



New pension rules: time is of the essence

With less than three months to go until the end of the tax year, now is a good time to talk to clients about their pension contributions, especially in light of the new rules which come into effect on 6 April 2011. The rules aim both to rationalise an area that has become hugely complicated and to reduce the extent to which people use pension contributions to reduce their income tax. As is often the case, there are a number of opportunities and pitfalls in the run up to the change and during the transition. Below we highlight some which may be relevant to your clients.

Who is affected?

Anyone interested in making contributions of more than £50,000 in a particular year, irrespective of how much they earn.

Not caught by anti-forestalling? Then act now!

The new rules significantly reduce the level of contributions people not caught by the anti-forestalling rules can make.

For the 2010/11 tax year clients who do not fall within the anti-forestalling legislation are able to make contributions of up to 100% of their earnings and receive tax relief on the full amount. Employers can make additional contributions without any reference to salary and receive corporation tax relief, as long as the contributions are shown to be "wholly and exclusively for the purposes of the trade". However if the total employer and employee contributions exceeds the annual allowance (£255,000 for 2010/11) the employee will be charged tax at 40% on the excess.

However, from the 2011/12 tax year the total for employee and employer contributions drops to £50,000, with a "tailored" tax charge being applied to any excess.

Some clients, for instance those able to make large contributions in this tax year but not next, could consider paying in £255,000 in 2010/11 and then close the PIP so that it ends in 2010/11. They would then be able to pay in

a further £50,000 in 2010/11. However, if they did so they would then be unable to make further contributions until the end of that PIP.

Good news for those caught under anti-forestalling

Under the anti-forestalling rules, clients earning more than £130,000 and who have made irregular (rather than regular) pension contributions only receive tax relief on contributions of up to £20,000 a year. From April 2011 this annual allowance increases to £50,000. They will also be able to carry forward up to three years of unused allowances, which are deemed to be £50,000. This means that even if they have already contributed £20,000 a year, they can carry forward £30,000 (£50,000 - £20,000) for each of the three years. They are therefore able to make contributions of up to £110,000 in the tax year 2011/12.

Funding options for company directors

Most company directors have the flexibility of using the profits of the company to reward themselves if it makes business sense to do so. For instance they could reduce dividend payments in order to increase pension contributions. They also have the option of using salary exchange if they so wish.

Know your PIPs!

- A PIP is a pension scheme's input period.
- It is important to know when a scheme's PIP ends.
- PIPs are not necessarily aligned with the fiscal year.
- As of 14 October 2010 the most that can be paid into a PIP ending in 2011/12 tax year is £50,000.
- Schemes with a PIP ending on or before 5 April 2011 fall under the current regime.
- Schemes with a PIP ending after 5 April 2011 already fall under the new rules.

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Lifetime allowance reduced to £1.5m

As of April, the maximum amount a person can hold in their pension will be reduced from £1.8m to £1.5m and will stay at that level for five years. Exceeding the limit incurs a 55% tax charge on the amount over the limit. We suggest that people with funds of over £1m keep a close eye on their investments.

It is possible to apply for a new personalised lifetime allowance of £1.8m, and people whose fund is nearing this amount could consider applying. As you might guess, there are strings attached. An individual must agree to cease building up benefits in all their registered pension schemes as of 6 April 2012. Applications for a personalised lifetime allowance must be made to HMRC in writing by 5 April 2012.

But there are other options

Certain people in danger of exceeding the annual allowance but who want to continue building benefits may, depending on their circumstances, be able to do so.

One option would be to transfer the fund to a family self-invested pension plan (SIPP). Any future growth of the fund can then be reallocated among family members within the scheme.

In light of the changes and the various sets of rules in operation, we recommend that all clients – however much or little they earn – review their pension contributions to ensure that they are taking advantage of the options open to them and not falling foul of potentially hefty fines for breaching the still somewhat complicated rules.

* We would like to thank Scottish Widows for their contribution to this article.

And that's not all

The new rules also affect the rules governing:

- buying an annuity
- taking income drawdown (unsecured pensions)
- the IHT treatment of pension funds
- taking income drawdown from a SIPP.

We will be covering these, together with more details about Family SIPPs, in future issues of Wealth Management Alert.

LighthouseCarrwood advisers are experienced in working with accountants to advise company directors, the self-employed and employees on pension planning. This includes SIPPs and SSASs, areas in which we have specialist knowledge and expertise. If you feel that your clients would benefit from talking to one of our expert independent financial advisers, please contact us.

LighthouseCarrwood is one of the UK's leading providers of financial planning services to professional practices. We would be delighted to work with you to help your clients reduce their tax liabilities. To discuss how we could work with your firm in a way that suits you and benefits your clients and your business, please contact:

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