



WEALTH KNOWLEDGE

NOVEMBER 2019

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HMRC reveals surge in the number of pension allowance breaches

Substantially more pensioners were taxed for exceeding the pensions annual allowance in 2017/18 than the previous year.

New statistics from HMRC reveal that 26,550 people had pension contributions that exceeded the £40,000 annual allowance last year – up from 18,500 in 2016/17.

Unsurprisingly, the tax collected on behalf of the Treasury mirrored that trend – surging from £578 million in 2016/17 to £812m in 2017/18.

The number of people who reported pension contributions that exceeded their annual allowance through self-assessment stood at just 230 in 2007/08. That represents an 11,443% increase in those breaching the allowance over the last decade.

Those affected faced potential tax charges of 40% to 45% on their savings if they fell into the higher-income thresholds.

The amount of tax-free pension contributions that could be made in 2017/18 stood at £40,000, but was 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 earner has over £150,000, their annual allowance is reduced by £1, down to a minimum of £10,000.

Helen Morrissey, pension specialist at Royal London, said:

“This is just the beginning and we will see more people being caught out by this overly complex regime as time goes on.”

Parents save billions in childcare costs through grandparents' help

Grandparents in the UK are estimated to collectively save families billions of pounds a year in childcare costs, according to a report.

Research from SunLife claimed four in five grandparents spend an average of eight hours a week providing some form of childcare to their grandchildren.

It found that 85% of 2,000 grandparents offered support ranging from babysitting to doing the school run.

Almost half (45%) said they babysit their grandchildren, while 34% looked after their grandkids over the recent summer holiday.

One in four provide care in the week when parents are at work, and 21% take their grandchildren to and from school.

Ian Atkinson, marketing director at SunLife, said:

“Grandparents are often the unsung heroes of the family.

“They spend hours helping with childcare and offering practical and emotional support, not to mention saving parents thousands of pounds in childcare costs.

“The research suggests most are happy with the amount of support they give, getting to spend time with their grandchildren and staying fitter and healthier in the process.”

Most grandparents (59%) said they are happy to help, although 22% felt their own children were taking advantage of them in their retirement.

Number of estates having death duties deducted hits record high

A record amount of estates paid inheritance tax in 2016/17, according to government figures.

More than 28,100 estates were liable for death duties in 2016/17 – a new high for the number of estates charged.

The latest figure represented a 15% rise on the previous year's figure of 24,500, and continued the trend of year-on-year increases since records began in 2009/10.

The average tax on an estate in 2016/17 was £179,000, while the portion of estates liable rose from 4.2% in 2015/16 to 4.6%.

Total duties raised from the tax also hit a new record of £5.4 billion in 2018/19 – a 3% rise on the previous year.

The nil-rate band has remained frozen at £325,000 since 2009/10, with tax deducted at 40% on the part of an estate that exceeds this threshold.

With the nil-rate band not being adjusted in line with inflation, more estates are falling into the inheritance tax net.

The residence nil-rate band can lift this threshold to £475,000 in 2019/20 if a family home is left to any children or grandchildren.

Changes to inheritance tax could be afoot, with the Chancellor recently admitting that reforming the system is on his mind.

Chancellor Sajid Javid said:

“We've already made some sensible reforms to that tax, but I understand the arguments against it.

“When people pay taxes already through work or investments, capital gains or other taxes, there's a

real issue with then asking them to pay taxes all over again.

Minority of retirement savers face £80,000 pension pot shortfall

Most retirement savers, especially those who receive expert financial advice over a long period of time, are sitting on a healthy pension pot.

But some savers could end up facing an £80,000 shortfall in retirement due to underestimating how long they will live.

YouGov polled 2,095 people on behalf of Scottish Widows and found that 19% base their own life expectancy on when their grandparents died.

In 2019, the average person's life expectancy in the UK is 87 years – but the report claimed the typical Briton expects to live until 82 and retire at 65.

With the average person expecting to retire at 65 and living until the age of 87, the typical retirement is five years or 30% longer than people expect – at 22 years.

Scottish Widows claimed an extra £80,000 may be needed to give people in that situation a comfortable pension pot of £340,000 to cover those extra five years.

Most respondents (90%) who were over the age of 50, however, are confident they can bridge any gap and 28% fear their savings running out in retirement.

Only 12% of over-50s expect to work past the age of 65, and 9% said they need to save more than they first thought.

Emma Watkins, annuities director at Scottish Widows, said:

“Life expectancy has grown substantially in the last 60 years and now one in ten people will live to be 100.

“People facing into retirement are also facing a trade-off between saving more, working longer or having a clearer plan.”