Allowance	£0
Personal Savings Allowance	£0
Child Benefit Charge	£0
Capital Gains Tax	£0
Tax Liability	£29,262
Bond Gains Summary	
Tax on gains	£107,300
Onshore Tax Credit	£50,000
Top slicing relief	£38,898
Liability	£18,402
"Bank Balance"	£266,738

AFTER NEW CONTRIBUTIONS

"Total Income"	£296,000
Adjusted Net Income	£292,400
Personal Allowance	£0
Personal Savings Allowance	£0
Child Benefit Charge	£0
Capital Gains Tax	£0
Tax Liability	£10,140
Bond Gains Summary	
Tax on gains	£107,120
Onshore Tax Credit	£50,000
Top slicing relief	£57,120
Liability	£0
"Bank Balance"	£282,980

DIFFERENCE

	£0
	-£3,600
	£0
	£0
	£0
	£0
	-£19,122
	£180
	£0
	£18,222
	-£18,402
	£16,242

PENSION SUMMARY

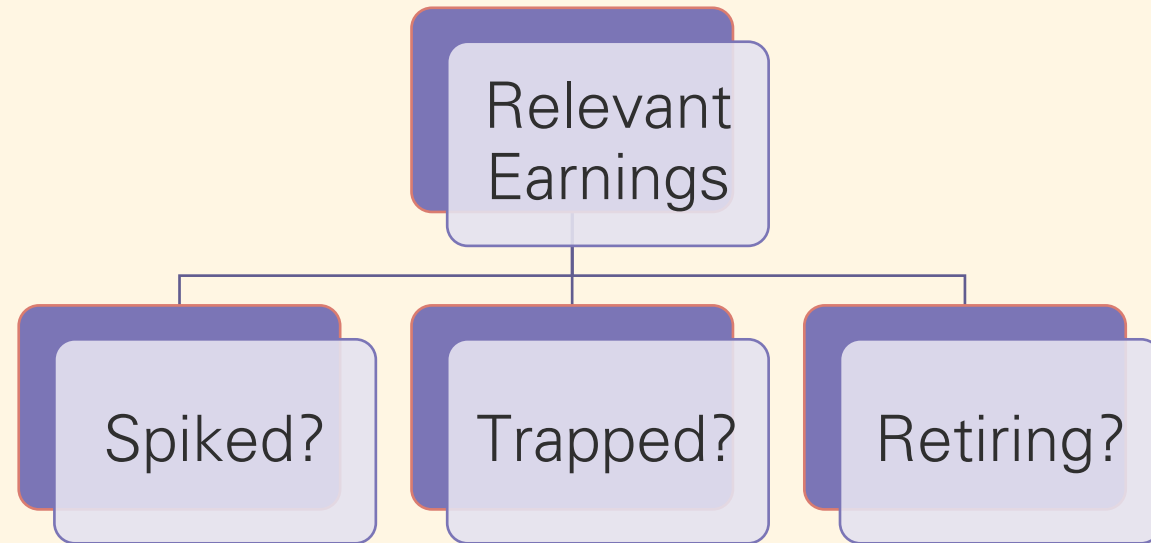
Relevant Earnings	£0
Contributions: Existing	£0
New	£3,600
Total	£3,600

**Effective Rate
of
Tax Relief**
(on new contributions)

551.17%

Please navigate between workings and inputs using the tabs at the bottom of the sheet.

