

Pensions Freedom

Watch out for the Pitfalls

The new pension freedom legislation introduced in April 2015 means that if you are aged 55 or over you can access as much or as little of your pension as you wish. This provides much more flexibility and the opportunity to reduce the overall amount of tax you pay on your pension benefits, however there are pitfalls to be aware of.



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The New Restricted Annual Allowance

One key issue is the introduction of a new Money Purchase Annual Allowance (MPAA) of £10,000 (currently) which restricts the maximum amount you are permitted to contribute to your pension each year under certain circumstances.

Currently the annual contribution limit is £40,000 for contributions made via your company or, if made by you personally, then the limit is 100% of salary, subject to the overall £40,000 cap. You may also be able to pay contributions for unused amounts for the previous 3 years.

So if you are already in a Pre 2015 drawdown and take an income within the current drawdown limit*, the £40,000 annual contribution limit will be retained. However, if you take more than the current drawdown income limit*, the new allowance will immediately apply and you will be restricted on any future contributions to the maximum of £10,000 each year.

Equally, if you are not currently in a Pre 2015 drawdown but are planning to set up a new 'flexible' drawdown arrangement the MPAA will automatically be triggered as soon as you start drawing on the income.

Increasing your Tax Liability

You should also bear in mind that your pension income, outside of the 25% tax free lump sum, is taxed at your usual rate of tax, so if you are considering accessing more of your pension fund, this may have adverse implications on your personal tax position.

What should I do now?

We strongly suggest taking professional advice before accessing your pension to ensure you avoid the potential pitfalls.

For more information or to discuss how the new changes are relevant to you, please get in touch with your usual JJFS contact or email us at justask@jjfsltd.com

** currently this is 150% of income calculated by the Government Actuary Department*