



20 October 2010

Recent Pensions Announcement

The Government's proposals on pensions which were finally published last week have brought some clarity and potential simplification to the treatment of pension contributions. The good news on simplification is that all the complicated rules put forward by the previous administration have been swept away in favour of an annual fully deductible contribution of up to £50,000. This will apply from 6 April 2011. In addition, in a throwback to the old retirement annuity rules, unused relief can be carried forward for three years to deal with spikes and troughs of income. Relief will be available at personal marginal rates of income. There are, however, some grey areas in particular around the carry forward rules and how they interact with current legislation. Clarification is being sought.

For those in money purchase schemes the allowance is clear and simple, but for those in defined benefit schemes, there will still be the complication of converting their annual pension accrual into an annual allowance.

The other major announcement was in relation to the size of the allowable Lifetime Allowance. Currently an individual can create a fund of up to £1.8million without incurring a tax penalty. As of 6 April 2012 this will reduce to £1.5million. Based on experience, when pension simplification took place in 2005, those currently with funds over £1.5million should be able to obtain protection from the new rules under the "pension growth protection" proposals but again full details are awaited.

The reduction in the annual allowance to £50,000 means that those who have previously looked to save more than this in pension each year will need to look for alternatives. Building a personal savings fund without any tax protection is an option but there is likely to be a greater focus on tax advantaged savings arrangements such as onshore bonds, offshore bonds and, if the individual can cope with savings disciplines over a seven to ten year period, then a qualifying savings plan. The first two types of bond can provide tax deferral and in limited circumstances exemption from tax, while the qualifying savings plan can provide a wide exemption from tax provided the detailed rules have been followed.

All in all, the simplification is to be welcomed but it will be important to see the new rules in detail when advising at the extremes of the new provisions. This simple summary is based on Fiscal Engineers Limited's understanding on the rules as announced on 14 October. These rules are expected to feature in the Finance Bill in 2011. If you require any particular advice please do give us a call.

Best regards

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