Relevant Planning



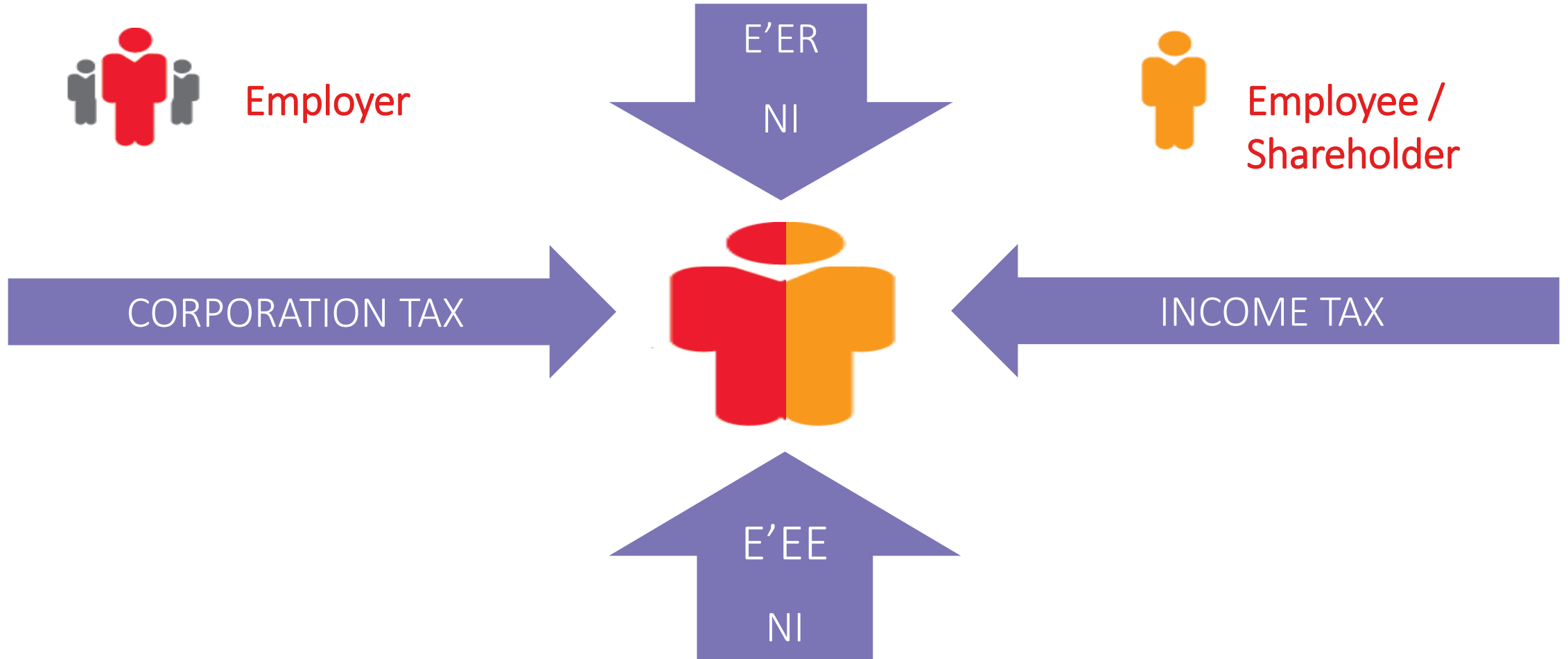


Tax Landscape

Extracting Profits

HNW Pensions

A foot in both camps



Spot the difference

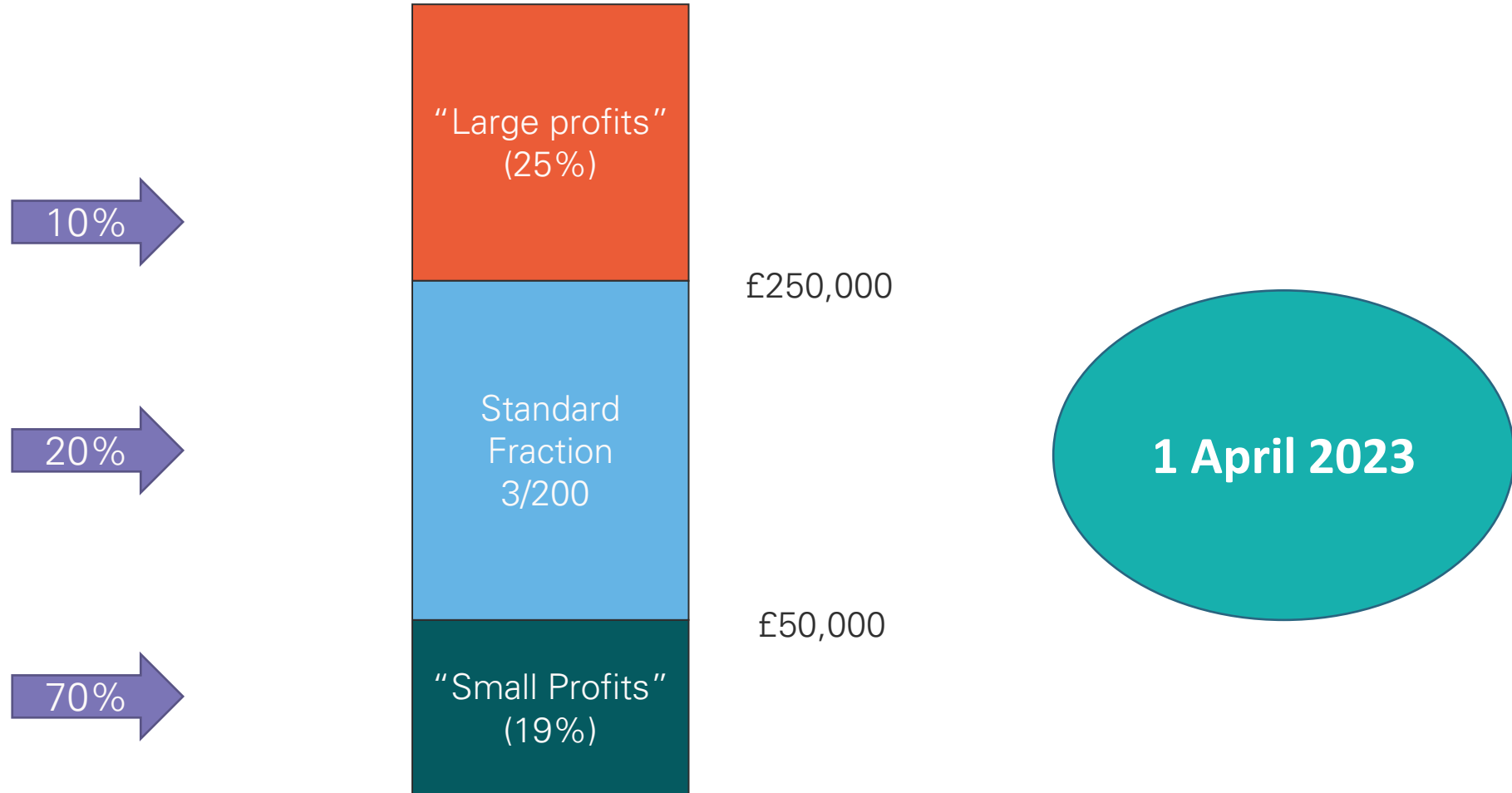
“.....my retirement is sorted out, I heard about this unlisted company no-one has heard of and bought up the shares with my SIPP, it'll definitely do well enough to cover my retirement and it's not too risky.....”

No-one, ever, probably

“.....my business is my pension.....”

