HB Dobbin
FINANCIAL PLANNING

Assembly House
34-38 Broadway
Maidenhead
Berkshire
SL6 1LU

WEALTH KNOWLEDGE

SEPTEMBER 2019

In this issue......

- Treasury to review tapered annual allowance as debate rumbles on
- Number of wealthy non-domiciled UK taxpayers falls to new low
- Over 55's who had to reclaim tax after accessing their pension pot has hit a record high.
- Number of state pension recipients declines by 120,000 in 12 months

Treasury to review tapered annual allowance as debate rumbles on

The Treasury has announced it will review the tapered annual allowance for pensions, following calls to abolish it.

The amount of pension contributions that can be made tax-free in a year stands at £40,000 in 2019/20, but this is restricted for higher earners by the tapered annual allowance.

The taper applies to people with a taxable adjusted income of more than £150,000 and a threshold income over £110,000.

For every £2 of income an individual has over £150,000, their annual allowance is reduced by £1, down to £10,000.

The rules have caused unexpectedly high tax bills for some NHS professionals, who refused to take on extra shifts as a result.

In response, the Treasury said it will review how the tapered annual allowance supports the delivery of public services.

Chancellor Sajid Javid said:

"This Government has listened to concerns and will be reviewing the operation of the tapered annual allowance."

Royal London welcomed the announcement, but argued the taper should be scrapped for people in all areas of work.

Steve Webb, director of policy at Royal London, said:

"A review of the tapered annual allowance is long overdue. It must be comprehensive and cover everyone affected by this absurdly complex taper, including in the private sector.

Number of wealthy non-domiciled UK taxpayers falls to new low

The amount of wealthy individuals who pay no UK tax on their offshore accounts has slumped to a new low.

In 2017/18, around 78,300 individuals claimed non-domiciled taxpayer status on their self-assessment returns – down from 90,500 in 2016/17, according to HMRC.

The drop in the number of 'non-doms' was reflected in the amount of UK tax collected from this group, falling from £9.5 billion in 2016/17 to £7.5bn in 2017/18.

The decrease could be equally explained by individuals switching to domiciled status and continuing to pay tax in the UK, and others leaving the UK tax system.

Non-domiciled status can be claimed by UK residents who have their permanent home, or domicile, outside of the UK.

Those with this status do not have to pay UK tax on foreign income or gains of less than £2,000 a year, unless the money is brought into the UK.

Those with foreign income of £2,000 or more, or income they bring to the UK, must report it through self-assessment and either pay UK tax or claim the remittance basis.

Under the remittance basis, individuals only have to pay UK tax on the income they bring into the country, but they can lose certain tax-free allowances.

They may also be required to pay an annual charge of either £30,000 or £60,000, depending on how long they have been resident in the UK.

The number of people over the age of 55 who had to reclaim tax after accessing their pension pot has hit a record high.

More than 17,000 retirement savers reclaimed tax worth £46 million in the three months to the end of June 2019.

HMRC's latest figures showed an increase of around 3,000 people compared to the same quarter in 2018.

Pension freedoms have offered over-55s more choice when it comes to accessing their retirement savings since April 2015.

Over-55s can withdraw 25% of their pension tax-free, with any amount above that taxed at an individual's marginal rate.

When a lump sum is withdrawn, a temporary tax rate is applied that can put savers into a higher tax band.

Thousands of over-55s could have avoided overtaxation if they sought financial advice before flexibly accessing their pensions.

Research from Canada Life claimed that 68% of people who flexibly accessed their pensions did not seek expert advice first.

More than 170,000 people have been overtaxed on their flexible pension withdrawals to the tune of £480m since April 2015.

Reclaiming excess tax from HMRC is complicated, especially with taxpayers having to complete one of three different forms.

Steve Webb, director of policy at Royal London, said:

"Thousands of people every month are having to fill in complex paperwork to recover tax they should never have had to pay.

"It's a scandal that people who legitimately access their own money, using freedoms, are being overtaxed by HMRC.

"Nearly half-a-billion pounds have had to be prised out of HMRC's hands and returned to its rightful owner."

Number of state pension recipients declines by 120,000 in 12 months

The amount of people receiving the state pension has fallen by 120,000 year-on-year, following changes to the age at which it can be claimed.

13 million people received the state pension in February 2019, according to the Department for Work and Pensions (DWP).

Steven Cameron, pensions director at Aegon, said the decrease was "due to landmark changes to the state pension including gender equalisation and rises in the qualifying age".

He added that "it's almost certain we'll see this trend continue as the state pension age continues to edge upwards to 66".

Prior to 2010, women could receive their state pension from age 60 while men could receive it at 65.

The state pension age for women increased to align with that for men, reaching the same age of 65 in November 2018.

In December 2018, the state pension age began to rise beyond 65 for both genders, and is set to reach 66 by October 2020.

Introduced in April 2016, the new state pension also contributed towards equalising pensions for men and women.

On average, the DWP statistics show that men get £156.39 a week under the new state pension – slightly lower than the average of £159.31 received on the old state pension.

Meanwhile, women on the new state pension receive £148.33 a week on average, compared to £131.52 under previous rules.

Overall, the average for both men and women was £144.32 – an increase of £5.36 compared to the pre-2016 pension.

The DWP also said increases in the state pension age may have affected the number of people claiming the carer's allowance, which increased to 1.3m – up 36,000 on the previous year.