

NEW ANNUAL ALLOWANCE (AA) AND SELF-ASSESSMENT TAX RETURN COMPLETION ADVISORY SERVICE FROM CLOSE ASSET MANAGEMENT

1. Introduction and existing service supplied by Close Asset Management

1.1. As ALACE members will be aware, for the last 7 years Close Asset Management (Close), or Close Brothers as they are also known, has provided a complete Financial Planning Service, at a discounted fee rate, for any ALACE members wishing to take advantage of that Service. Many ALACE members, particularly those who were approaching retirement, have become clients of Close, and have found that having, in effect, appointed Close as their Individual Financial Advisers (IFAs) the arrangement has worked very much to their financial advantage.

1.2. While ALACE can put people in touch with Close, it does not, and cannot, for liability reasons, formally recommend Close to its members, so it is entirely at the individual member's discretion and risk if they contact Close and appoint them as their personal advisers. However, in the 7 years that the Service has been available no ALACE members have come back to us with any complaints about Close – much the opposite.

1.3. Any initial discussion by 'phone between a Close financial expert and an individual ALACE member is free to that member. If the member then wants Close to draw up an individual personal financial portfolio for them and visit them (usually at their home) to discuss the portfolio in detail face-to-face, there is a charge of £1,250 +VAT for that service. If the ALACE member then decides to become a client of Close, Close will manage their portfolio for them for as long as they wish.

1.4 There are management fees to be paid to Close relating to the size of any investment and there will also be fees owing to any companies (e.g. Zurich, Scottish Widows, Prudential) which provide the investment products. Details about how the fees are calculated are set out in the detailed note in the confidential 'Members' Zone' of the ALACE website headed "ALACE Individual Pensions Calculations, Financial Planning and Tax Return Completion Advisory Services". While there can never be any guarantees, and while investments can lose money as well as make money, usually the cumulative cost of any fees is much less than the returns on investments made.

2. Problems experienced by ALACE members in relation to the Annual Allowance and completing their tax returns

2.1. In the last year many ALACE members have found themselves, often to their surprise, owing significant additional tax charges, running into several thousands of pounds, in relation to the Annual Allowance (AA) because of the growth in their pension benefits in the previous financial year. This is for many reasons, not least because the AA formula contains a multiplier of 16 times real pension growth in the year which means that it is easy for high-earners to exceed the now relatively low level of the standard AA; because new 'tapering' arrangements were introduced by the Government in 2016 which lowers the standard AA for many high earners; and because many members have now exhausted their "unused" AA from previous financial years which could be used to offset any AA additional tax charges.

2.2 The rules and the formulae in respect of the AA are now very complicated and relate to your pension from all sources (other than the State Pension) and also take into account your income from all sources – indeed, for the purposes of your “Adjusted Income” which is relevant to the AA calculations, your total pension growth in any one year, multiplied by 16, itself counts as income for AA tax purposes.

2.3 LGPS pension funds only have a duty to inform you, by 6 October in the year following the end of the relevant financial year (e.g. by 6 October 2018 in relation to the 2017-18 financial year) that you have exceeded the AA in respect of the pension benefits for which they are responsible. If you have any sources of pension other than your LGPS ones, for example from Returning Officer benefits, pensions with previous employers, private pensions, or from Additional Voluntary Contributions (AVCs) or similar, your pension fund may not know about these and therefore cannot be sure whether you have exceeded the AA or not. **You** are responsible for adding these all together to see if you have exceeded the AA. If, therefore, your LGPS pension fund has not notified you that you have exceeded the AA, and you have any other sources of pension growth, you cannot assume that you have not exceeded the AA. **You need to check your own position.**

2.4 Your LGPS pension fund also does not have any duty to calculate your total “Threshold Income” and “Adjusted Income” (indeed, you may be the only person able to do this as only you know all your sources of income including pension growth from any other pensions), nor do they have any responsibility to calculate whether your personal AA is subject to tapering and, therefore, by how much you have exceeded your AA and what you owe in additional tax charges. The responsibility to do this rests with **you** and you have to declare the correct figures to the HMRC on your personal self-assessment tax return in respect of the relevant tax year.