Lots of people, definitely

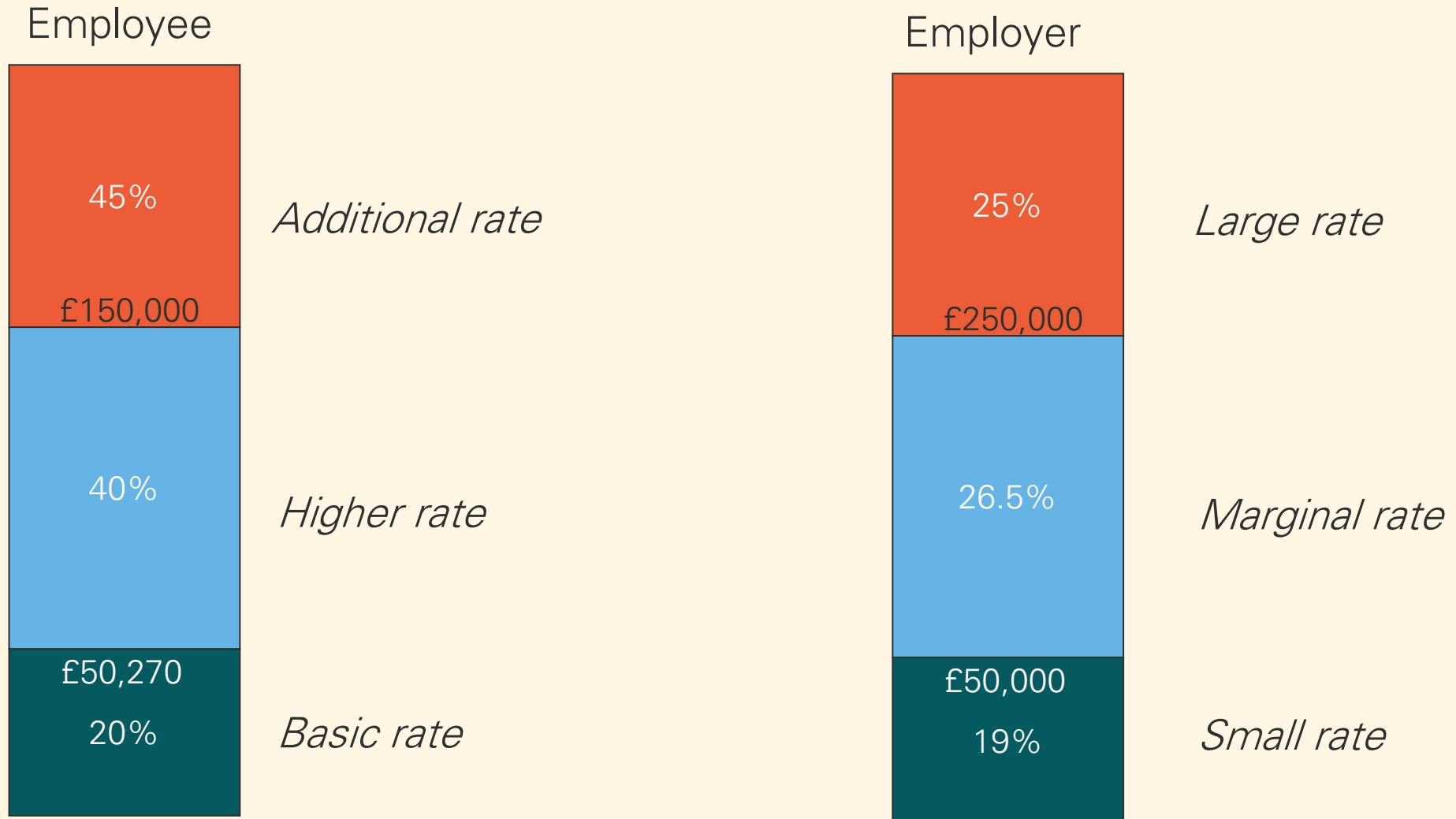
Corporation Tax changes



Calculating corporation tax

Profit		£130,000
Corp Tax	25%	£32,500
Marginal relief	£250,000	
	<u>£130,000</u>	
3/200	£120,000	£1,800
	Tax due	£30,700
	Effective Rate	23.62%

Tax Relief



Effective rates

Profit	19%			26.5%			Total Tax	Effective Rate
£10,000	£10,000	19%	£1,900				£1,900	19.00%
£20,000	£20,000	19%	£3,800				£3,800	19.00%
£30,000	£30,000	19%	£5,700				£5,700	19.00%
£40,000	£40,000	19%	£7,600				£7,600	19.00%
£50,000	£50,000	19%	£9,500				£9,500	19.00%
£60,000	£50,000	19%	£9,500	£10,000	26.5%	£2,650	£12,150	20.25%
£70,000	£50,000	19%	£9,500	£20,000	26.5%	£5,300	£14,800	21.14%
£80,000	£50,000	19%	£9,500	£30,000	26.5%	£7,950	£17,450	21.81%
£90,000	£50,000	19%	£9,500	£40,000	26.5%	£10,600	£20,100	22.33%
£100,000	£50,000	19%	£9,500	£50,000	26.5%	£13,250	£22,750	22.75%
£110,000	£50,000	19%	£9,500	£60,000	26.5%	£15,900	£25,400	23.09%
£120,000	£50,000	19%	£9,500	£70,000	26.5%	£18,550	£28,050	23.38%
£130,000	£50,000	19%	£9,500	£80,000	26.5%	£21,200	£30,700	23.62%
£140,000	£50,000	19%	£9,500	£90,000	26.5%	£23,850	£33,350	23.82%
£150,000	£50,000	19%	£9,500	£100,000	26.5%	£26,500	£36,000	24.00%
£160,000	£50,000	19%	£9,500	£110,000	26.5%	£29,150	£38,650	24.16%
£170,000	£50,000	19%	£9,500	£120,000	26.5%	£31,800	£41,300	24.29%
£180,000	£50,000	19%	£9,500	£130,000	26.5%	£34,450	£43,950	24.42%
£190,000	£50,000	19%	£9,500	£140,000	26.5%	£37,100	£46,600	24.53%
£200,000	£50,000	19%	£9,500	£150,000	26.5%	£39,750	£49,250	24.63%
£210,000	£50,000	19%	£9,500	£160,000	26.5%	£42,400	£51,900	24.71%
£220,000	£50,000	19%	£9,500	£170,000	26.5%	£45,050	£54,550	24.80%
£230,000	£50,000	19%	£9,500	£180,000	26.5%	£47,700	£57,200	24.87%
£240,000	£50,000	19%	£9,500	£190,000	26.5%	£50,350	£59,850	24.94%
£250,000	£50,000	19%	£9,500	£200,000	26.5%	£53,000	£62,500	25.00%

