

## MORE TO CARRY FORWARD...

With effect from 6 April 2011, the Annual Allowance (AA) – an individual's pension input limit for a year – is £50,000 gross, upon which tax relief is available at an individual's marginal rate of income tax.

Unused allowances (of up to £50,000 per annum) may be carried forward for up to three years, so presently the earliest year's allowance available is the 2008/09 tax year, provided the individual held a pension policy during the year for which carry forward is being claimed.

Contributions will first use the AA for the year of payment, and then the earliest unused year. Given that the carry forward years are rolling, any unused AA in respect of the 2008/09 tax year must be utilised prior to 6 April 2012.

HMRC stated on 28 November 2011 that a contribution in excess of £50,000 gross in a tax year before 2011/12 is no longer deemed to have used up all or some of the preceding carry forward years' AAs. For example, a contribution of £100,000 in 2009/10 is no longer deemed to have also used up the 2008/09 AA where no contribution had been made.

If you would like further guidance on maximising your carry forward entitlement, please contact your usual adviser.

## ... AND TO BRING FORWARD - CONTRIBUTE UP TO £250,000 WITH 50% RELIEF

Don't forget that it is possible to bring forward your 2012/13 pension AA of up to £50,000 and make the contribution in 2011/12, with as much as 50% income tax relief. Depending on the amount of unused AAs since 2008/9 (see above), it may be possible to contribute a maximum of £250,000 in 2011/12, with tax relief of up to £125,000.

We generally advise maximising pension contributions on the basis that each £1 of income producing pension fund costs only \*33p once tax relief and the tax free lump sum are accounted for (assuming 50% tax relief. The figure is \*47p in the £1 with 40% tax relief or \*73p in the £1 with 20% tax relief).

It may be advisable to maximise contributions now if:

- You intend to apply for Fixed Protection before 6 April 2012 (see separate article).
- You anticipate a lower rate of tax relief in 2012/13 or future years than in 2011/12, because of lower earnings or reduced tax rates.

If you are concerned about investment markets, remember that a decision to make a pension contribution is independent of how it should be invested. We can advise on a range of cash investments for your contribution.

\* subject to not exceeding the Lifetime Allowance

## TRANSFER YOUR PROTECTED RIGHTS FUNDS

The investment, death benefit and pension style restrictions that apply to Protected Rights pension funds are being removed from 6 April 2012, so it will no longer be necessary to ring-fence these funds in separately identifiable arrangements. Many clients have already consolidated their other pension benefits in SIPP arrangements, which can provide access to a wide range of investment funds and administration services at a competitive fixed cost. It will now be possible to transfer Protected Rights funds into these SIPP arrangements to increase the economy of scale and further simplify administration.

Protected Rights pension benefits arose from rebates of National Insurance Contributions made available to employees in return for contracting out of the State Second Pension (S2P), previously known as the State Earnings Related Pension Scheme (SERPS). From 6 April 2012, individual contracting out will no longer be possible and affected employees will be bought back into S2P. Final National Insurance rebate contributions will not be paid to pension providers until later in the 2012/13 tax year, so those still receiving rebates should not transfer their related Protected Rights pension policy until the final contribution has been received.

Contracted out final salary pension schemes are not affected by these changes.

## JUNIOR ISAs

Junior ISAs (JISAs) were launched on 1 November 2011 and offer a tax efficient method of saving for children. Any child (under 18) who does not have a child trust fund (CTF) is eligible for a JISA, with the contribution limit initially set at £3,600 per tax year, per child, to increase in line with CPI from 6 April 2013. The limit for children with CTFs has also been raised.

As with adult ISAs, investments will be free of capital gains tax and income tax with the exception of the 10% tax credit on UK equity dividends. The parental settlement rules do not apply, so parents may buy JISAs for their children without the income being assessed as their own. Both Cash JISAs and Stocks and Shares JISAs are available. No withdrawals are permitted until the child is 18.

To date, several ISA providers have launched JISAs. To discuss the suitability of JISAs further, please do contact us.

