

## Pension or ISA?

Choosing the best saving option for your retirement can be complicated, and often the choice depends on your current tax position. When choosing between a pension or an ISA, there are many things to consider, some of which are detailed below.

A £10,000 lump sum invested in a tax-privileged ISA fund would be worth £54,274 after 25 years, assuming 7% p.a. growth after charges, and the proceeds would be free of tax.

A similar sum invested in a pension plan by a basic rate taxpayer would benefit both from basic rate tax relief on the contribution and a tax-privileged environment within the plan, and on similar growth assumptions would be worth £67,842 after 25 years. However, the funds would not be accessible until age 55 and the majority of the proceeds would be taxable.

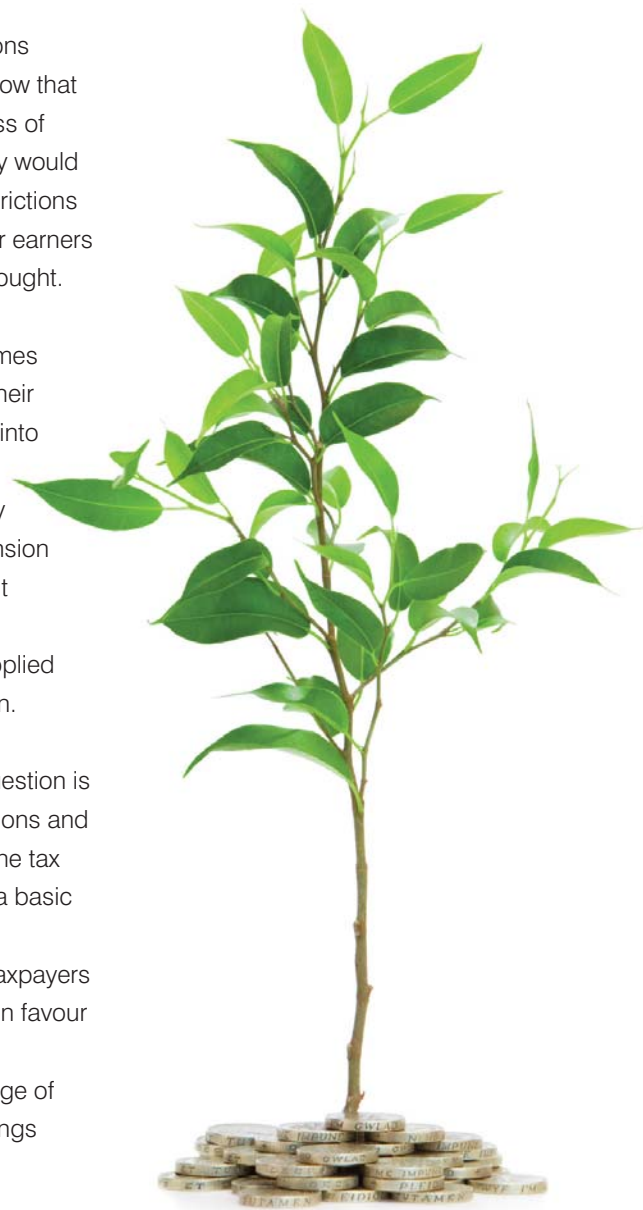
The pension option would look much more attractive if the investor were a 40% taxpayer. If higher rate relief were also re-invested, the initial contribution would be boosted by tax relief to £16,667 and the value would be £90,459 after 25 years. Tax on the resulting income would also be of less concern if the taxpayer were subject only to basic rate tax in retirement but had obtained relief at the higher rate on the contribution.

The benefits would be even greater for individuals taxed at 50% and for those with incomes over £100,000 p.a., who

by making pension contributions could reduce their income below that level and thereby avoid the loss of personal allowance which they would otherwise suffer. However restrictions on relief apply for some higher earners so advice should always be sought.

Members of employers' schemes stand to benefit still further if their employers are willing to enter into salary sacrifice arrangements, whereby a proportion of salary is switched each year into pension contributions, with consequent savings in National Insurance contributions which can be applied further to augment the pension.

So, the answer to the initial question is that the choice between pensions and ISAs depends very much on the tax position of the individual. For a basic rate taxpayer, an ISA may be preferable, whereas for 40% taxpayers the balance might well swing in favour of pension. Ideally, of course, investors should take advantage of both types of tax-efficient savings vehicle.



**For help deciding which investment option is right for you, call our wealth management team on 01254 679138.**

## Maximising tax relief via pension contributions

Starting with the current tax year, anyone earning more than £112,950 will lose their tax free personal allowance completely. Those earning between £100,000 and £112,950 will lose it proportionately.

If this change affects you, it may be worth considering the option of making a pension contribution in order to claw back some or all of your lost personal allowance. For example, if you earn £110,000 a year, you could make a £10,000 gross pension contribution. You would then get £2,000 basic rate tax relief (paid directly into your pension) and could claim back a further £2,000 higher rate tax relief via your annual tax return.

In addition to the savings above, you would also regain £5,000 of your tax

free personal allowance, which would mean that £5,000 of your income would be subject to NO tax, rather than being taxed at 40%. This would therefore save a further £2,000 in tax, taking the total tax saving to £6,000 from a pension contribution of £10,000. So tax relief is effectively at 60%!

If this change affects you or you would like to discuss this option in more detail, call our expert tax team on 01254 679131 for more help and advice.



## PM+M News

### We're Moving!

We are delighted to announce that our Blackburn office will be moving premises this Autumn.



As our existing clients already know, we have been based at Oakmount for over 30 years. Whilst Oakmount has a great deal of character and we will be sad to leave, we have decided it is time to move on to larger modern

offices that will greatly enhance our internal communications and give us the room to continue to grow.

Our new offices are on Challenge Way and are easily accessible from the M65 and the town centre. We will let you know our exact moving date nearer to the time and will send you full address details.

You can rest assured that there will be a smooth transition, with no interruption to our services and our telephone and fax numbers will remain the same. We are really excited about the new offices and look forward to welcoming you to them soon.

## Skydiving Accountants!

On August 22nd 2010, 11 members of the PM+M team completed a 14,500ft tandem skydive in aid of both the East Lancashire Hospice and RNIB.



For many reasons, these charities are both close to our team's hearts and they felt that this would be an excellent opportunity to raise money for both charities and the work they do.

So far they have raised in excess of £6000 which will be split amongst the two charities. If you would like to support our team, you can still donate either by calling Claire Jewsbury on 01254 679131 or by visiting our just giving sites:

### RNIB

[www.justgiving.com/pmmrnib](http://www.justgiving.com/pmmrnib)

### East Lancs Hospice

[www.justgiving.com/pmm](http://www.justgiving.com/pmm)