Effective rates

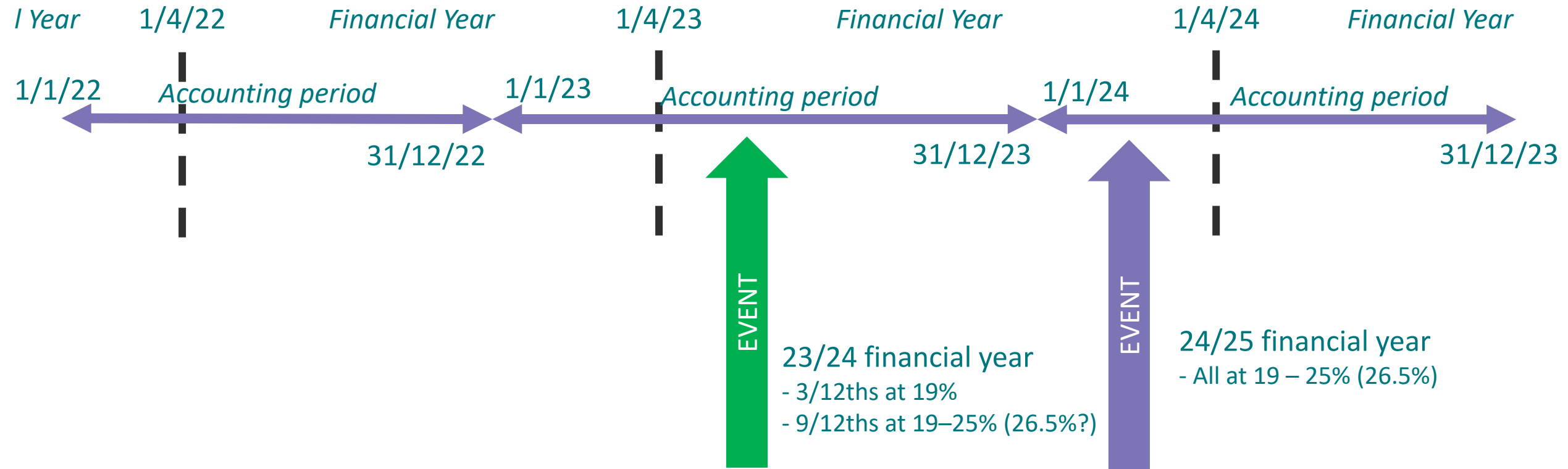
Profit	19%			26.5%			Total Tax	Effective Rate
£10,000	£10,000	19%	£1,900				£1,900	19.00%
£20,000	£20,000	19%	£3,800				£3,800	19.00%
£30,000	£30,000	19%	£5,700				£5,700	19.00%
£40,000	£40,000	19%	£7,600				£7,600	19.00%
£50,000	£50,000	19%	£9,500				£9,500	19.00%
£60,000	£50,000	19%	£9,500	£10,000	26.5%	£2,650	£12,150	20.25%
£70,000	£50,000	19%	£9,500	£20,000	26.5%	£5,300	£14,800	21.14%
£80,000	£50,000	19%	£9,500	£30,000	26.5%	£7,950	£17,450	21.81%
£90,000	£50,000	19%	£9,500	£40,000	26.5%	£10,600	£20,100	22.33%
£100,000	£50,000	19%	£9,500	£50,000	26.5%	£13,250	£22,750	22.75%
£110,000	£50,000	19%	£9,500	£60,000	26.5%	£15,900	£25,400	23.09%
£120,000	£50,000	19%	£9,500	£70,000	26.5%	£18,550	£28,050	23.38%
£130,000	£50,000	19%	£9,500	£80,000	26.5%	£21,200	£30,700	23.62%
£140,000	£50,000	19%	£9,500	£90,000	26.5%	£23,850	£33,350	23.89%
£150,000	£50,000	19%	£9,500	£100,000	26.5%	£26,500	£36,000	24.16%
£160,000	£50,000	19%	£9,500	£110,000	26.5%	£29,150	£38,650	24.16%
£170,000	£50,000	19%	£9,500	£120,000	26.5%	£31,800	£41,300	24.29%
£180,000	£50,000	19%	£9,500	£130,000	26.5%	£34,450	£43,950	24.42%
£190,000	£50,000	19%	£9,500	£140,000	26.5%	£37,100	£46,600	24.53%
£200,000	£50,000	19%	£9,500	£150,000	26.5%	£39,750	£49,250	24.63%
£210,000	£50,000	19%	£9,500	£160,000	26.5%	£42,400	£51,900	24.71%
£220,000	£50,000	19%	£9,500	£170,000	26.5%	£45,050	£54,550	24.80%
£230,000	£50,000	19%	£9,500	£180,000	26.5%	£47,700	£57,200	24.87%
£240,000	£50,000	19%	£9,500	£190,000	26.5%	£50,350	£59,850	24.94%
£250,000	£50,000	19%	£9,500	£200,000	26.5%	£53,000	£62,500	25.00%

Employer tax relief

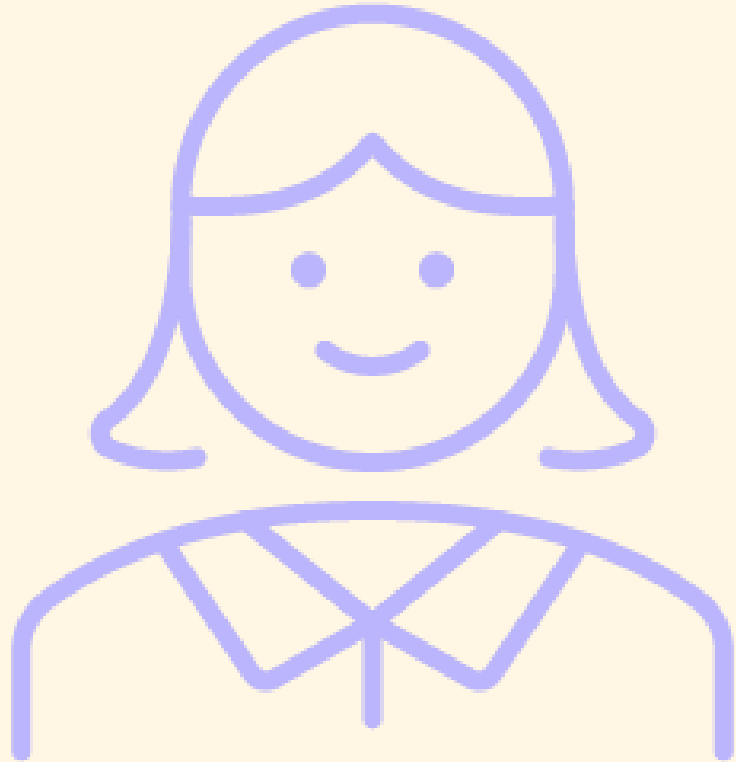
Profit		£130,000			£120,000
Corp Tax	25%	£32,500		25%	£30,000
Marginal relief	£250,000			£250,000	
	<u>£130,000</u>			<u>£120,000</u>	
3/200	£120,000	£1,800		£130,000	£1,950
	Tax due	£30,700		Tax due	£28,050
	Effective Rate	23.62%		Effective Rate	23.38%

$$£30,700 - £28,050 = £2,650 / £10,000 = 26.5\%$$

The "years"



Here's somethings about ...

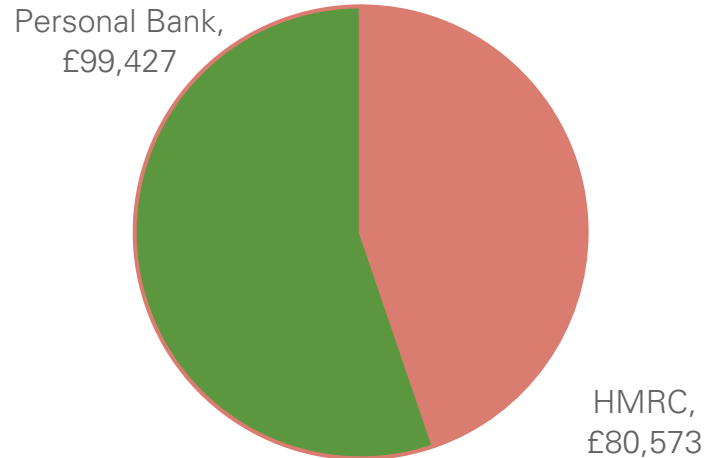


Mary

- Early 40s, married to Ted, who is self employed
- She's the main breadwinner
- 1 young child, 5 years
- IT contractor, through limited company
- Contracts expected to be around £180,000 p.a. as she is back contracting full time
- She is a paid up member of an old GPP she had when she was employed but hasn't made payments for several years.

