

The Annuity Direct Guide to Retirement Income and Taxation



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The
Retirement
Income
Specialists

An *Annuity Direct* guide to help you understand your retirement income planning

The Annuity Direct Guide to Retirement Income and Taxation

This guide has been prepared to help you understand some of the tax issues you may need to think about as you start to plan your retirement income.

It should be remembered that for a full explanation of current taxation legislation and rules, you should contact HMRC or your accountant.

(HMRC Website: www.hmrc.gov.uk)

Why Should I Worry About Tax – I’m Retired?

You will have paid tax all of your working life. Now that you have retired you will continue to pay tax on your income – both pension and income from your investments. There are things you can do that will minimise the amount of tax you pay.

Remember, the less you pay in tax the more you have to spend. Why give it to the Chancellor when you can make more use of it yourself?

So What Can I Do to Reduce Tax?

There are some obvious things that you can do that really do cost you nothing. For example:

Personal Allowances - Both you and your partner will be given a personal allowance by the taxman. If one of you has insufficient income to use the whole of their allowance then consider switching some assets to that partner’s name.

A note of caution. If you do this the beneficial ownership of the asset passes to your partner.

In effect the income from those assets will attract no tax. Remember that if you have not used all your personal allowance, you can reclaim tax deducted at source from bank or building society interest.

Age Allowances - When you reach age 65 your personal allowance will increase and you will get a further increase at age 75. However, once your income goes above a certain level your age allowance starts to reduce until it reaches the level someone who is not retired would enjoy. You can have the best of both worlds – increased allowance and more income by carefully selecting what you invest in.

Individual Savings Accounts - If you have an ISA then you can use this to top up income. The proceeds are tax free and do not reduce your age allowance.

Tax Free Investments - Look at investments where the return is tax free such as some of the products offered by National Savings and Investments.

Speak to your Retirement Income Specialist who will be able to explain some of these issues in more detail.

Inheritance Tax

Some people may be worried about inheritance tax. The main thing to remember is that you can pass assets to your family during your lifetime, but in doing so you will need to do so 'absolutely' – and that means gifting the income as well. There are a variety of inheritance schemes around but this is a highly specialised area. If you need help we can refer you to someone who practises in this field.

Inheritance Tax Threshold

Year	Nil Rate Amount
2008-09	£312,000
2007-08	£300,000
2006-07	£285,000
2005-06	£275,000
2004-05	£263,000

Any excess value in the estate, above the nil-rate is liable to inheritance tax at 40%.

Personal Income Tax Allowances and Thresholds

<u>Income tax allowances</u>	<u>2008-09 (£)</u>
Personal allowance	6,035
Personal allowance for people aged 65-74 (1)	9,030
Personal allowance for people aged 75 and over (1)	9,180
Income limit for age-related allowances	21,800
Married couple's allowance for people born before 6 April 1935 (1 & 2)	6,535
Married couple's allowance - aged 75 or more (1 & 2)	6,625

(1) These allowances reduce where the income is above the allowance limit by £1 for every £2 of income above the limit. They will never be less than the basic personal allowance or minimum amount of Married Couple's allowance. (2) Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

	2006-08	2007-08 (£)	2008-09	2008-09 (£)
Starting rate	10%	0 - 2,230		
Basic rate	22%	2,231 - 34,600	20%*	0 - 34,800
Higher rate	40%	over 34,600	40%*	over 34,801

* There will be a new 10% starting rate for savings income only, with a limit of £2320. If an individual's taxable non-savings income is above this limit then the 10% savings rate will not be applicable. There are no changes to the 10% dividend ordinary rate or the 22.5% dividend upper rate.



Annuity Direct Ltd.
The Innovation Centre
St Cross Business Park
Newport
Isle of Wight
PO30 5WB

Tel: 0500 50 65 75
Email: info@annuitydirect.co.uk
www.annuitydirect.co.uk

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