# PENSIONS ASPECTS OF EMERGENCY BUDGET 22ND JUNE 2010

Three general areas mentioned in the Emergency Budget are likely to affect pension planning for our clients over the coming years. This note summarises the principal changes with some comment from us.

## THE CHANGES

### a) Contribution Limits

The new Coalition Government proposes to change the maximum limits on tax relieved pension contributions, introduced by the Labour Government. In addition, it considers that the current legislation is too complex and will have unwelcome consequences for pension savings. The Government's proposals are not yet defined and there will be a public consultation process.

The Chancellor's provisional analysis indicates that the maximum annual tax relieved contribution (the Annual Allowance) will fall between £30,000 and £45,000 per person, with effect from 6th April 2011.

Currently, the Annual Allowance is £255,000 for most persons but with a much lower limit of either £20,000 or £30,000 for those with total income above £130,000 per annum.

### b) Extension of Middle Age to age 77!

**At present members of our SSASs and SIPPs do not have to buy an annuity at any time.** The Government has confirmed that it will end the effective requirement in other schemes to buy an annuity with effect from 2011/12.

In addition, if a member who was under age 75 on 22nd June 2010 dies before attaining age 77 any residual funds may be paid out in lump sum form at a tax rate of 35%. Previously, no lump sum benefits could be paid after age 75 and the tax on residual funds could have been as high as 82%.

Lump sum benefits will not be payable on death after age 77 and no changes have been made to the rates applying on death in these circumstances. Therefore, the tax on death after age 77 could still be as high as 82%.

### c) Employer Funded Retirement Benefit Schemes

The Government is reviewing the tax and National Insurance treatment of Employer Funded Retirement Benefit Schemes (EFRBS) and similar schemes and changes may take effect from 6th April 2011.

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# COMMENTARY

## a) Contributions

- The proposed changes imply that for those with earnings in excess of £130,000 p.a. maximum tax relieved pension contributions from 2011/12 onwards could increase – but not to the extent permitted prior to 6th April 2009.

  Specifically, for persons who have had fully tax relieved contributions restricted to £20,000 in the current year, it seems likely that the maximum tax relieved contribution for 2011/2012 will rise to at least £30,000.

- Conversely, for those with lower earnings, maximum tax relieved contributions could reduce next year and full opportunity should be taken this year while the current limits of up to £255,000 per person remain.

  For example, if funds are available, employer contributions of up to £255,000 per annum may be payable with full tax relief for those earning below £130,000. From next year, the maximum figure could drop to somewhere between £30,000 and £45,000. **Therefore, there is a window of opportunity in the current tax year to maximise contributions for such persons**.

- **For those who have been prepared to pay contributions on the basis that they will get at least basic rate tax relief, with only partial higher rate relief, again there is an opportunity before 2011/12 to maximise contributions up to the £255,000 limit.**

- Great care should be taken by all parties in formulating pension strategies and clients should discuss with us and their accountants the optimum levels of contributions.

- For those clients who have Enhanced Protection status, it may still be wise to make no contributions. Similarly, for those with personal pension funds approaching the Standard Lifetime Allowance (SLA) of £1.8m it may not be appropriate to make further contributions.

- **In each case, individual advice is needed and we will be pleased to discuss over the next year - as the Government's policies emerge - what stance should be taken for each pension scheme member.**

## b) Age 77

- The Government's emphasis that there is no obligation to buy an annuity is welcome.

- An annuity remains an investment choice for any pension scheme and should be considered if appropriate. Many clients, however, have a fundamental objection and dislike at being forced into annuity purchase.

- It should be realised that whereas all our operated schemes do not impose annuity purchase there are many that do – particularly insured schemes. **Clients may wish to reappraise such schemes in the light of this change.**

- We welcome the extension of the lower taxation regime on death benefits prior to age 77. (In the limited announcements that have been made available, the Government have implied that in the event of death of a member between ages 75 and 77, taxation of 35% will apply on residual funds – where such member had not attained age 75 on 22nd June 2010).

- Further, pensioners aged between 75 and 77 will be able to draw a higher proportion of their funds under the unsecured pension regime – but only if they had not attained age 75 by 22nd June 2010.

- It is right that all clients aged 75 or over should discuss and regularly review the mode of pension under which they draw benefits and whether it is right to continue in the "Unsecured Pension" mode or transfer to a perhaps more beneficial regime, known as "Scheme Pension".

- No information is yet to hand regarding the extension or otherwise of the pension contribution period to age 77.

**c) Employer Funded Retirement Benefit Scheme (EFRBS)**

- The most tax efficient method of pension savings is through fully tax-exempt registered pension funds such as SSASs or SIPPs.

- Unfortunately, current and prospective limitations on tax relieved contributions will mean that, for many of our clients, desired pensions cannot be achieved through these schemes alone and that other saving schemes need to be considered.

- The Employer Funded Retirement Benefit Schemes (EFRBS) legislated for in ITPA 2003 and Finance Act 2004 are an appropriate top up vehicle in many cases.

- Bearing in mind the Government's Budget announcement that it intends to review the basis of tax and National Insurance treatment for contributions to such schemes with effect from 6 April 2011, we would comment that there may be a window of opportunity to incept and contribute to such schemes for appropriate **employed** persons during the remainder of the current fiscal year.

- We shall be happy to discuss this possibility with appropriate clients