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Unlock Your Pension Potential

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CHARTERHOUSE
ACCOUNTANTS

Tax Planning Newsletter
and The Client House
coming soon!

Approved Pension Planning- Act Now!

The much anticipated changes to the amount of tax relief available on approved pension contributions from 6 April 2012 have been announced by HM Revenue & Customs.

From now until 5 April 2012, there is still an opportunity to take action and minimise your tax exposure by utilising tax reliefs available in respect of your pension contributions.

New annual allowance

From 6 April 2011, the annual allowance for tax relief on pension contributions was reduced from £225,000 to £50,000 per tax year (subject to there being sufficient earnings). This new limit of £50,000 relates to both employee and employer pension contributions.

Where contributions in a tax year exceed the annual allowance of £50,000, the excess will be taxed at the same rate at which income tax relief has been granted thus resulting in no tax relief being obtained on contributions in excess of the allowance.

Unused annual allowances

A taxpayer is able to notionally look back to the previous three tax years, if pension contributions of less than £50,000 have been made in any or all of those tax years there is an opportunity to use any unused notional annual allowances to reduce the excess pension provision made in the current year as long as the individual was a member of a registered pension scheme for those three years.

We suggest that you contact your pension provider as soon as possible, requesting details of all contributions made in the tax years 2008/09, 2009/10 and 2010/11 so that we can advise you of any unused national annual allowances that are available to you to use.

The ability to carry forward any unused national annual allowance enables a pension contribution of up to £200,000 to be made in the current tax year.

Tax relief

Any pension contribution made within the annual allowance will be eligible for tax relief at the taxpayer's marginal rate. For example, at 20%, 40% or 50% rate.

If the taxpayer is paying tax at the highest rate of 50% then the cost of funding a pension contribution of £50,000 will be £25,000.



These are very important matters for you to consider and ignoring the changes may be extremely costly for you in the future. It is possible that the government may change these rules with effect from the budget on 21 March 2012, we therefore suggest as a precaution that you act before this date.

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Pension input period (PIP)

The PIP is the period of time that is used to measure the value of contribution period and to calculate if an annual allowance charge is due. The PIP is not as same as the tax year. Anyone who makes regular pension contribution in excess of £50,000 each year should check with their pension provider when their PIP ends to ensure their contribution will not exceed the new limit.

Pension drawdown rules from 6 April 2011

There are also new rules which offer greater flexibility in pension drawdown.

- Subject to minimum income levels it may be possible to drawdown significant sums from the pension scheme in addition to the tax-free lump sum. Such additional amounts will be subject to tax at varying rates and may not be appropriate in some cases. If the pension fund is of significant value and funds are required then this could be considered in conjunction with your professional advisers.
- It is possible to draw up to 25% of the pension fund tax free
- The rules relating to pensions where the individual dies before age 75 have also changed removing some excessively penal tax charges.

Lifetime allowance

From 6 April 2012, the lifetime allowance (the maximum amount that can be accrued within pensions during your lifetime) is going to be reduced from £1.8m to £1.5m. Any amount in the pension fund in excess of the lifetime allowance will potentially attract an income tax charge at a rate of 55%.

Those taxpayers finding themselves in a position where their pension fund may exceed the reduced lifetime limit of £1.5m have an opportunity to act before 6 April 2012 to avoid a tax charge of up to 55%. Taxpayers who might be in this position need to apply before 6 April 2012 for Fixed Protection; this enables them to keep their lifetime allowance at a limit of £1.8m.

Once a taxpayer has secured Fixed Protection, they cannot make or have their employer make any further pension contributions and therefore cannot be an active member of any pension scheme. It is however possible to secure Fixed Protection now and then cancel it in the future.

The table below shows various growth rates and present fund values at which the new lifetime limit of £1.5m will be reached. If there is a possibility that this may affect you then immediate action to consider Fixed Protection should be taken.

Years to Retirement	Growth rate to retirement		
	5%	7%	9%
	Present value		
1	1,428,571	1,401,869	1,376,147
2	1,360,544	1,310,158	1,262,520
3	1,295,756	1,224,447	1,158,275
4	1,234,053	1,144,343	1,062,638
5	1,175,289	1,069,479	974,897
6	1,119,323	999,513	894,401
7	1,066,022	934,125	820,551
8	1,015,259	873,014	752,799
9	966,913	815,901	690,642
10	920,870	762,524	633,616
11	877,019	712,639	581,299
12	835,256	666,018	533,302

Years to Retirement	Growth rate to retirement		
	5%	7%	9%
	Present value		
13	795,482	622,447	489,268
14	757,602	581,726	448,870
15	721,525	543,669	411,807
16	687,167	508,102	377,805
17	654,445	474,862	346,610
18	623,281	443,796	317,991
19	593,601	414,762	291,735
20	565,334	387,629	267,646
21	538,413	362,270	245,547
22	512,775	338,570	225,273
23	488,357	316,420	206,672
24	465,102	295,720	189,607
25	442,954	276,374	173,952

The Next Step....

We work with Independent Financial Advisors (IFAs) who specialise in providing pension advice and in most cases will be happy to provide an initial exploratory meeting at no cost to you but you must act quickly as there are only a few weeks left until the end of the tax year and the closure of the opportunities. If you have any questions or would like to be put in touch with one of our recommended IFAs please do not hesitate to contact any member of our tax team or Rajesh Jiwani on rajesh.jiwani@charter-house.net.

Please Note: The above is only an outline of the current position and should not be construed as the giving of advice. An individual's options need to be considered in the light of their circumstances following a review by appropriately qualified persons. Failure to do so before taking action could result in significant costs and losses for which no responsibility or liability can be accepted.

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