



# AVOIDING THE UNRETIREMENT TAX TRAP

The trend of “unretirement”—people returning to work after initially retiring—is becoming increasingly common. However, many of those who choose to unretire are unaware of the potential tax implications. Without careful planning, unretirement can lead to unexpected tax liabilities, creating what is often referred to as the “unretirement tax trap.”

## **The great unretirement continues**

Research suggests that a significant minority of over-55s either have or are planning to return to work after retiring\*. For many, the decision to re-enter the workforce is driven by a variety of factors. Some wish to generate additional income for luxuries, while others feel that working keeps their brains active and gives them a sense of purpose.

According to a recent survey, more than a quarter of people aged 55 and over plan to continue with some form of paid work after retiring. But while the decision to unretire can offer financial and personal benefits, it’s crucial to be aware of the tax implications.

## **Unknown tax implications**

Worryingly, almost two-thirds of those who are unretiring have not checked the potential tax implications of doing so. In fact, six out of ten over-55s who are either working or planning to work in retirement have no plans to seek financial advice. This lack of planning can be problematic, as unretirement can push an individual’s income above certain thresholds, resulting in increased tax liability.

For example, additional earnings could take a person’s income above the personal tax allowance, which could lead to a higher overall tax bill. Worse still, if income levels increase enough to push someone into a higher tax bracket, they may face even greater financial penalties.

## Minimising the tax burden

Fortunately, there are ways to mitigate the tax impact of returning to work in retirement. By understanding the tax implications and taking advantage of available reliefs and allowances, unretirees can minimise their tax burden.

Maximising the use of personal tax allowances is one key strategy. For example, individuals can split income with their spouse or partner to take advantage of both personal allowances. Additionally, making pension contributions while working can also help reduce taxable income, as these contributions typically qualify for tax relief.

## Seeking professional advice

Clearly, anyone considering working in retirement needs to fully understand the tax implications. In most cases, speaking with a financial adviser can help ensure that your finances are structured in the most tax-efficient manner possible. By seeking advice, you can avoid the common pitfalls of unretirement and make sure that your decision to return to work does not negatively impact your long-term financial security.

### We're here to help

If you're thinking of returning to work in retirement, we can guide you through the tax considerations and help structure your finances in a way that works for you.

Contact us today to discuss how we can help you avoid the unretirement tax trap.

\* Wesleyan, [Phoenix Insights \(2023\) Reimagining Roads to Retirement. October 2023](#)

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