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Missing out on unclaimed money that could be in your pocket?

£1.3 billion pension tax relief unclaimed by pension savers over a five-year period

According to recent research, higher rate and additional rate taxpayers in the UK leave millions of pounds of pension tax relief unclaimed yearly[(1)]. This amounts to a staggering total of £1.3 billion over a five-year period. This unclaimed money could be in your pocket instead.

Pension tax relief is a government incentive to encourage individuals to save for retirement. It boosts your pension contributions based on your income level, the amount which is being contributed and the type of pension scheme you have. The two main methods of receiving tax relief are relief at source and net pay.

Boost your retirement savings

Understanding how pension tax relief works is important, and seeking professional financial advice ensures you claim everything you're entitled to. Depending on your tax bracket, you may be eligible for 20%, 40% or even 45% tax relief on your pension contributions. Taking advantage of this relief can significantly boost your retirement savings.

If you are a higher rate or additional rate taxpayer, reviewing your pension contributions and ensuring you maximise your tax relief benefits is essential. Doing so can secure a more comfortable retirement and make the most of the money that should rightfully be yours. It's important to note that income rates vary in different parts of the UK, so the specific rules may differ depending on where you live.

Tax benefits upfront

The main reason why £1.3 billion is left unclaimed in tax relief is that higher rate and additional rate taxpayers often need to claim the additional tax relief manually. The process can vary depending on the type of pension plan or the setup of your employer's pension scheme.

If you're in a 'net pay' arrangement, you'll automatically receive tax relief because your pension payment is deducted from your salary before taxes are applied. This means you receive the tax benefits upfront.

Unclaimed tax relief

On the other hand, if you're in a 'relief at source' arrangement, such as a personal pension plan or some workplace pension plans, your pension payment is deducted from your salary after taxes. In this case, your pension provider will add basic rate tax relief (20%) to your payment and claim it back from the government.

However, any higher rate or additional rate relief must be claimed by you directly from the government. There is so much unclaimed tax relief because many higher and additional rate taxpayers are unaware they need to claim the extra 20% or 25% tax relief on top of the basic rate relief.

There are several options to claim back tax relief if you're a higher or additional rate tax- payer. Here's what you need to know:

Determine your pension arrangement: Firstly, finding out what kind of arrangement you're a part of is important. You don't need to take any action if you're in a net pay arrangement. However, if you're part of a relief at source arrangement, follow the steps below.

Complete a self-assessment tax return: To claim extra tax relief, you can complete a self-assessment tax return. This can be done online, and the deadline for online tax returns is typically 31 January each year. Alternatively, you can contact the government directly to claim the tax relief.

Be aware of deadlines: If you choose to submit a paper return, the deadline will be earlier, usually 31 October. It's important to keep track of these deadlines and set reminders to ensure you submit your claim on time.

Receive your tax relief: Once you have claimed the tax relief, you will either receive it as a rebate at the end of the year or through an adjustment to your tax code. The specific method of receiving the relief may depend on your individual circumstances.

Additionally, suppose you didn't use your full pension contribution allowance over the previous three tax years. You can combine this unclaimed tax relief to make a one-off, large pension contribution. To meet the criteria, you must have contributed less than £40,000 to your pension last year (including tax relief), been a member of a pension scheme for the past three years and NRE (non-relevant earnings) would need to be sufficient to cover the contribution.

You can use your unused allowance to make a larger contribution this year. The annual pension allowance until 5 April 2023 was £40,000 per year. The annual pension allowance increased to £60,000 in July this year following the Spring budget changes. ■

WILL YOUR PLANS REMAIN ON TRACK THROUGHOUT YOUR RETIREMENT JOURNEY?

What do your retirement plans look like? We'll guide you through the various options to ensure your plans remain on track throughout your retirement journey. To find out more, contact us – we look forward to hearing from you.

Source data:

[1] Standard Life – Millions unclaimed pension tax relief – published 10/07/23.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE.

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Money and divorce

Untangling your finances and navigating the financial aspects of divorce

Divorce is a complex process that often comes with various financial considerations, and preparing for a divorce is undoubtedly challenging, especially when it involves untangling your finances. The emotional strain can make it difficult to make clear-headed decisions, and the long-term consequences may not be immediately apparent.

You must carefully consider the financial aspects of divorce to ensure you can sustain the lifestyle you desire post-separation. It's desirable to seek legal and financial advice from professionals specialising in divorce cases. Our team is here to assist you in navigating the financial aspects of divorce.

Here are some financial considerations

Create a list of assets

Create a comprehensive list of all assets, including properties, pensions, investments, businesses you own and other financial accounts. Include accurate valuations, and be sure to note down both joint and individual assets. Additionally, document your income and outgoings, both joint and individual, to clearly understand your financial standing. This will clarify what needs to be divided and help with accurate valuation.

Budget for the future

Consider your post-divorce financial goals and plan accordingly. Start saving and budgeting in advance to align with the life you envision for yourself after the divorce. Remember that what you desire financially from the divorce may not necessarily align with the outcome. Obtain a copy of your credit report, especially if you anticipate needing a new mortgage or taking on new financial responsibilities. A credit report will provide insight into any joint lending or liabilities you may still be responsible for after the divorce.

Consider the division of your home

There are several options for dividing your home, such as selling it, one partner buying out the other's share or maintaining joint ownership until certain circumstances arise. It's important to consider the financial implications of each option. Keeping the home may be challenging, especially if managing mortgage repayments on a single income becomes difficult. Consult a financial professional to assess the financial viability of each option.

Seek advice on splitting pensions

During divorce proceedings, it is essential to consider the division of pension savings, often over-looked in favour of other assets like the family home. Dividing pensions can have long-lasting effects on your financial security. There are two commonly used methods for dividing pensions during a divorce or separation. Pension sharing involves splitting one or more pensions between the separating partners. Alternatively, with pension offsetting, the value of the pension rights is balanced against other assets, such as property or savings. This approach allows for a more flexible and customised asset division based on the separating partners' unique circumstances.

Evaluate savings and investments

The process is usually straightforward when splitting cash savings accounts during a divorce. One partner can transfer money from their account to their ex-spouse's account. However, if you have Individual Savings Accounts (ISAs), you or your ex-spouse would need to withdraw the money first and then provide it to the other partner. It's important to note that dividing investments and savings may have tax implications and involve charges. Therefore, seeking professional financial advice is crucial to ensure that the division is done appropriately and is financially beneficial.

Be aware of CGT liabilities

Capital Gains Tax (CGT) may apply when transferring assets during a divorce. As of 6 April 2023, new rules have been implemented that extend the time frame for separating partners to transfer assets without incurring CGT. Under the new rules, you now have up to three years from the end of the tax year in which you separate to make these transfers without facing CGT liabilities. ■

NEED PROFESSIONAL ADVICE TO TAKE THE FIRST STEP TOWARDS A SECURE FINANCIAL FUTURE?

Regardless of your specific needs, we are committed to providing the support and guidance you require during this challenging time. We understand the complexities of divorce and finances and are here to help you make informed decisions. Contact us today to schedule a consultation and take the first step towards a secure financial future.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE. SEEK PROFESSIONAL ADVICE.

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 224888.