Personal Pension and Self Invested Personal Pension (SIPP) Factsheet 2022/2023

What is a personal pension?

- A tax efficient wrapper for retirement savings which can be drawn from age 55, increasing to age 57 from 2028. You will not incur any Capital Gains Tax on the growth achieved.
- Regular contributions or lump sums can be paid in offering basic rate tax relief at source and higher rate tax relief via your tax return.
- Generally, 25% of the pension fund can be drawn out tax free (restricted to 25% of the lifetime allowance) with the balance being taxed as income at your marginal rate.

How much can I contribute each year?

- Maximum contributions in order to claim tax relief for individuals each tax year are limited to the greater of £3,600 and 100% of UK relevant earnings up to £40,000.
- Maximum contributions permitted by your employer are also limited to £40k (inclusive of personal contributions paid).
- Unused allowances from the previous three years may be carried forward but you cannot contribute more than you earn in any one tax year under carry forward.
- Once you start drawing income benefits from your plan, the Money Purchase Annual Allowance (MPAA) may be triggered which restricts tax relief on future pension contributions to £4,000 p.a.

Lifetime Allowance

- The maximum limit on pension savings before triggering an excess tax charge is £1,073,100 (2022/23). Any funds above this amount will be taxed at either 55% if drawn as a lump sum or 25% if drawn as income.

Self-Invested Personal Pension

Key Facts

- There are fewer restrictions in relation to the investment of your pension funds, provided the investment is approved by HMRC. SIPPs offer more freedom and control over how your pension funds are invested.
- The tax benefits are the same as for a personal pension.
- Particularly beneficial for those investors wanting to hold commercial property within their pension fund.
- With our recommended SIPP provider, the wrapper is split into a cash holding and an investment holding. This is particularly important for when you start drawing income as we can hold an element of your fund in cash to meet your withdrawals (we typically recommend 3 years' income payments). This removes the need to regularly disinvest from funds, perhaps saving on transaction charges and mitigating the impact of market downturns.

Pension Plan Income Options:

1. Annuity - The fund could be exchanged for a guaranteed income for life, known as an annuity. How much you receive will depend on the rate offered by the annuity provider and the features incorporated into the plan.

2. Flexi-Access Drawdown – This enables you to draw as much or as little from your pension fund as you wish at your chosen frequency. The funds can remain invested in the market, so you can still potentially benefit from investment growth. Any income drawn in excess of your tax-free cash entitlement may be subject to income tax, depending on your circumstances.

3. Uncrystallised Funds Pension Lump Sum (UFPLS) – This allows for one off lump sum payments to be drawn from your pension plan of which 25% is tax free with the balance taxed as income.

What happens to your pension on death?

- Pension plans are not included as part of your estate on your demise and can be left Inheritance Tax free to your nominated beneficiaries.
- On death before age 75, the full value of any residual pension fund can be paid **both inheritance tax free and income tax free** to your beneficiaries. This means that they will not pay any income tax on the funds drawn. They can choose to receive a lump sum payment or retain the funds within the pension wrapper and instead draw a regular income. The beneficiaries do not need to have reached pension age in order to access the funds.
- On death after age 75, the fund can be paid inheritance tax free to your nominated beneficiaries, however they will pay income tax at their marginal rate on any income, whether drawn as a lump sum or regular payments. Again, the beneficiaries do not need to have reached pension age in order to access the funds.

Once you have made the investment, its value can go down as well as up. Past performance is no guarantee of future performance. The full product particulars supplied by the insurer or investment house should be read for specific details as this is only a summary.