

Tax year end opportunities

If you are planning to draw on your pension at any point in the next five years, taking some of it now could allow you to take more later.

From 6 April 2011 the calculation of the maximum pension investors can draw from their scheme each year will change.

The maximum pension is calculated using figures provided by the Government Actuary's Department (GAD) and, currently increases those figures by 20%. The 20% uplift is being scrapped and new GAD figures are also expected shortly which may reduce the maximum pension even further.

This means anyone opting to start taking benefits after 5 April 2011 will have a lower maximum than those opting to take benefits before. This may encourage some individuals to start taking a pension earlier than they had planned so that they have the opportunity to take a higher pension later. One significant issue with doing this is that, when they die, any lump sum death benefits payable from the remaining pension fund will be subject to a tax charge of 55%.

There is a way of retaining the 20% GAD uplift on maximum pension calculations for up to five years whilst minimising the risk of the 55% tax charge on lump sum death benefits.

Putting only a part of the SIPP into drawdown before 5 April will mean that the 20% GAD uplift is used if the rest of the SIPP is put into drawdown at any time in the following five years. Crucially, until the rest of the SIPP is put into drawdown, the 55% tax charge on lump sum death benefits will only apply to the part of the SIPP that is in drawdown.

Case Study

Joanne is 64 years old and in full-time employment so has not yet started taking any benefits from her SIPP. She is planning to retire in 2013 and live on the pension income provided by her SIPP. She would like to maximise the income available to her.

Joanne opts to start taking benefits on £1,000 of her SIPP on 1 March 2011. She receives a tax free lump sum of £250 and the remaining £750 is put into drawdown using the current GAD tables and limits. She opts not to take any pension.

In 2013 she retires and puts the remainder of her SIPP into drawdown. After receiving her tax free lump sum on this part of her fund the remainder is added to her existing drawdown fund. This leads to a re-calculation of her maximum income, using the new GAD figures introduced from 6 April 2011, but using the 20% uplifted limits.

Her fund is not reviewed using the non-uplifted limits until her income falls due for its five year review on 1 March 2016.

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