**If you have questions about or would like advice on any of the matters in this bulletin, please speak to your usual adviser, or contact Saunderson House on 0207 315 6500 or [shl@saunderson-house.co.uk](mailto:shl@saunderson-house.co.uk).**

### CHANCELLOR'S AUTUMN STATEMENT

Key announcements include:

- State Pensions and working age and disability benefits to rise in line with consumer prices index (CPI) inflation of 5.2% from next April.
- An increase in the State Pension age to 67, phased in over two years from April 2026 (rising to 68 from 2044).
- A deferral of the planned January 3p fuel duty increase to August, with the August increase cancelled.
- A new Seed Enterprise Investment Scheme (SEIS) to be launched from April 2012, with 50% income tax relief for investments of up to £100,000 and a capital gains tax (CGT) exemption for reinvestment.
- A freezing of the CGT annual exemption for 2012/13.
- A variety of measures to increase the availability of finance for small and medium-sized enterprises.
- The extension of the small business rate relief for a further six months from 1 October 2012.

Saunderson House clients can take solace from the fact that, following the changes introduced in the Spring budget (highlighted in some of the following articles), pension rules have not been tinkered with either for contributions or drawing benefits. The full basic State Pension will rise by £5.30 to £107.45 per week and the weekly rate for couples increases to £171.85.

The change to Seed EIS schemes will be welcomed by very small business start ups and the Government has stated that it will also look to simplify and focus the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs).

The Office of Budget Responsibility shares the Treasury's predictions that inflation is likely to fall closer to target levels.

### DEFERRING STATE PENSION

Deferring receipt of the State Pension for at least 5 weeks qualifies for an increase in income equivalent to 10.4% per annum.

Deferral for at least 1 year provides the additional option of receiving a taxable lump sum, equivalent to the backdated payments that would have been received, plus interest at 2% above the Bank of England base rate.

Deferral might be beneficial to:

- defer income until a time when 50% tax does not apply (either through a change in personal circumstances, or a change in income tax rates); or
- increase the impact of state benefit entitlements on reaching the Minimum Income Requirement.

### REMINDER ABOUT FIXED PROTECTION

The Lifetime Allowance for pension benefits is being reduced from £1.8 million to £1.5 million from 6 April 2012, with excess benefits taxed upon "crystallisation" at the equivalent of 55% in most cases.

Those expecting to accrue pension benefits exceeding £1.5 million, and with no existing protection in place (e.g. Primary and/or Enhanced Protection), can apply for Fixed Protection before 6 April 2012, on condition that no further pension benefits (e.g. contributions) are accrued thereafter. Fixed Protection preserves a Lifetime Allowance of £1.8 million.

We can advise whether you should apply for Fixed Protection, and assist you to complete the relevant application form.

Employees with Fixed or Enhanced Protection should take care not to become automatically enrolled in any employer's pension scheme without carefully considering whether the added benefits are likely to exceed any tax charges that will arise. Auto-enrolment legislation for employer pension schemes can take effect from 1 July 2012.

### CONCERNED ABOUT FALLING DRAWDOWN PENSION LIMITS?

From 6 April 2011, the maximum rate of pension withdrawal reduced from 120% to 100% of the "relevant annuity" rate, and pensioners will be subject to the revised limit at their next review date. This change, combined with record low gilt yields (on which pension annuity rates are based) and volatile investment markets, mean that maximum Drawdown Pension limits are often reducing significantly at review dates.

Those with secured pension income of at least £20,000 per annum are able to circumvent the Drawdown Pension limits by applying for Flexible Drawdown, which permits unlimited withdrawals to be made from pension funds, subject to income tax. Qualifying secured pension income includes State Pensions, guaranteed annuities and final salary (defined benefit) pensions.

We advise clients eligible for Flexible Drawdown to apply for it in order to ensure maximum future flexibility. We will be highlighting Flexible Drawdown opportunities to clients where appropriate, and providing estimates of future Drawdown Pension limits to facilitate planning for any reduced future income.