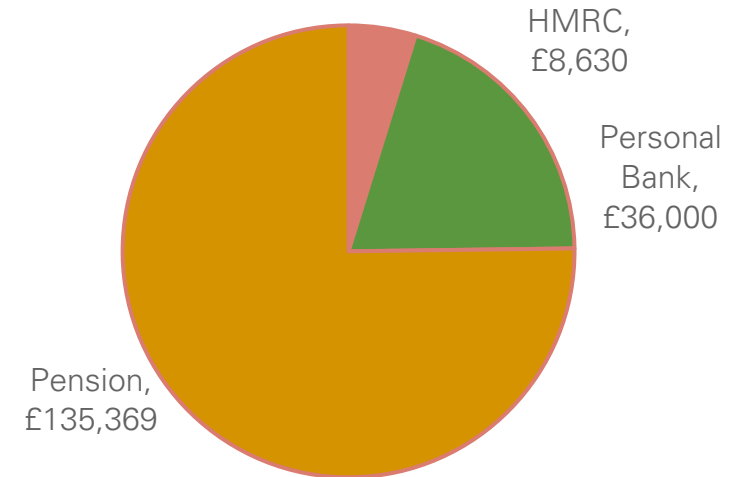
£180,000 - Decisions, decisions...

SALARY
£12,570
DIVIDENDS
£126,459
PENSION
£0
CO BANK AC
£0



- Tax inefficient extraction – high tax (c45%)
- Significant cash for living expenses.
- No funds retained – future dividend source
- Additional rate tax liability
- Lost personal allowance
- Child benefit charge to pay
- Annual Allowance lost
- No pension provision

SALARY
£12,570
DIVIDENDS
£25,581
PENSION
£135,369
CO BANK AC
£0

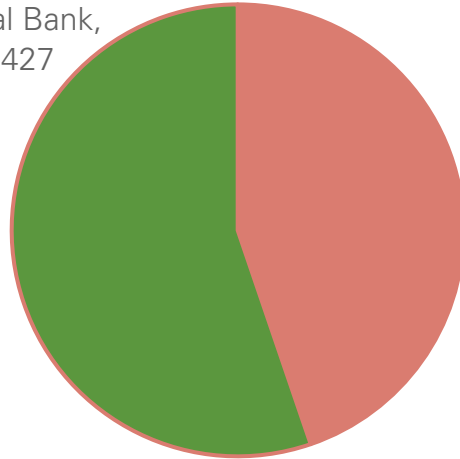


- Reduced taxation (c5%)
- Less cash for living expenses
- No funds retained – future dividend source
- No additional or higher rate tax liability
- Personal allowance retained
- No Child benefit charge to pay
- Sizeable amount of Annual Allowance used
- Pension provision made

£180,000 - Decisions, decisions...

SALARY
£12,570
DIVIDENDS
£126,459
PENSION
£0
CO BANK AC
£0

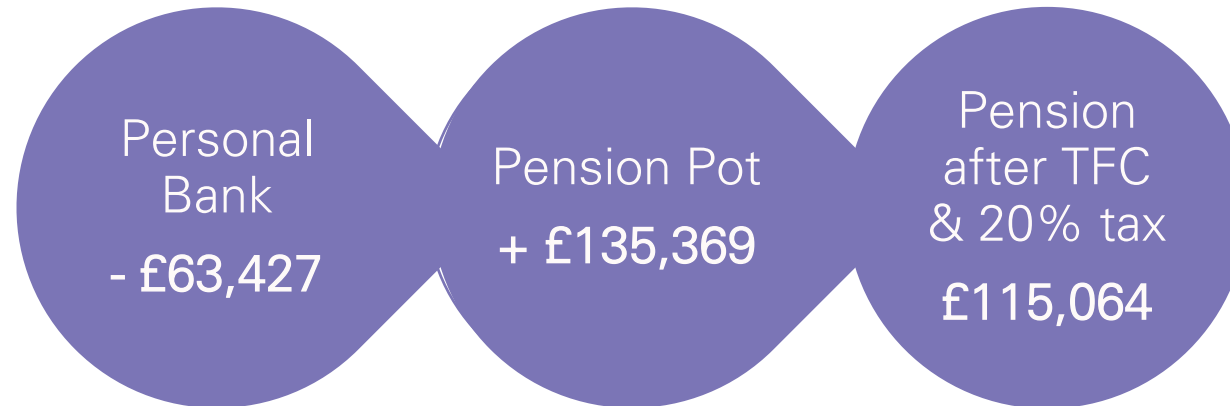
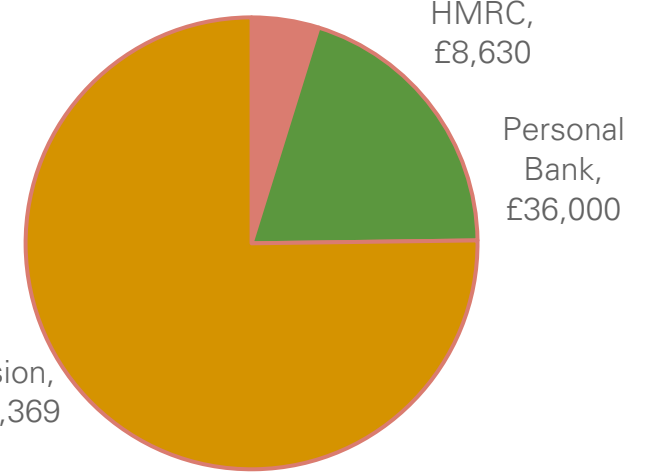
Personal Bank,
£99,427



HMRC,
£80,573

SALARY
£12,570
DIVIDENDS
£25,581
PENSION
£135,369
CO BANK AC
£0

Pension,
£135,369



81%
return!

