

PENSION V ISA

'Tax free' or not 'tax free'?



Features	Pension	ISA
Min / Max Age	<ul style="list-style-type: none"> No minimum ages and the maximum age (for tax relief purposes) is 74. 	<ul style="list-style-type: none"> Minimum age is 16 for an adult ISA and there is no maximum age.
Access	<ul style="list-style-type: none"> Cannot normally be accessed until age 55. 	<ul style="list-style-type: none"> Often instant access.
Tax relief contributions	<ul style="list-style-type: none"> Basic rate tax relief of 20% is automatically added to personal contributions when they are applied to the plan. Any higher rate tax relief due should be claimed via the client's tax return. 	<ul style="list-style-type: none"> No tax relief.
Tax on withdrawals	<ul style="list-style-type: none"> Tax will be applied at the client's marginal rate on retirement income. 25% tax-free cash (TFC) can usually be taken from 55 onwards 	<ul style="list-style-type: none"> Growth/ income is tax-free and free from capital gains tax. No need to declare to HMRC.
Withdrawals	<ul style="list-style-type: none"> 25% can be taken as TFC at retirement age. The minimum retirement age is usually 55. The remainder can be taken as a lump sum/ ADHOC which will be taxed at the client's marginal rate. 	<ul style="list-style-type: none"> All withdrawals are tax-free and without restriction.

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Allowances/ Contribution limits	<ul style="list-style-type: none"> • Tax relief will be paid on contributions of up to 100% of earnings, or £3,600 if more, within the same tax year. • Pension contributions above the annual allowance entitlement of £40,000 within a pension input period may be subject to a tax charge at the individuals marginal rate of tax. • It may be possible to carry forward unused annual allowance to remove or reduce the tax charge. • If the money purchase annual allowance (MPAA) has been triggered the £40,000 is reduced to £4,000 for contributions paid to all defined contribution plans. Carry forward is not available on defined contributions if the MPAA has been triggered. • Employers can pay contributions • £1.055 million is the Lifetime Allowance (the amount you are allowed to have in pensions during your lifetime) and any excess above this value are liable to a tax charge at certain trigger events. 	<ul style="list-style-type: none"> • ISA limit for the current tax year is £20,000. • Savings can be split across cash and stock/shares ISAs.
Death	<ul style="list-style-type: none"> • The tax treatment of death benefits will depend on the age of the client when the death occurs. If the client is: <ul style="list-style-type: none"> - Below the age of 75, their pension fund can be paid tax-free - Aged 75 or over, pension benefits can be paid as a lump sum which will be taxed at the beneficiary's marginal rate. Legislation allows benefits to be paid to any beneficiary as a pension or via income drawdown which will be taxed at their marginal rate. • Pension funds usually fall outside of the estate for inheritance tax purposes. 	<ul style="list-style-type: none"> • At the time of death, all savings will form part of the estate for inheritance tax purposes. • Any surviving spouse or civil partner will be able to use the additional allowance and invest as much of the ISA benefits they inherit into their own ISA.

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