

PRESS ARTICLE

PENSION TAX REFORMS – TAKE ACTION | FEBRUARY 2011

The proposed pension tax reforms announced for 2010/2011 on October 14 last year were aimed at meeting the government's objective of restricting pension contribution tax relief through existing allowances.

These reforms will result in many people having to review their pension plans, with careful consideration and planning required ensuring they get the maximum benefit from the proposals before April 05, 2011.

A proposal to cap tax relief on pension contributions for higher rate taxpayers did not come to fruition, with a decision instead taken to continue to make tax relief available at an individual's marginal tax rate.

The maximum annual contribution allowance for 2010/2011 is £255,000, or personal contributions up to 100% of UK taxable earnings (whichever is lower). The tax charge for exceeding this annual allowance will be a tailored charge replacing the existing flat rate charge.

The additional special annual contribution allowance for high earners was £20,000 (or £30,000 if the increased special annual allowance applied) but will be removed after 5th April 2011. Instead it will be replaced with a new maximum annual contribution allowance for everyone of £50,000 for 2011/2012. A high earner is anyone with total income in excess of £130,000 in the current or previous two tax years.

For these high earners the reforms also announced a facility to carry forward any unused relief from the previous three tax years – 2008/09, 2009/10 and 2010/11. To take advantage of this an individual must have been a member of a registered pension scheme in that tax year. This will ensure anyone who cannot make pension savings or is forced to cut back during a specific year, is not disadvantaged by a 'use it or lose it' approach.

With effect from the tax year 2011/12 the annual allowance will reduce from £255,000 to £50,000 until the 2015/2016 tax year and applies to all individuals, including high earners.

The standard lifetime allowance will also reduce from £1.8million to £1.5million from 2012/2013 (this is the maximum amount that can be held in a pension without creating a lifetime allowance tax liability) with the excess charge remaining at 55%.

Pension input periods were introduced in 2006 and allow pension contributions paid in a period to be tested against the annual contribution allowance applying in the tax year in which the pension input period ends – this is normally 12 months but it can be shorter.

Contributions paid after October 14 2010 for a pension contract with a pension input period ending in 2011/2012 could face a tax charge if it exceeds the 2011/2012 annual contribution allowance. However, by careful use of these pension input periods, additional higher contributions can be made to maximise annual allowances.

There is a limited window of opportunity to make additional contributions to pension plans and take advantage of the more generous existing annual allowance that applies before April 05, 2011.

Pension input periods can also be used but advice should always be sought before making any contributions to avoid paying any excess tax charge.