



Changes in Pension Legislation

By Doug Cowan

New pension tax rules have been confirmed by HMRC (Her Majesty's Revenue & Customs) for 2011/12 onwards.

Some Key Points are as follows:

Pension tax relief:

- Tax relief on personal contributions to registered pension schemes will continue to be available at the individual's highest marginal income tax rate.
- There will be no changes to the way tax relief is provided on pension contributions by companies.

Annual allowance:



- The annual allowance will be reduced from the current £255,000 to £50,000 from 2011.
- Where an individual's pension provision in any tax year exceeds their annual allowance, the excess provision can be offset against any unused allowance from the previous 3 tax years (effectively what used to be known as "Carry Forward").
- The current ability to fund a higher amount in the year of retirement will be removed.

Annual allowance tax charge:

- The existing flat 40% tax charge will be replaced by a variable tax charge of up to 50%.

Lifetime allowance:

- The lifetime allowance will be reduced from the current £1.8M to £1.5M.
- It is expected to be frozen at this level, at least for the foreseeable future.

Good news for most

An 80% cut in the annual pension savings limit would not normally be cause for celebration. However, most people with the means to pay more than £50,000 p.a. to a pension are already limited to what they can pay in due to the complex anti forestalling legislation. Therefore for some, £50,000 is actually an increase over what they could pay in the current or previous tax year.

In addition, the new rule allowing Carry Forward of unused annual allowances from up to three previous tax years allows additional scope for planning, as in the following example:

2010/2011 Planning: Special Allowance Charge

Helen, aged 55, had relevant income of £150,000 in tax year 2009/2010, meaning she was subject to the special annual allowance in that year and in 2010/2011. She has existing pension arrangements worth around £500,000. Her recent contributions record is as follows:

Tax Year	Contribution Paid	Deemed Annual Allowance	Available Carry Forward
2008/09	£80,000	£50,000	Nil
2009/10	£20,000+	£50,000	£30,000
2010/11	£20,000+	£50,000	£30,000

+ Restricted to avoid a special annual allowance charge

The introduction of the carry forward provisions gives Helen the chance to maximise her contributions in 2011/12, when she has Relevant UK Earnings of £160,000 in 2011/12. She is able to make a maximum tax relievably pension contribution, without resulting in an annual allowance tax charge, of £110,000 (i.e. £50,000 annual allowance in 2011/12 plus the carried forward annual allowance of £60,000).

Helen's benefits are still well within the lifetime allowance so this should not stop her contribution.

A window of opportunity...

Until 5th April 2011 pension contributions of up to £255,000 (the old limit) are still possible in some situations. Those individuals who

are in the position to make contributions larger than £50,000 should consider seeking advice as soon as possible.

Summary

Pension rules and definitions can at best be described as complex and as with any changes, advice should be sought on the effects these changes may have on current and subsequent planning. Please contact us for further information.

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