

## TAX TIP OF THE MONTH

**It's fair to say that tax is the bane of our lives, so finding ways to make your assets more tax efficient is always going to be a winner.**

Using pension contributions is a very effective way of reducing the higher rate tax on your hard earned cash as well as on interest, dividends, rental income and chargeable gains from investment bonds you may have.



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It's more than likely you are a higher rate taxpayer so you should think about paying contributions into a pension to offset some or all of the higher rate tax.

So how does it work? As an individual you can pay up to 100% of your annual UK earnings up to the annual allowance of £235,000 (2008/2009), into your pension and receive tax relief on the total amount.

Contributions into personal pension schemes are generally paid net of basic rate tax (20%) and the pension provider claims the tax relief and adds it to the contribution. Higher rate tax relief is available either through an individual's PAYE code or tax return.

This example will help to clarify things: Mr X earns £100,000 and would like to pay a single contribution of £20,000 gross into his personal pension. He pays £16,000 net into his pension and the provider adds £4,000 tax relief to his contribution. Mr X is then able to reclaim £4,000 in higher rate tax relief when he submits his tax return.

With the current stock market low it's a great time to take advantage of pension contributions as when the market eventually rises your pension pot and tax saving will, of course be higher.

If this strikes a chord, then next time you sit with your financial adviser, just ask about the merits of using pensions to offset tax. It really is a no brainer.

People worry that pension charges may be costly but with the right charging structure it doesn't have to be and many don't realise that your pension can be totally flexible, investing in; cash, government gilts, commercial property, UK equities and international equities to name a few. Again, ask your adviser about creative pension solutions.

For more information  
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