HIGHLIGHTS OF THE NEW "SIMPLIFIED" PENSION TAX REGIME

COMMENCING 6th APRIL 2006 _- "A_DAY"

CONTENTS

A GENERAL BACKGROUND

B THE "LIFETIME ALLOWANCE"

C BENEFITS

i) Tax free cash and pensions

ii) Death Benefits

D CONTRIBUTIONS

E INVESTMENTS

F TRANSITIONAL PROTECTION

A GENERAL BACKGROUND

- Governing legislation – Finance Act 2004, Finance Act 2005 and subsequent Statutory Instruments and Regulations.
- New Regime starts on 6th April 2006.
- All current and historic tax regimes will disappear and be amalgamated into one uniform regime.
- Considerable tax exemptions for pensions arrangements continue.
- Every tax-exempt pension arrangement will be "registered" rather than approved - a quicker and simpler process.
- A wide range of strict compliance and audit regulations will be introduced including substantial new reporting requirements.
- There will be self-assessment procedures for members - particularly where they benefit from scheme assets.
- The tax treatment of non-registered schemes, such as FURBS, will change and these will be designated as "employer-financed retirement benefit schemes".

B THE "LIFETIME ALLOWANCE"

- In the new regime a **Lifetime Allowance** will be introduced on A-Day for each member. The Standard Lifetime Allowance (SLA) will be initially set at £1.5 million for the tax year 2006/2007 - but will increase annually to £1.8 million by the tax year 2010/2011. The SLA will be reviewed after 2010.
- Certain individuals will be permitted non-standard individual lifetime allowances
- The total value of a member's benefits in all registered pension schemes will be tested against the particular individual lifetime allowance **at the time benefits are taken** or at age 75 if taking Income Withdrawal – otherwise know as "Unsecured Pension"**.** Any excess savings above the lifetime allowance will be subject then to a tax charge of 25% - known as the Lifetime Allowance Charge. The excess may then be taken as a lump sum but will be subject to a further tax charge of 40%.

C BENEFITS

i) Tax free cash and pensions

- In future maximum benefits will only be based on accumulated funds and age – and will not be dependent on employment data such as length of service or earnings.

- Benefits may be drawn at any time after attaining age 55 – or 50 for those that attain this age prior to 6th April 2010 or those that will have specific protected retirement ages.

- There is no present requirement to take benefits at all but lump sums must be drawn by age 75 or will be lost. (If no benefits are taken by age 75 the funds accrued will be tested at that age against the individual's lifetime allowance).

- There is no need to retire or leave service in order to take benefits.

- Tax-free lump sums may be taken after the minimum permitted benefit age - if necessary in stages – up to age 75.

- Pension benefits can be paid out in stages.

- Tax-free lump sums of up to 25% of accumulated pensions savings may be taken - where such savings below the SLA. (The Department of Work and Pensions have confirmed that contracted out benefits will be included in the fund for tax-free cash purposes).

- In certain cases, persons with transitional protection may draw higher tax-free cash sums.

- If accumulated funds exceed the lifetime allowance then excess funds may be drawn in cash – but after substantial tax charges.

- The amount of pension selected can vary substantially year by year at the member's choice.

- Unsecured pension until age 75 will allow an annual income varying from a minimum of £0 up to an amount not exceeding 120% of a single life, level annuity (based on Government Actuary Department annuity rates) with reviews every 5 years. There is no requirement for a minimum income to be taken.

- There is no statutory requirement to buy an annuity for a member.

- New rules are introduced for income withdrawal (unsecured pension) after age 75 - called Alternative Secured Pension ("ASP"). The maximum income is up to 70% of a single life, level annuity and will be reviewed annually. There is no requirement for a minimum income to be taken.

- There will be no restrictions on transfers between registered pension schemes.

- Benefits can be paid out as a lump sum on grounds of serious ill health and trivial benefits.

ii) Death Benefits

- In the event of death, prior to age 75 and before benefits are drawn, accrued funds up to the individual's lifetime allowance may be distributed tax free in lump sum form. Any accrued funds in excess of the lifetime allowance will be subject to tax at 55%.

- In the event of death after benefits have commenced – but before age 75 – residual funds may be distributed in lump sum form subject to 35% tax.

- If benefits are being drawn in stages, and death occurs, the undrawn and drawn portions will be taxed separately as per the above.

- As an alternative to paying lump sum benefits, residual funds could be applied to provide spouse's or dependants' pensions.