Pre change position

Scottish Tax Payer

Available Profits

Salary Paid

Dividends Paid

Change (use a - for reductions)

Salary Paid

Dividends Paid

After change

Salary

Dividends

Gross value of individuals pension contributions

Paid gross e.g.DPS, RACs, AVCs

Relief at Source e.g.PP,GPP

Employer Contributions

Paid gross e.g.DPS, RACs, AVCs

Relief at Source e.g.PP,GPP

Employer Contributions

Paid gross e.g.DPS, RACs, AVCs

Relief at Source e.g.PP,GPP

Employer Contributions

Assumed rate of tax on pension income

Reduction in individuals bank account

Increase in pension provision

Amount after PCLS and tax

"Return" on bank account reduction

Short Summary

	Pre Change	After change	Difference	
Individual Bank Account	£99,427	£36,000	-£63,427	-64%
Company Bank Account	£0	£1	£0	507%
Pension Contributions	£0	£135,369	£135,369	Infinite Increase
HMRC total take	£80,573	£8,630	-£71,942	-89%

Detailed View

	Pre Change	After change	Difference	
Individual				
Salary	£12,570	£12,570	£0	No change
Plus Dividend received	£126,459	£25,581	-£100,878	-80%
Less Income Tax	£39,602	£2,151	-£37,451	-95%
Less National Insurance	£0	£0	£0	No change
Less Contributions gross	£0	£0	£0	No change
Net Income	£99,427	£36,000	-£63,427	-64%
Less Contributions paid net	£0	£0	£0	No change
Cash remaining	£99,427	£36,000	-£63,427	-64%

Employer

Available Profits	£180,000	£180,000	£0	No change
Less Dividend Paid	£126,459	£25,581	-£100,878	-80%
Less Employer Pension Contribution	£0	£135,369	£135,369	Infinite Increase
Less Corporation Tax	£40,492	£6,001	-£34,491	-85%
Less Salary Paid	£12,570	£12,570	£0	No change
Less Employers National Insurance	£479	£479	£0	No change
Profit remaining	£0	£1	£0	507%

Pension Contributions Infinite Increase

This tool will enable you to sit with a client and discuss the different options that they have for extracting profits from their business. You can input a client's current remuneration structure and highlight the difference adjusting this structure can benefit them and possibly mitigate the tax and national insurance payable to HMRC.

The above is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which is subject to change without notice. Every care has been taken as to its accuracy, but it must be appreciated that neither M&G nor its representatives can accept any responsibility for loss, however caused, suffered by any person who has acted or refrained from acting as a result of material contained in this calculator.

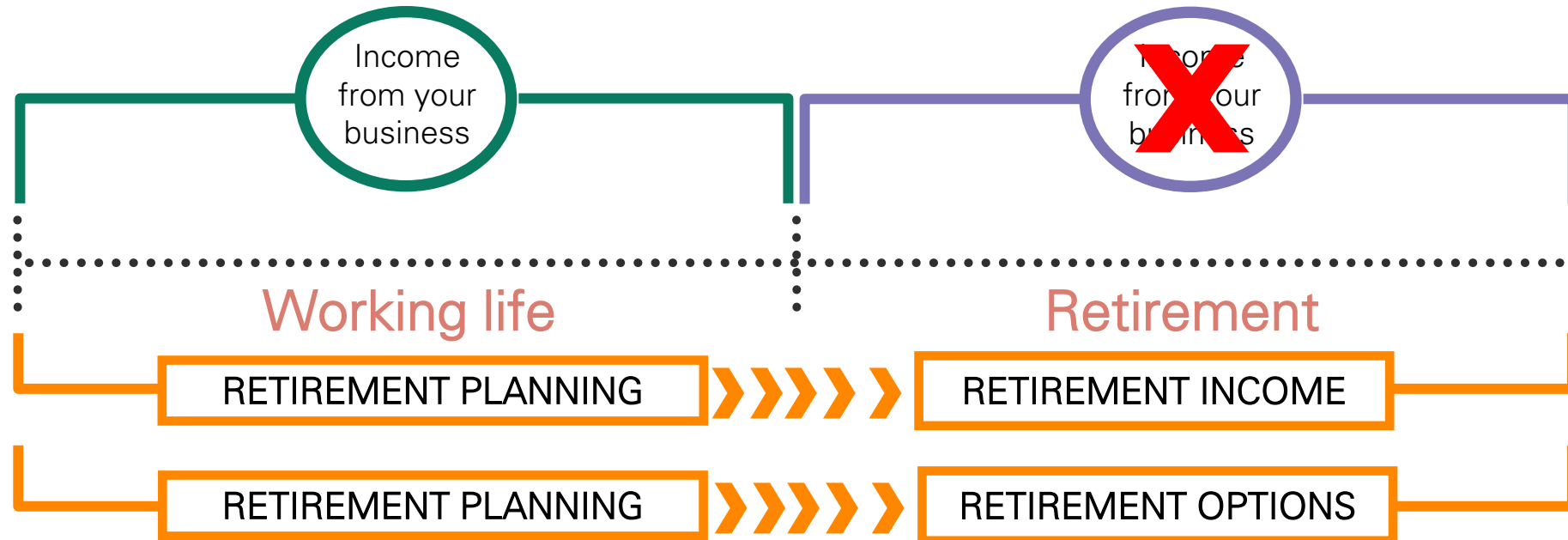
Please note that the tool uses Category A National Insurance. Any employment allowance which may be available is not taken into account. The employment allowance is not available for sole owner/directors.

If you have any questions on using this tool, please contact your Account Manager.

Please note, this tool will cease to operate at the end of the tax year displayed above.

Tax legislation states that that the personal allowance may be deducted in the way which will result in the greatest reduction in the taxpayer's liability to income tax. The calculator however proceeds on the basis that it is offset firstly against non-savings income, then savings income and then dividend income. In particular circumstances, a different order may produce a more beneficial result for the individual.

