



Changes to restricting tax relief on pensions – December 2010

HM Treasury announced on the 14th October 2010 that the current Coalition Government will alter the limits for pension contributions and these will be introduced from April 2011. The current annual contribution limit is £255,000 per annum and this will be reduced to £50,000 per annum.

For final salary schemes, there will be a facility to offset some unused allowances from previous years when there is a spike in accrued pension benefits.

For personal pension schemes, a similar facility will be available where the maximum contribution limits have not been used up. This “carry forward” of unused relief will operate from 2011/2012 by utilising the current year’s allowance first, then going back up to three tax years. This means that unused relief will be used up starting from 2008/2009 (providing that there has been membership of any registered pension scheme during the period of “carry forward”). The process can then include unused relief for the tax year 2009/2010 and 2010/2011. The contribution has to be paid into a valid registered pension scheme which is in force during the period of carry forward.

The Treasury will continue to allow tax relief on pension contributions at your highest marginal rate.

In addition, from April 2012 the Treasury will reduce the limit on total pension benefits from £1.8m to £1.5m. Clients with funds over £1.5m will need to apply for a personal lifetime allowance by 5th April 2012. This will protect their funds from a life time allowance charge. Clients who have existing Primary or Enhanced Protection will continue to receive their current levels of protection.

The Treasury will maintain the current level of ‘triviality’ (the limit at which small pensions can be paid out as a lump sum) at £18,000. The rules on pension input periods will remain unchanged.

The reduction of the annual limit on contributions to £50,000 is to be welcomed by most pension savers, as it will simplify the rules, which have become quite complex in recent budget announcements. The level of the new limit would appear to satisfy most pension savers’ needs in any discrete tax year.

The main casualties for the new limit will be high earners accruing final salary benefits. There will be a tax charge for any benefits accrued which exceed £3,125 pa (on the multiple of 16, this equates to pensionable salary above £187,500).

Jim Spicer
Pensions Director - jim@mplltd.co.uk

MPL Wealth Management
45 Doughty Street
London
WC1N 2LR

0207 831 4711

www.mplwealthmanagement.co.uk