- In the event of death after age 75, where an ASP is being paid, dependants' pension benefits must be provided - if there is a dependant. If there are no dependants the member can request that residual funds are applied to his nominated other members of the registered pension scheme, who would receive a "transfer lump sum death benefit" - or to his nominated charity, which would receive a "charity lump sum death benefit".

D CONTRIBUTIONS

- Employers and individuals will be able to contribute to both occupational pension schemes and individual arrangements.

- Pension rights shared on divorce will count towards the lifetime allowance of the recipient - and not the donor who can replenish lost funds.

- There will be an "Annual Allowance" for contributions which will be set as £215,000 in the tax year 2006/2007 and will then increase annually to £255,000 by the tax year 2010/2011.

- Any contributions in excess of the Annual Allowance for or by an individual will not be relievable against tax on the individual. Specifically, any employer contribution paid in excess of the annual allowance will result in a tax charge on the individual at his/her marginal rate.

- There is no specific limit on employer contributions, which will no longer be affected by remuneration. Provided that the employer contributions are wholly and exclusively justifiable for the purpose of business, the employer will enjoy full tax relief in the year of payment unless any such special contributions exceed £500,000, in which case tax relief spreading could apply.

- If an individual is under 75 and is UK resident then annual personal contributions of £3,600 or 100% of annual earnings – whichever is the higher - will attract full tax relief subject to the Annual Allowance. Employer

contributions may be made, however, up to the Annual Allowance regardless of earnings.

- There will be no test against the Annual Allowance in the year in which full benefits are drawn or in which the member dies. The Lifetime Allowance will still apply

E INVESTMENTS

- There will be few restrictions on the type of investments that can be made by registered pension schemes.

- Annuities will not have to be purchased by age 75.

- Transactions with scheme members and connected parties - buying assets from and selling assets to such will be permitted. Unless such transactions are made on demonstrably arm's length terms, there will be tax consequences for the individuals involved.

- It will be permitted to invest in residential property, at home or abroad, even where this is occupied by the member or a connected party. In such cases rent must be paid at market rates otherwise a benefit in kind tax will be payable by the tenant – and the scheme could be involved in penalties.

- Loans will continue to be allowed to participating employers, subject to strict lending criteria, as well as to unconnected parties. Loans will not be allowed to members or connected parties.

- Only occupational pension schemes may make loans to an employer – an "authorised employer payment". They are restricted to 50% of the scheme fund, to a term no longer than 5 years, they must be secured and have an interest rate calculated by strict rules at the date of the loan.

- Scheme borrowing is limited to 50% of the scheme fund.

- Schemes will be able to invest in art, antiques, silver, tapestries, rare books and other "collectibles" – although members will have to pay for any use of such objects as per occupied residential properties.

- Schemes may invest in arm's length quoted or unquoted equities.

- In an occupational pension scheme no more than 5% of the scheme fund can be used to buy shares in the employer and associated or connected companies.

- Unauthorised payments from the scheme will result in severe tax penalties on the scheme, trustees and/or members.

F TRANSITIONAL PROTECTION

- Individual Lifetime Allowances will protect benefits accrued at A-Day. There will be two main types of such protection available - "Enhanced Protection" and "Primary Protection". Both protections must be applied for within three years of A-Day.

- Enhanced Protection is available to those who wish to protect their accrued benefits and who will not be contributing or accepting contributions to their funds in the future, or accruing any further benefits. If Enhanced Protection is obtained, benefits will not be tested against the Lifetime Allowance.

- Primary Protection is only available where the member has accumulated funds in excess of £1.5 million on A-Day. The member's fund at A-Day will be expressed as a percentage of the lifetime allowance and will be called his Individual Lifetime Allowance. In such case the accrued funds plus increases pro-rata to the increases in the Standard Lifetime Allowance will be protected against the Lifetime Allowance Charge. Excess funds will, however, be subject to the Lifetime Allowance Charge. Contributions or benefit accrual may continue under Primary Protection. Primary Protection protects funds at A-Day plus any growth not exceeding the annual increases in the Standard Lifetime Allowance. Benefits, when drawn, will be tested accordingly.

- A member who opts for Enhanced Protection can later on revert to a Primary Protection regime – but not vice versa.

- Tax-free lump sums in excess of 25% of the fund or lifetime allowance can also be protected, as can certain rights to take benefits early.

This summary of the highlights of the simplified pensions regime is produced by Nigel Sloam & Co to assist clients and advisors in preparing for the introduction of the new pensions tax regime. This summary is not intended as individual guidance and should not be relied on as such. Specific advice must be obtained for each set of circumstances, individually. This summary is based on current understanding of the new regime – details of which are not fully complete and are still under review. This summary is thus subject to change.