HB Dobbin
FINANCIAL PLANNING

1st Floor, 3 Concorde Park
Concorde Road
Maidenhead
Berkshire
SL6 4BY

WEALTH KNOWLEDGE

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Savers exposed as lifetime allowance protection wanes

The number of people protecting themselves against breaching the lifetime allowance slowed in the last year.

The lifetime allowance is currently £1,073,100, and HMRC offers two schemes which allow savers to protect their pension savings from April 2016.

Individual protection shields savers' lifetime allowances to whichever is lower of their pension savings at 5 April 2016 or £1.25 million, while fixed protection fixes the lifetime allowance at £1.25m.

According to a Freedom of Information request by consultancy firm LCP, more than 325,000 people have used these special rules to protect themselves against recent cuts to the lifetime allowance, but only around 4,000 people registered for protection in 2020/21.

Some people who could benefit from these protections could face unnecessary tax bills as a result, and the issue is likely to become more important with the lifetime allowance frozen at its current level until 2026.

Steve Webb, the former pensions minister, said:

"Limits on pension tax relief have been cut repeatedly in recent years and savers who planned on the basis of much higher limits can find themselves on course for large tax bills when they start to draw their pensions.

"Anyone whose pensions already exceed the lifetime allowance, or who thinks they might do so in future, should check to see if applying to HMRC for protection would be to their benefit."

Pandemic prompts spike in over-50s seeking advice

Significantly more over-50s have sought independent financial advice over the last 18 months, according to a report.

Stock market volatility, being placed on furlough, redundancies, low interest rates, and fears of a deep recession has been the driving forces.

Other factors include enhanced savings and decreased living costs, partially due to home-working becoming the norm during lockdown restrictions.

Many over-50s have been able to take stock since the start of the pandemic, think about their future and when they might be able to retire.

Pension planning (56%) and early retirement (54%) advice proved popular, along with phased retirement and accessing pensions at the point of retirement (both 53%).

Siobhan Barrow, head of intermediary distribution at Scottish Widows, who conducted the research, said:

"Money worries cause people to experience difficulties in lots of areas in their lives, even those

seeing an unexpected uplift in wealth may be confused about how they feel and respond.

"It's encouraging to see many over-50s open enough to speak to others and take positive action, like increasing contributions into their pensions.

"Your 50s is the critical time to get finances organised and we must ensure more people, of all ages, feel comfortable seeking out professional advice."

FOI request shows HMRC is not collecting MPAA data

HMRC admits it cannot tell how many over-55s are breaching the money purchase annual allowance (MPAA), according to a Freedom of Information (FOI) request.

The MPAA is set at £4,000 and restricts the amount of money which can be contributed to a money-purchase scheme once pensions have been flexibly accessed before triggering a tax charge.

It kicks in when individuals flexibly access their defined-contribution pensions, and limits the amount of future annual contributions to a pension from £40,000 to £4,000 if incurring a tax penalty is to be avoided.

Currently, individuals can flexibly access their private pensions from the age of 55, although the 'normal minimum access age' will increase to 57 in 2028.

Aegon submitted the FOI request to HMRC, and found the tax authority currently collects no data on the number of over-55s who breach the MPAA.

It fears that many over-55s will unknowingly have pension contributions limited to £4,000 after flexibly accessing their pensions, perhaps to cope with loss of income or employment during pandemic.

Steven Cameron, pensions director at Aegon, said:

"It's concerning that HMRC isn't collecting the detailed data to show the scale of the issue and how this is changing over time.

1 in 4 estates overpaid inheritance tax on life policies

More than 6,000 estates reportedly paid inheritance tax on life insurance policies in 2018/19, as many overlooked the option to write their policies into trust.

Figures from HMRC showed that of the 22,100 estates which were liable for inheritance tax in 2018/19, around 6,040 included life insurance policies which formed part of their estates.

The figures showed those life insurance policies were worth a total of £709 million, meaning more than £280m in inheritance tax might have been paid out on them.

Writing life insurance policies into trust, however, is a tax-efficient method for inheritance tax purposes as they do not form part of a deceased person's estate.

As such, if the life insurance policies are written into trust, they will not be liable for inheritance tax and will lower the values of estates in the same process.

The figures highlight the issue, and the pitfalls involved, of buying a life insurance policy without seeking independent financial advice first.

Sean McCann, chartered financial planner at NFU Mutual, said:

"Many people buy life insurance without advice, so aren't aware that if they don't put the policy in trust it's included in their estate and could end up being taxed at 40%.

"Putting life insurance policies into trust is relatively straightforward. Provided you're in good health when you put it into trust, there are normally no inheritance tax implications.

"Using a trust can also mean a speedier payout in the event of a claim, as the family won't need to wait for probate, which can make a huge difference to dependants relying on the money to cover day to day bills.

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

ISA eligibility depends on individual circumstances.

Pension eligibility depends on individual circumstances. Pension benefits cannot usually be taken until age 55.

Your home may be repossessed if you do not keep up repayments on your mortgage.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation.

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