Summary of Pension Scheme Taxation 2020

Purpose of document

This document is intended to provide investors with an overview of the tax treatment of any contributions made to or plans held with Link Fund Solutions Limited. It covers the tax treatment of:

- Contributions made to pension plans.
- Benefits taken by planholders.
- Amounts remaining in pension plans on the planholder's death.

Each of these topics is dealt with in turn below.

Please note that this document is a general overview of our understanding of relevant requirements as at the date it was produced. However, as the tax treatment of any contributions made or plans held may differ depending on individual client circumstances and will change over time, it should not be seen as a substitute for advice from an appropriately qualified tax professional.

Should you be in any doubt as to the tax treatment of any contributions or plans, we strongly encourage the taking of appropriate professional advice and/or contact with HMRC (including via the website at www.gov.uk).

SUMMARY OF THE TAX TREATMENT OF CONTRIBUTIONS TO PENSION PLANS

Q. How does tax relief work?
A. Your contributions before basic rate tax relief is added, are **net contributions**. Your contributions after basic rate tax relief is added, are **gross contributions**.

We add tax relief up to the basic rate, which we reclaim from HMRC and invest in your plan on receipt, to your contributions.

For example, if you pay £240 a month **net**, we currently add £60, as the basic rate of tax is 20% (£240 divided by 0.8–£300). Your **gross contribution** would be £300 a month, or £3,600 annually.

You can reclaim higher or additional rate tax relief through your tax return.

If you pay the Scottish or Welsh rate of income tax, and that rate differs from the rest of the UK, you may be able to claim further relief by contacting HMRC.

Tax relief does not apply to:

- Transfer payments.
- Employer contributions.
- Any contributions after age 75.

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Q. How much can I contribute and what tax reliefs are available?
A. There is no limit on how much you can contribute. However, there are limits on how much tax relief you can get. These relate to:

- The total amount of your pensions savings. This is referred to as the Lifetime Allowance (see below).
- Whether you have accessed any pensions benefits and triggered the Money Purchase Annual Allowance (see below).
- The level of your earnings, and the amount saved in any tax year.

LEVEL OF EARNINGS	ANNUAL ALLOWANCE (I.E. GROSS CONTRIBUTION) AVAILABLE
£0–£3,600	£3,600.
£3,600–£240,000	The lower of £40,000 and 100% of your earnings.
More than £240,000	The annual allowance tapers by £1 for every £2 of income, to a minimum of £4,000 per year.

Where the total contributions to all your pension schemes exceed the Annual Allowance in a given year, unused allowances from up to three previous tax years may be available. If you think this may affect you, we recommend you speak to an adviser.

You may have to pay a tax charge if total contributions to all your pension schemes made by you, your employer or a third party exceed the Annual Allowance.

For final salary schemes contributions represent the increase in the value of member benefits.

The Annual Allowance will not apply in the tax year in which you die or if you take your benefits on the grounds of serious ill health.

Should the total contributions to your plans with us exceed the Annual Allowance we will issue you with a Pensions Savings Statement. You should ensure that the information it contains is considered, together with equivalent information on any plans held elsewhere, and any resulting disclosures made on your tax return and/or tax paid.

Q. What is the Money Purchase Annual Allowance (MPAA)?
A. If you flexibly access any of your pension benefits, the amount you can contribute into defined contribution pension plans is reduced to the Money Purchase Annual Allowance (MPAA). The MPAA in 2020/21 is £4,000. You will incur a tax charge on any contributions into a defined contribution pension scheme which exceed the level.

If you flexibly access any of your pension savings, you will be provided with a Flexible Access Statement which must be provided to the administrators of any other pensions within 91 days.

Should you be subject to the MPAA and the total contributions to your plans with us exceed the MPAA we will issue you with a Money Purchase Pensions Savings Statement. You should ensure that the information it contains is considered, together with equivalent information on any plans held elsewhere, and any resulting disclosures made on your tax return and/or tax paid.

Q. What is the Lifetime Allowance?
A. The Lifetime Allowance is the maximum amount you can build up in all your pension plans before you incur a tax charge. For 2020/21 tax year it is £1,073,100. In certain circumstances, individuals may have higher limits through registering for pension protection. If this applies you must provide us with the Protection Certificate.

If you exceed the Lifetime Allowance a charge may be applied against the excess.

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SUMMARY OF THE TAX TREATMENT OF BENEFITS

In general, up to 25% of a pension plan can be taken tax free. Depending on the benefits available and chosen, this could be as a "lump sum", or a proportion of payments taken over time.

Benefits taken other than as tax free cash are generally treated as income and taxed as such. This may means you are pushed into a higher tax bracket meaning you could pay tax at 40% or even 45% on some or all of your income.

The taking of benefits may also impact your inheritance position and your entitlement to other benefits and we recommend that appropriate advice or guidance is taken.

BENEFIT TYPE	TAX TREATMENT
"Small pots"	Up to three personal or stakeholder pension plans of £10,000 or less can be taken as cash, 25% of which is tax free.
Drawdown	Treated as income. The proportion treated as taxable depends on how much (if any) of the 25% tax-free lump sum is taken prior to drawdown. (This option is available to LF Personal Pension Trust Planholders)
Uncrystallised Funds Pension Lump Sum	25% of each lump sum that you take will be tax-free and the rest is added to your other income for the year and taxed at your marginal tax rate.
Annuity	Treated as income. The proportion treated as taxable depends on how much (if any) of the 25% tax-free lump sum is taken prior to the purchase of the annuity.
	Please note that we do not offer UFPLS as an ongoing retirement option or provide annuities. You would have to transfer to another provider to utilise such arrangements.

SUMMARY OF THE TAX TREATMENT OF AMOUNTS REMAINING ON THE PLANHOLDER'S DEATH

The tax treatment and ability to inherit monies on a planholder's death vary dependent on the benefits taken, whether monies are still within the plan, and the age at death.

Additional tax to that shown below may also be due if the total of benefits taken and monies remaining in pension plans exceeds £1m.

We set out below a high level summary of the position, however we recommend the taking of appropriate advice and/or consultation with HMRC including at: https://www.gov.uk/tax-on-pension-death-benefits should this issue be relevant to you.

HOW MONIES HELD	BENEFITS AND TAX CONSEQUENCES
Annuities	Annuities generally cease on death (subject to any spouse's pension). Any continuing payments are taxable as income.
Monies taken from pension but unspent	Form part of planholder's estate and may be subject to inheritance tax.
Monies still within pension and death before 75	Can be taken without tax if taken within two years. Subject to income tax thereafter.
Monies still within pension and death on/after 75	Subject to income tax in most circumstances.