PROPOSED TAX CHANGES FOR PENSIONS- OCTOBER 2010

The Government has now announced its proposals for amending the tax reliefs available on contributions to registered pension schemes. It has also indicated that it will reduce the maximum amount of pension funding that can be accumulated without incurring a tax charge at the time that benefits come into payment.

Key features of the changes are that:-

- The maximum tax relieved pension contributions will be **£50,000**.

- There will be a new carry forward regime from 2011/12 for contributions.

- The limit on tax relieved pension savings, measured when benefits are payable, will drop from **£1.8 million to £1.5 million**.

- **Existing enhanced or primary protections will continue.**

- Certain types of non-registered pension arrangements including some EFRBS will lose their tax advantages.

Our principal comments are that:-

- Registered pension schemes remain the cornerstone for retirement planning.
- The proposed new pension tax regime is less complex than that proposed by the previous Government.
- Higher, tax relieved pension contributions can be made from 6th April 2011 onwards by or for those with high incomes.
- Correspondingly, there is a "window of opportunity" for those with lower incomes to benefit from one-off high contributions made before 6th April 2011.
- The new carry forward system allows some flexibility to make pension contributions at a convenient time, particularly for those with variable income – or expenditure!
- The maximum pension commencement lump sum for those without protection could drop in some cases from £450,000 to £375,000 in 2012.
- Nonetheless, for those with higher incomes, there is still the probability that savings in a registered pension scheme will be inadequate to provide desired retirement incomes. It is therefore hoped that the Government will be able to relax the proposed allowances as the national economic situation improves.
- Members of defined benefit schemes could face unexpected tax charges, as a result of remuneration or service increases.
- It is hoped that the Government will not attack EFRBS, which are utilised to provide genuine "top-up" pension benefits but will concentrate its attack only on those schemes which are not intended to provide retirement benefits.
- Individuals or employers contemplating the use of EFRBS should take expert advice.

We append our technical summary of the proposals for those who are not of a nervous disposition!

Nigel Sloam

14th October 2010

TECHNICAL NOTES

1. BACKGROUND

- As detailed in our previous circulars, during the last year of the previous government complex measures were introduced which restricted the tax-relief on pension contributions for those with "relevant income" of £130,000 or more.
- The previous Government intended to introduce further measures from 6 April 2011 which would restrict tax-relief on pension contributions for "high-income" individuals.
- **The current Government has now confirmed that it will repeal the measures due to be introduced from 6 April 2011 and will replace these by a new regime as detailed below.**

2. CONTRIBUTIONS AND THE ANNUAL ALLOWANCE

- The current maximum amount of tax relieved pension contributions, payable in any one year, ("The Annual Allowance") is £255,000.
- For those with relevant incomes of £130,000 or more, this is restricted further to limits of either £20,000 or £30,000 – or to the amount of regular contributions, paid no less frequently than quarterly.
- The Government has today announced that the Annual Allowance from 2011/12 will be reduced to **£50,000** and that this level will persist at least until 2015/6.
- **Personal contributions up to the Annual Allowance will be eligible for tax relief at the individual's highest marginal rate.**
- In Defined Benefit pension schemes the notional contribution for tax relief will be calculated as the annual increase in benefits multiplied by a factor of 16.
- Employer contributions will generally be eligible for tax relief - without associated National Insurance contributions or tax on the employee – provided that the total of personal and employer contributions does not exceed the Annual Allowance**.**
- Individuals will be able to carry forward any unused Annual Allowance from the previous three fiscal years to offset against contributions in excess of the Annual Allowance in a current tax year.
- Carry forward will be available in 2011/12 utilising a notional Annual Allowance of £50,000 for the tax years 2008-09, 2009-10 and 2010-11.
  If individuals or employers have already contributed for 2011-12 on the basis of existing Pension Input Periods there will be transitional protection to ensure that such contributions are not taken into account when testing against the new Annual Allowance. (Existing "Pension Input Periods" for contributions, unaligned with the fiscal year may continue.)
- There will be no test against the Annual Allowance in the year in which a member takes ill health benefits or dies but no special treatment for a year in which normal benefits are taken.

3. THE LIFETIME ALLOWANCE

- From 6 April 2012 the overall limit on tax relieved pension savings - The Lifetime Allowance (previously the Standard Lifetime Allowance!) - **will be reduced from £1.8 million to £1.5 million.**
- **Individuals who obtained Primary Protection and/or Enhanced Protection under the previous regime will continue to enjoy these protections - as the Government wishes to demonstrate its commitment to stability in the pensions tax regime!**
- Additionally, the Government is introducing the concept of a personal Lifetime Allowance, fixed at a level of £1.8 million, to be applied for by an individual for whom no further pension contributions are made or active service pension rights are accrued.

- When benefits vest, the Lifetime Allowance Charge (LAC) for tax will be levied on unprotected funds in excess of the Lifetime Allowance. The LAC rates will remain at 55% where excess benefits are paid as a lump sum or 25% where benefits are paid in pension form.
- The maximum Pension Commencement Lump Sum (PCLS), paid tax-free remains at 25% of accumulated rights, limited by the Lifetime Allowance. The position of those with protected lump sum rights has not been defined specifically – although the indication is that existing protections will remain.
- The maximum pension accumulation that can be paid as a lump sum on the grounds of triviality will remain as £18,000 – despite the change in the Lifetime Allowance.

4. EMPLOYER FINANCED RETIEMENT BENEFIT SCHEMES - EFRBS

- The Government has announced that it will take action against intermediary vehicles such as EFRBS which are used to disguise remuneration and avoid, reduce or defer payment of tax.
- The Government intends to legislate in The Finance Act 2011 to ensure that EFRBS are less attractive than other forms of remuneration.

Nigel Sloam & Co

14th October 2010