

PROPOSED RULES MAKE PENSIONS MORE ATTRACTIVE

HIGHLIGHTS

- **ANNUAL CONTRIBUTION ALLOWANCE OF £50,000**
- **3 YEAR CARRY FORWARD OF CONTRIBUTIONS**
- **HIGHEST RATE TAX RELIEF MAINTAINED**
- **ANNUITY PURCHASE COMPULSION ABOLISHED***
- **PENSION WITHDRAWAL RESTRICTIONS REMOVED**
- **25% TAX FREE CASH MAINTAINED TO AGE 75**
- **LIFETIME ALLOWANCE OF £1.5 MILLION**

Following the Spring 2009 Budget, we concluded that most high earners should cease voluntary pension contributions from 6 April 2011, because the previous government proposed that tax relief be restricted from then to the basic rate (20%). We considered this insufficient compensation for the loss of liquidity that arises once a contribution is made. Since then however the new coalition government has announced (on 14 October 2010) that **marginal rate tax relief is to be maintained**, and that a **revised annual contribution limit of £50,000 will apply from 6 April 2011**. In addition, some **planned easements in the pension rules were announced in July 2010** (with a transitional regime currently in effect), which together with the maintenance of higher rate relief, in our view, make pension saving attractive once again. The proposed easements, from 6 April 2011, are:

- Removal of the requirement to purchase an annuity at age 75*;
- The ability to leave residual pension funds to nominated beneficiaries on death, even after age 75;
- The ability to make unlimited withdrawals from a pension fund, subject to tax, provided it can be shown the investor is unlikely to fall back on State Benefits.

A trade off for this greater flexibility is a **likely increase in the rate of tax payable on vested pension funds** (funds from which you have taken cash or income) **paid as lump sums on death, from 35% to 55%**; unvested pension funds paid as lump sums on death before age 75 will remain free of tax.

Draft legislation on all of the above is awaited, but the table overleaf sets out our understanding of the proposed and transitional regime, compared to the rules previously in force. **Our general guidance based on this is as follows:**

- (a) High earners should maximise pension contributions for the current year (2010/2011), which qualify for 40% or 50% tax relief, subject to a sense check in respect of the reduced Lifetime Allowance (see Feature 2 overleaf);
- (b) Those with personal or employer funded regular contributions exceeding £50,000 per annum will need to review their arrangements now because the operation of pension input periods, which differ to fiscal years, may result in the new rules being effective before 6 April 2011 for some individuals;
- (c) Those who have nominated vested pension fund death benefits in favour of a separate trust should consider revising those nominations to allow a surviving spouse or civil partner to draw an income from the fund instead, to defer the 55% tax charge that may apply to vested lump sum death benefits;
- (d) Those over age 75 who have nominated charities to receive lump sum death benefits under the Alternatively Secured Pension arrangement should consider revising those arrangements because the payments may become taxable (see feature 5.4 overleaf).

Individual advice should be sought before entering into any transactions. We will issue further general guidance once the revised legislation is published and be in touch to provide individual client advice where and when appropriate.

If you would like advice on any of the matters in this bulletin, please contact Nick Fletcher, Chief Executive, at nick.fletcher@saunderson-house.co.uk or on 020 7315 6504 (direct). Nick will either help you personally or guide you to an appropriate adviser.

*This was effectively ended on 6 April 2006 when the Alternatively Secured Pension (ASP) was introduced for those with moral objections to annuities, but the government did not expect it to have the popular appeal that it has found among wealthier pensioners reaching age 75.

Feature	Rules						
	Prior to 22 June 2010	Transitional Period		Proposed from 6 April 2011			
1. Contributions⁽ⁱ⁾							
1.1. Limit for high earners ranking for higher rate relief⁽ⁱⁱ⁾	£20,000 to £30,000	£20,000 to £30,000		£50,000			
1.2. Rate of relief	Up to 50%	Up to 50%		Up to 50%			
1.3. Carry forward of unused contribution allowance	No	No		Yes ⁽ⁱⁱⁱ⁾			
2. Lifetime allowance^(iv)	£1.8 million ^(v)	£1.8 million ^(v)		£1.8 million reducing to £1.5 million ^(v) from 6 April 2012			
3. Tax free lump sum^(v)	25% of fund, maximum of £450,000	25% of fund, maximum of £450,000		As left but reducing to a maximum of £375,000 from 6 April 2012			
4. Pension income levels^(vi)							
4.1. Minimum rate under age 75	Nil		Nil				
4.2. Minimum rate over age 75^(vii)	Male 5.2% Female 4.5%	As left if over 75 on 21 June 2010, otherwise nil		Nil			
4.3. Maximum rate^(viii)		Age			Unlimited ^(viii) , or as left		
		55	60	65		70	75+
	Male	6.1%	6.8%	7.8%		9.1%	8.5%
	Female	5.9%	6.5%	7.2%		8.3%	7.4%
5. Death benefits^(ix)							
5.1. Unvested fund before age 75	Tax free lump sum	Tax free lump sum		Tax free lump sum			
5.2. Vested fund before or after age 75 (surviving spouse income withdrawals)	Withdrawals taxed as income	Withdrawals taxed as income		Withdrawals taxed as income			
5.3. Vested fund before age 75 (paid as lump sum)	35% tax	35% tax		55% tax ^(x)			
5.4. Vested fund after age 75 (paid as lump sum)	Tax free if to charity c82.5% tax if to others	As left if over age 75 on 21 June 2010 35% tax if under age 75 on 21 June 2010		55% tax ^(x)			

Notes

- (i) For defined benefit schemes, deemed contribution amounts will be 16 times any increase in accrued pension.
- (ii) Regular (quarterly or more frequent) contributions of up to £245,000 per annum established before 22 April 2009 continue to qualify for higher rate relief up to 5 April 2011, subject to the relevant pension input period maximum.
- (iii) This applies for 3 years. For example, in 2011/12 a contribution of £200,000 may be made, less amounts paid in 2008/9, 2009/10 and 2010/11, with a maximum deduction of £50,000 for each of the earlier years.
- (iv) For defined benefit schemes, the valuation factor will remain at 20 times the annual pension.
- (v) The existing protection rules will continue to apply for those who are subject to Primary and/or Enhanced Protection. The government intends to provide further protection, up to a maximum of £1.8 million, for those whose funds are in excess of £1.5 million, or where growth was expected to increase their fund up to the former £1.8 million limit. Where there is no protection, funds in excess of the Lifetime Allowance will be taxed at 25% if paid as income (in addition to marginal rate tax on the income), or 55% if paid as a lump sum, when pension benefits are taken, at age 75 or on earlier death.
- (vi) Rate examples are for unsecured / alternatively secured pension withdrawals, not annuity rates.
- (vii) These are not guaranteed and are based on current gilt yields, which fluctuate from month to month, and Government Actuary Department factors, which may change.
- (viii) Unlimited withdrawals will be subject to proof that the member will not fall back on State Benefits. Details are awaited.
- (ix) All tax rates mentioned assume that benefits do not exceed the Lifetime Allowance or protected amount.
- (x) This is the rate mentioned in the Treasury's July 2010 Consultation Paper, the outcome of which is awaited.

This note is for general guidance only and represents our current understanding of law and HM Revenue and Customs practice as at 26 October 2010. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments and any income therefrom can go down as well as up and you may not get back the full amount you invested. Levels and bases of, and reliefs from, taxation are those currently applying or expected to apply, but are subject to change and their value depends on the individual circumstances of the investor. Saunderson House Limited is authorised and regulated by the Financial Services Authority.