2.5 Last year many ALACE members found it very difficult to understand the complex rules in this area and to do the necessary calculations in order to fill in their tax returns correctly – especially in the time available for doing so. (Tax returns that were completed incorrectly in this respect have taken months to unravel with the HMRC.) Our pension consultants, Cheryl Miller and Pete Morris, did their best to help those who had problems filling in their tax returns but neither Cheryl nor Pete are tax experts and, in the end, many ALACE members needed professional accredited financial advice to help them do the calculations and fill in their tax returns correctly. They therefore approached Close (or other Independent Financial Advisers – IFAs) and became clients of Close under the arrangements described in Section 1 above.

2.6 It will undoubtedly be the case that many more ALACE members will find that they have exceeded the AA in the last financial year (2017-18) and will owe additional tax charges in respect of their excess over the AA. **ALACE has therefore agreed with Close that it will now offer our members a new service**, in addition to the one described earlier in Section 1 above, specifically **aimed at helping people do their AA calculations, and fill in their tax returns correctly. The charge for this new service will be only £300 (including VAT).** Moreover, if a member also decides to become a full client of Close and take advantage of the existing full Financial Planning and Investment Service described earlier, this £300 fee will be deducted from the £1,250 +VAT charge for the full individual financial portfolio service offered by Close. Those who do become full clients of Close will be able to access Close’s help and support in all future years to fill in their tax returns correctly. There will, however, be no obligation on anyone accessing Close’s new “tax return” service to become a

full client of Close – they will have the option of simply approaching Close every year when they need help with doing the AA calculations and filling in their tax return correctly and paying the £300 each year (subject to possible increases in the charge in future years) for that service.

2.7 Close's new "tax return" service will still need to be accessed by ALACE members via our pensions' consultants Cheryl Miller or Pete Morris. As with Close's full Financial Planning Service, ALACE is not formally recommending this "AA and tax return" service to you. Accessing it is therefore entirely at your own risk and discretion. Once Cheryl or Pete has put you in touch with our experts at Close, the relationship will be a direct one between you and Close.

2.8 This new "tax return" service is supplied by Close's taxation specialists not by its financial planners who support the full "financial planning service" – although the two will, of course, liaise. Unlike the full "financial planning service" there will be no option for a face-to face meeting in connection with the new "tax return" service – all communications will be conducted by 'phone, email or post. Once your self-assessment tax return has been submitted to HMRC your Close tax specialist will liaise with HMRC on your behalf in respect of any queries HMRC may have about the relevant sections of the form. The support the tax specialist can give will, however, depend on you giving them full and accurate information on your pension position and on your income. You will therefore wish to look at the separate note describing what information you need to collect before you approach Close via Cheryl or Pete. That note can be found on the confidential Members' Zone of the ALACE website.

2.8 Full details of the new (and Close's existing) service can be found in the document headed "ALACE's Individual Pensions Calculations, Financial Planning and Tax Return Completion Advisory Services" on the confidential Members' Zone of the ALACE website.

3. Warning in respect of completing tax returns for 2017-18 tax year.

3.1.Given the problems that individual members experienced last year, all ALACE members will want, as soon as they have been advised by their pension funds that they have exceeded the AA in 2017 -18, to look at their situation in detail. Pension funds do not normally issue this information until late summer/early autumn. Many members in the past have, given the pressures of their day jobs, left the task of filling in their self-assessment tax returns until the Christmas period when they have more time to look at it. This has resulted in a surge in requests for help to our consultants and Close at that time, and it has proved difficult to deal with them all before the deadline for submitting tax returns online by the end of January. Anyone wishing to access this new "tax return" service from Close should therefore contact Cheryl Miller or Pete Morris as soon as they have the necessary information from their pension funds rather than waiting until the Christmas holidays. (Contact details for Cheryl and Pete are on the ALACE website).

Ian Miller
Honorary Secretary

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