Advisers must consider wider offerings of the providers they plan to choose for their clients' pension pot

Do not lose out on tax-free transfer cash, says Skandia

TAXATION

by Emma Ann Hughes

Advisers must check if clients with occupational pension schemes could be entitled to more than 25 per cent tax-free cash before transferring pensions, Skandia has warned.

Nick Bladen, pensions marketing manager at Skandia, said the new rules on transfers made it vital for advisers to consider the wider offerings of the provider they opt for.

Clients who are considering consolidating pension schemes and who are entitled to more than 25 per cent cash should select a pension provider that offers multiple schemes, such as an occupational scheme, personal pension and a Sipp via a single investment platform, he said.

Mr Bladen argued this structure would enable investors to protect any tax-free cash allowance from an occupational scheme that was over 25 per cent, by utilising the occupational scheme rules, while at the same time having access to the wider investment flexibility of a personal pension or Sipp for new contributions.

There are 16m members of private occupational pension schemes who could be affected by this, according to Mr Bladen. Any investor who was a member of an occupational scheme before April 2006 may be entitled to more than 25 per cent tax free cash from this scheme.

So, Mr Bladen said before recommending any action, advisers must check the status of the client's tax-free cash entitlement with scheme trustees.

If a client transfers two occupational pensions that each have a higher cash entitlement to a single scheme, the tax-free cash entitlement could be significantly reduced.

By selecting a provider that has multiple registered schemes available, Mr Bladen said the adviser can make sure the client can benefit from consolidation without losing any tax-free cash entitlement.

He said: "Many clients will simply not be aware that they can take more than 25 per cent cash and there is a real risk clients will lose that entitlement to tax-free cash through a simple oversight.

"It is not just clients with large pension funds who are affected either. Simply put, paying tax on pension funds when there is no need to is just plain crazy."

Nicola Downs, financial adviser at Trentham Invest, said: "In a recent case, a client had set up an executive pension scheme before A-Day and wanted to transfer in Ssas funds under block transfer regulations.

"On the larger fund there was entitlement to 65 per cent tax-free cash. By ensuring the larger fund was transferred first, this extra tax-free cash was protected.

"As a result, the client retained more than £70,000 in tax-free cash, in addition to the standard 25 per cent."

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Nick Bladen, Skandia