The challenge



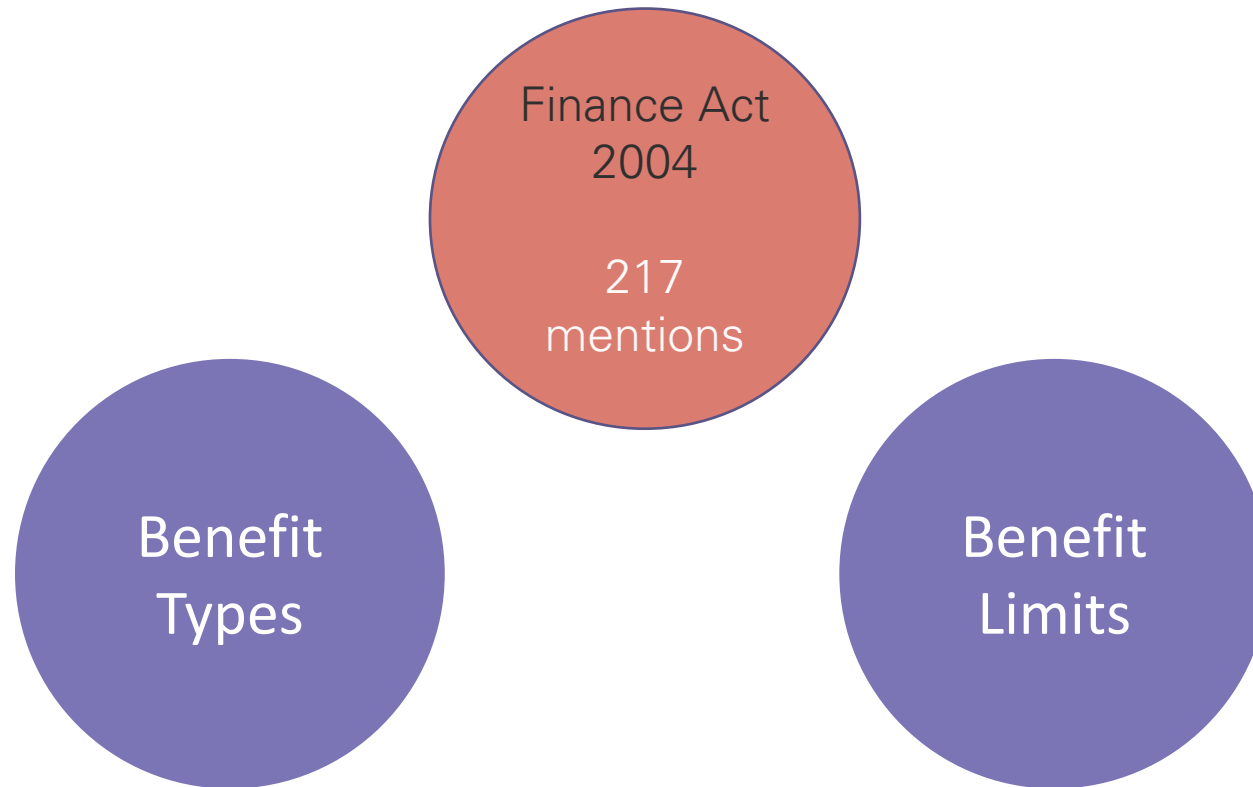


SME Business Owners

Extracting Profits

HNW Pensions

Lifetime Allowance



Lifetime Allowance

2022/23

"As was"

2023/24

Excess Charges

Lump Sum	55%	Marginal Rate
Income	25%	Marginal Rate



2024/25 on

RIP

Lifetime
Allowance

2006 - 2024



Death Benefits > LTA, <75 (incl Serious Ill Health)

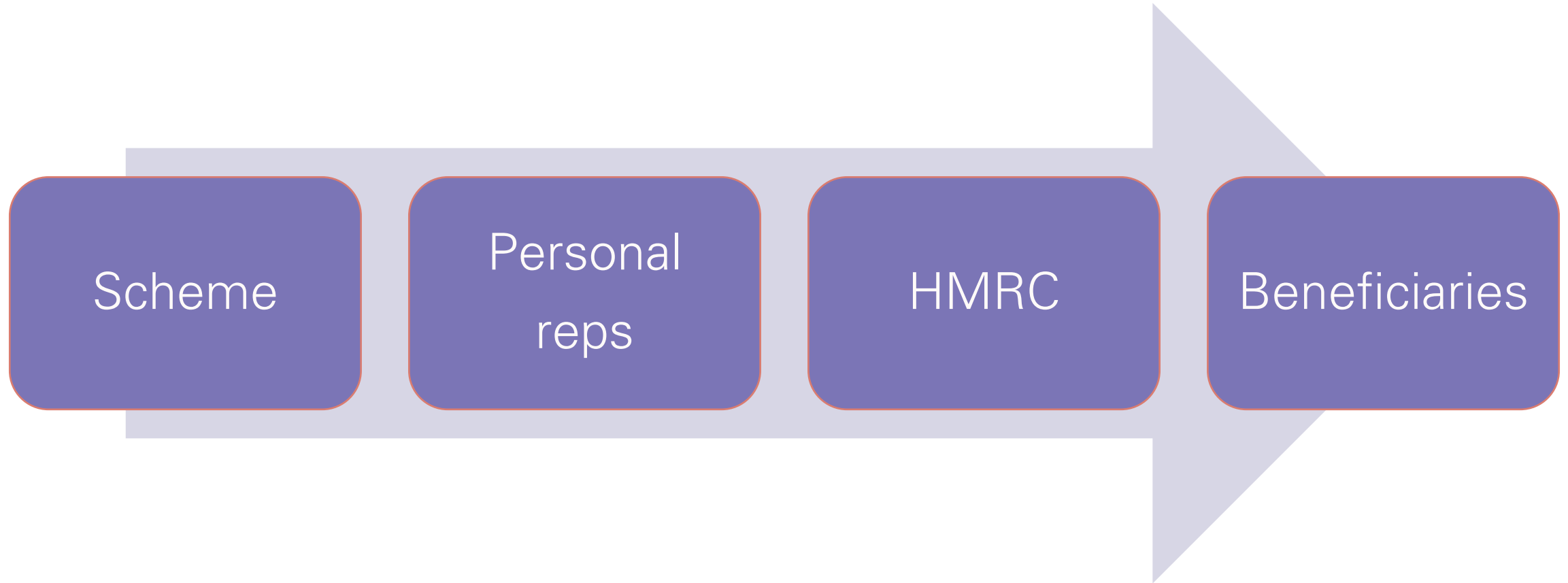
	2022/23		2023/24	
	LTA charge	Income Tax	LTA charge	Income Tax
Lump Sum	55%	N/A	0%	Marginal Rate
Income*	25%	Tax Free	0%	Tax Free

*DB income benefits - remain LTA free with taxed income

“Where more than one relevant post-death BCE is paid following the death of an individual, whether from the same or different schemes, any lifetime allowance charge liability arising following the payment or designation or entitlement to any of those benefits is apportioned equitably between the (potentially) different recipients of those benefits.”

PTM088500

Death “admin”



PCLS

Lower of:

25% of your
"fund value"

Applicable Amount

25% of your
remaining
LTA

Available Portion

PCLS example

Gill has no protection and has used of £573,100 of her LTA taking benefits from a DB scheme with no TFC.

She's got £600,000 of benefits to take i.e. she has £100,000 over the LTA.

