

a bit of light relief!

August 2009

The Finance Bill received Royal Assent on 22 July 2009. Late changes to pension legislation provided some relief on contribution limitations for individuals with relevant income over £150,000.

Adrian Walker gives details of the changes and explains how they may impact the advice given to potentially affected clients.



In last month's *informer* Colin Jelley assessed the impact of the changes in legislation proposed in the Chancellor's Budget announcement and the Finance Bill published shortly afterwards. Most of the proposals analysed have entered legislation without change, however last-minute alterations were made to pension legislation regarding the limit on contributions eligible for full tax relief in the current and 2010/11 tax years for those with relevant income in excess of £150,000.

For such clients, the Budget had proposed that benefit accrual without tax consequences be limited to a special annual allowance of £20,000 or, if higher, a protected pension input based on pre 22 April 2009 regular savings into registered pension schemes. The legislation defines regular savings as benefits accruing or contributions paid to money purchase schemes quarterly or more frequently.

Many of the individuals caught by the relevant income threshold had made significant contributions prior to 22 April 2009 to registered pension schemes on

more of an ad hoc basis than monthly or quarterly. Under the original proposals they would be limited in making contributions up to the special annual allowance of £20,000 if they wished to avoid the special annual allowance charge.

what has changed?

The Government has bowed to pressure from the industry and other interested parties for a solution to ensure these individuals have some protection available on future funding over both affected tax years. The added protection offered is defined as 'infrequent money purchase contributions'. As the title suggests, this alternative will only apply to contributions paid to money purchase schemes that were less frequently than quarterly.

The calculation basis to determine the value that applies is based on an average of contributions made in the period covering the three tax years from 2006/07 to 2008/09. Where the average exceeds £30,000 there is an infrequent money purchase contribution cap of £30,000 for the current and the 2010/11 tax years.

Some clients will, before 22 April 2009, have contributed through a mixture of regular savings and ad hoc contributions to registered pension schemes. As a result the final rules need careful analysis based on individual client circumstances. The analysis will decide what, if any, contribution over the special annual allowance clients can pay without incurring the special annual allowance charge – and as the legislation currently stands, to which schemes such contributions can be paid.

protected pension input

Regular savings made before 22 April 2009 exceeding the special annual allowance fall under the definition of a protected pension input. These savings receive protection provided they continue to accrue in the pre 22 April 2009 registered pension schemes or are redirected to an arrangement from 22 April 2009 meeting the following criteria:

- The scheme is a public service pension scheme, an occupational scheme or a group personal pension scheme.

example 1

Client with regular pre 22 April 2009 savings and a large lump sum contribution

A client has been paying £1,000 a month before 22 April 2009 into a registered pension scheme. In addition, in the 2007/08 tax year his scheme received a lump sum contribution of £100,000 from his employer.

Impact: client benefits from the infrequent money purchase contribution allowance.

The infrequent money purchase contribution allowance will be £30,000 (ie $£100,000/3 = £33,333.33$ but capped at £30,000).

This becomes the special annual allowance for this client for the current and 2010/11 tax years. Contributions up to that level will avoid the special annual allowance charge. The client can pay those contributions on whatever frequency they wish, ie increased regular contributions, lump sum contributions or a mixture of both to any registered pension scheme.

- Through either style of scheme there is no material change to the basis of benefit accrual, or if so it must affect at least 50 active members of the scheme.
- Until 5 April 2011 there are at least 20 other active scheme members who continue to accrue benefits on the same basis as the client concerned.

The Government has signalled its intention to review the limits this imposes on clients who wish to preserve their protected pension input but do not want to do so through their pre 22 April 2009 arrangements.

planning considerations

The use of the infrequent money purchase contribution rules may allow certain clients to use this definition as a means of funding higher contribution levels that do not attract the special annual allowance charge. Clients using this alternative can contribute to any registered pension scheme before the start of the 2011/12 tax year. This may allow some clients to continue with consolidation plans while maximising tax relief protection. It is important to bear in mind that the legislation does not currently provide for any special allowance or protected pension input on which full tax relief will be available from the beginning of the 2011/12 tax year. The three examples in the panel help to explain how the regime will work in the run up to the 2011/12 tax year. ●

