

# use it or lose it

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**Adrian Walker** outlines some opportunities for registered schemes that should be considered in the run up to tax-year end.

As we mark the end of the year that introduced the new 'simplified' pension regime, it's fair to say that it has not been without its upheavals. There has been a seemingly constant tinkering by the Treasury of the rules applying to not only the contributions being paid, but also to the investment strategy used for the funds accumulated and to the way benefits can be provided.

With only a quarter of the tax year remaining it is important to focus on the opportunities that do exist under the new regime to ensure that your relevant clients benefit. It is essential that your clients realise that the new pension system is a 'use it or lose it' regime – maximum advantage should be taken of the information we know.

With this in mind, here are some 'pensions New Year resolutions' to make with your clients.

## annual allowance

The new regime allows individuals (within the annual allowance of £215,000) to pay contributions of up to 100% of their relevant earnings for this

tax year, and receive tax relief on the full payment.

The effect of making these payments net of basic rate relief through a personal pension based scheme is to provide your client with more tax relief than their tax liability for the year.

For members of occupational schemes (in particular defined benefit schemes) with limited investment choice and funding options, the annual allowance enables them to create an independent means of funding through the use of a personal pension based scheme. This will provide a separate means of future retirement planning with options to use unsecured pension and a degree of flexibility in the timing of when benefits may be taken.

In last month's *informer* I also identified how clients can alter their 'pension input periods' to increase the amount of tax relief available to them in the current tax year.

## employer contributions

Many companies have their trading year ending at, or just before, the end of the

tax year. Companies wishing to make significant contributions for directors or other employees before the end of this tax year will need to consider whether the contributions meet HM Revenue & Customs' (HMRC) requirements as being 'wholly and exclusively for the purposes of trade', in order to receive full tax relief.

At the time of writing, the promised updated guidance from HMRC has not materialised. However, working closely with the company's accountants in this period should enable some clarification to be sought as to the likely scope available, even if it requires consultation with the employer's Local Inspector of Taxes.

## bonus sacrifice

Many individuals will be due to receive bonus payments from their employer before the end of the tax year. Apart from using this to make direct contributions to reduce personal tax liability, the use of bonus sacrifice may add the NI savings generated from such an exercise to the pension funding. The amount sacrificed will be treated as an

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employer contribution so does not create a limit on contributions against relevant earnings that personal contributions suffer.

### unused retirement income

Clients who have not breached the Lifetime Allowance and are in receipt of unused income, either in the form of excess annuity income or via income withdrawal, should consider converting it into new pension contributions.

Even fully retired individuals have an annual allowance of £3,600 which can be used to build further funds for future income planning - while at the same time reducing their immediate income tax liability.

In some cases individuals may wish to gift part of that income using the £3,000 gift exemption to children or grandchildren to start the process of transitioning their assets before death. The effective tax charge in doing so may be less than would be the case on death and would start to build a more meaningful retirement income for the future generations.

### protected pre A-Day cash

Have you assessed the pre A-Day tax-free cash rights of all your clients who are, or have been, members of occupational pension schemes?

As trustees of our occupational pension scheme business, we have been actively promoting the need to make this assessment as soon as possible after A-Day. The response to two circulars to our pension scheme members suggests that the vast majority of clients with benefits inside of these schemes have not yet acted to provide the data necessary to enable scheme administrators to determine their pre A-Day cash rights.

It is vital that this is done sooner rather than later so that clients who have this valuable benefit can be identified, in order to determine the manner in which it can be protected. At the same time it may be possible to establish how more flexibility can be given to the remaining capital in terms of providing retirement income.

Decisions such as member-driven wind-ups, or use of the 'block transfer' rules will need consideration, but only when the initial analysis has been completed. Failure to be in a position to provide the relevant information at a future date will restrict the pension commencement lump sum to 25%, thereby potentially reducing the valuable benefit that a pension commencement lump sum can provide.

### summary

Remember that the new pension regime has introduced the 'use it or lose it' allowance. Once gone it is not possible to recapture it in the same way. Where such opportunities exist, client discussions will also bring the opportunity to review existing pension rights as to their suitability to provide for those clients future retirement objectives.

As the tax-year end nears, opportunities such as these should be considered for many clients before they are lost for this year at least.

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