Her Pension Commencement Lump Sum is the lower of:

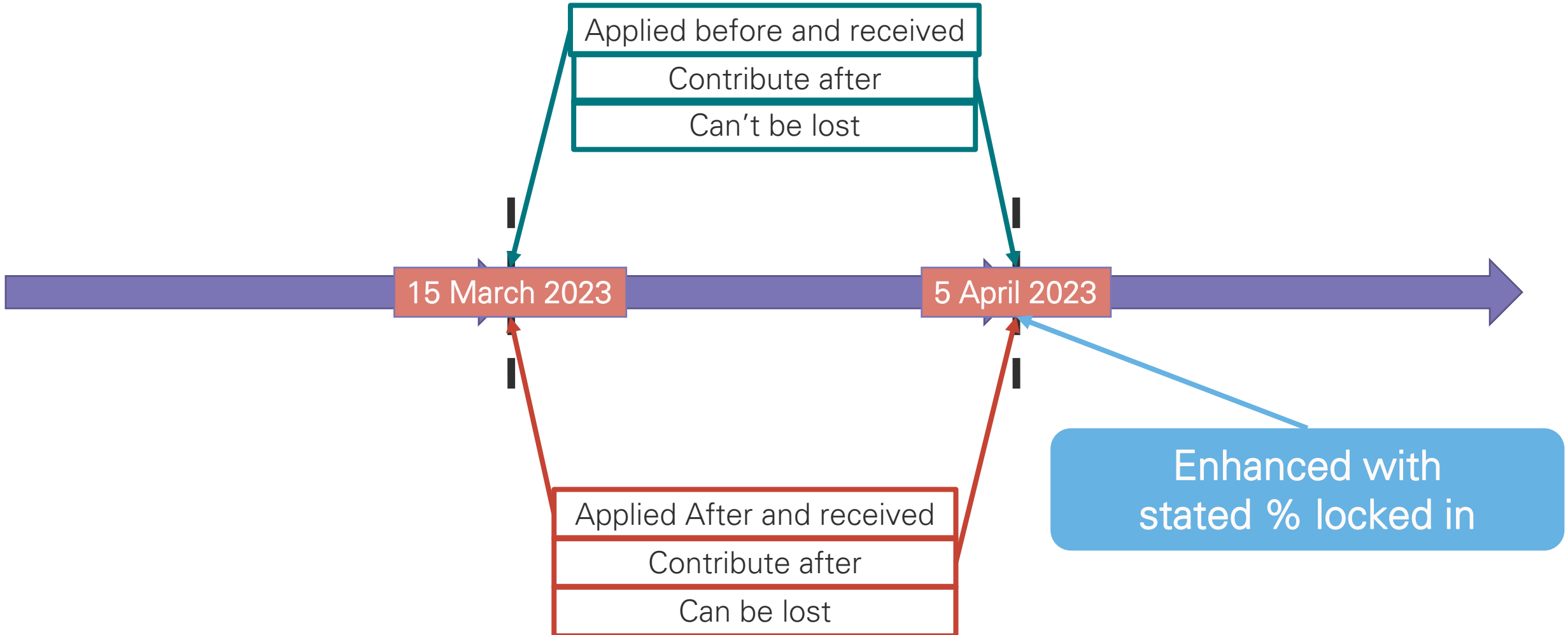
$$25\% \times £600,000 = £150,000,$$

or

$$25\% \times (£1,073,100 - £573,100) £500,000 = £125,000$$

Gill has had no TFC to date and her maximum will be £125,000.

Enhanced/Fixed Protections



Is PCLS that big a deal?

Under "LTA"

	Cost after Tax Relief	Net Benefit (after PCLS)
Basic Rate	£80	£85
Higher Rate	£60	£70
Additional Rate	£55	£66.25

Over "LTA"

	Cost after Tax Relief	Net Benefit (no PCLS)
Basic Rate	£80	£80
Higher Rate	£60	£60
Additional Rate	£55	£55

Factors

FUNDING

LIFETIME
ALLOWANCE

CURRENT
POSITION

Actions

Pay a contribution
where you have
protection

Deliberately fund
beyond LTA

Take excess as
lump sum at
marginal rate

Designate excess
to drawdown
whilst LTA tax is
0%

Retrospective loss of
protection?

Reintroduce protection
loss and retain protected
LTA?

Net benefit expected
potentially reduced.

New protection
preserving benefit?

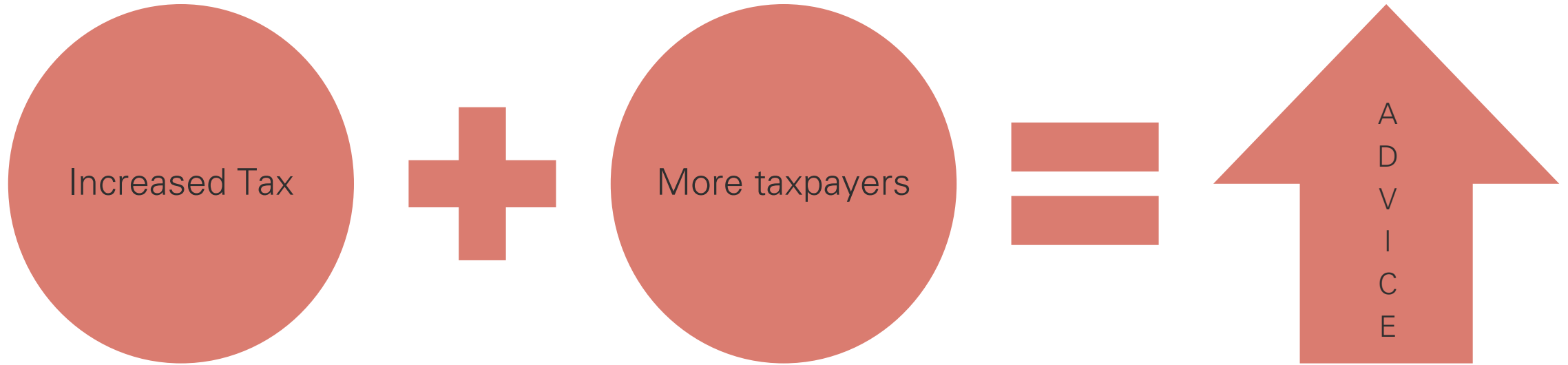
Leave as is?

Retrospectively assess at
55%?

Leave as is, testing at
next BCE/Age 75?

Retrospectively assess at
25%?

Opportunity knocks?



Learning Objectives

By the end of this session, you will be able to:

Describe the operation of individual tax relief and identify those who can get higher than marginal rate relief

Describe the tax benefits of employer pension contributions for SME business owners

Evaluate the impact on your client's retirement planning of the pensions Lifetime Allowance changes arising from Finance (no 2) Act 2023

Support



Articles



Videos



Tools &
Calculators



Ask the Techs

Usual Contact

LinkedIn

My View

Thanks for your time

Get in touch with your usual contact if you need further help.





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