For further post Budget 2009 pension planning support from Adrian Walker visit

www.informerlive.co.uk/knowledgelive

This document is based on Skandia's interpretation of the law and HM Revenue & Customs practice as at July 2009. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

example 2

Large regular savings with small lump sum contribution

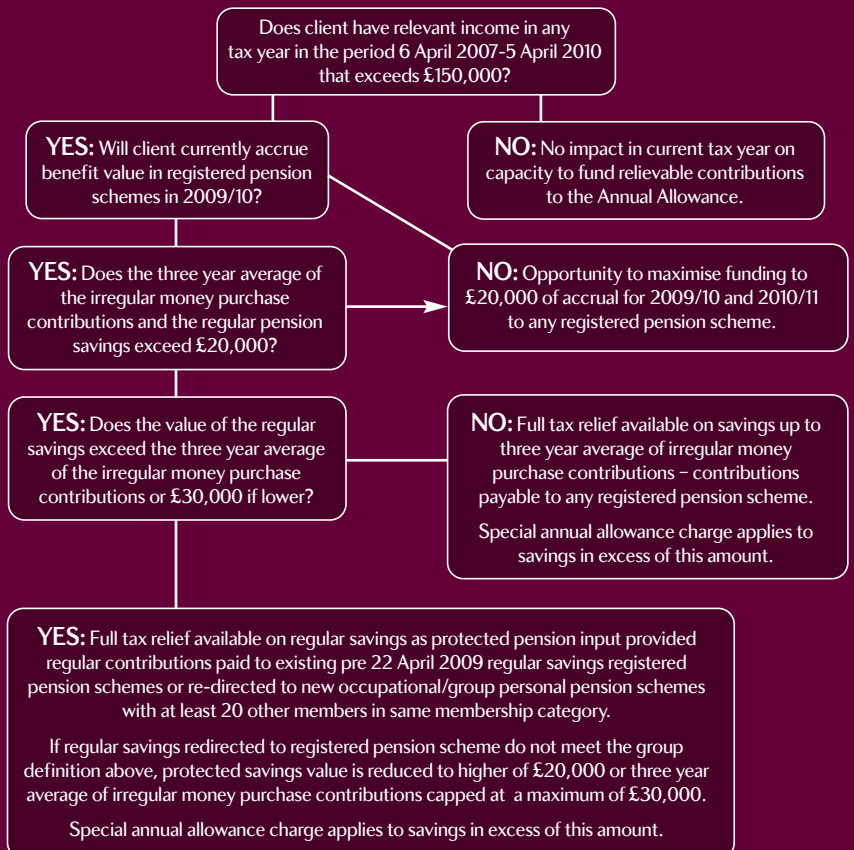
A client has a protected pension input of £30,000 a year because of the regular contributions paid before 22 April 2009. In addition he paid a lump sum contribution of £10,000 gross in each of the 2006/07, 2007/08 and 2008/09 tax years.

Impact: the infrequent money purchase contribution allowance would be £10,000 (ie $£30,000/3$). This value does not increase the protected pension input of £30,000 the client enjoys. The client will have a protected pension input value of £30,000 for the current and next tax year.

As this allowance is from regular savings, contributions up to that level must continue to the pre 22 April 2009 registered schemes that created the protected pension input, or if switching they must meet the acceptable definition of alternative registered scheme.

example 3

Position for 2009/10 tax year for clients with both regular savings and irregular money purchase contributions paid prior to 22 April 2009



www.skandia.co.uk

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Skandia provides you with access to its investment platform, known as Skandia Investment Solutions. Within this platform you can open an ISA and Collective Investment Account provided by Skandia MultiFUNDS Limited, a Collective Retirement Account and Collective Investment Bond provided by Skandia MultiFUNDS Assurance Limited and an Offshore Collective Investment Bond, distributed by Skandia MultiFUNDS Limited but provided by Old Mutual International (Guernsey) Limited.

Skandia Life Assurance Company Limited, Skandia MultiFUNDS Limited, Skandia Investment Management Limited and Skandia MultiFUNDS Assurance Limited are registered in England & Wales under numbers 1363932, 1680071, 4227837 and 4163431 respectively.
Registered Office at Skandia House, Portland Terrace, Southampton SO14 7EJ, United Kingdom.

All companies are authorised and regulated by the Financial Services Authority with FSA register numbers 110462, 165359, 208543 and 207977.
VAT number for all above companies is 386 1301 59.

Old Mutual International (Guernsey) Limited is regulated by the Guernsey Financial Services Commission and is licensed to write long-term business under the Insurance Business (Bailiwick of Guernsey) Law 2002. Registered number 2424. Registered Office at The Beehive, PO Box 121, Collings Road, St Peter Port, Guernsey GY1 3HE, Channel Islands.