

*2011 Annual Report to the
Trustees of the
Singleton Engineering Limited Pension Scheme*

Prepared by:



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1. Introduction

Pension Practitioner .Com provides administration services to the Trustees, and our responsibility is to ensure that the tax exempt privileges of the pension scheme are maintained. In addition, we also provide the following functions to you.

- Ensure that all pension scheme returns are submitted to HMRC
- Provide events reports, tax returns and notices to HMRC and the Regulator as may be required from time to time.
- Provide the trustees with guidance on pension scheme rules

This report has been prepared to provide you with the following information:

- Provision of pension scheme return
- Review of pension legislation that will have an effect on your pension scheme
- Provision of inflation report
- A review of the scheme benefits and recommendations to maintain & increase (where available) the tax exempt privileges of the scheme.
- Provision of member benefits statements.

2. Tax and unauthorised transactions

HMRC have recently strengthened their compliance and scheme investigations team; whilst HMRC have been satisfied with our reporting as scheme Practitioner it is worth highlighting areas that are likely to be investigated. No schemes that we administer have been subject to an authorised tax charge and we wish to ensure that you remain compliant.

Pension scheme borrowings and loans – this often applies where the pension scheme has a loan or borrowings in place with a connected party, such as the Principal Employer. If the terms of the loan agreement are not drafted in accordance with their requirements, or where the loan payments are not consistent with the agreement a tax penalty will arise. HMRC has highlighted examples of significant tax penalties on cases and trustees are reminded of the importance of notifying us in advance of any proposed loans or borrowings, or where the borrower may be experiencing financial difficulties. The tax payment does not necessarily arise on the borrower, it can be applied against the trustees personally if there are compelling reasons to do so.

Any use of scheme funds by the trustees in the form of unauthorised expenses or for investment in plant/machinery or any other form of wasting asset will be taxed. A firm of financial advisors have advised that web-domains can be owned by pension schemes; web domains tend to be renewable licenses and as such are unlikely to be regarded as suitable holdings by trustees.

Pension Practitioner is not a co-signatory of investments and as trustees you are investing and managing money for you as beneficiary(s). All trustees have been provided with a simple fact sheet to adhere to on transactions that will be either taxed or are subject to restrictions under the money laundering regulations; it is important that those principles are adhered to.

3. Pension Scheme Return

The pension scheme return provided to HMRC must end after 6th April 2010 and before 5th April 2011.

Pension Practitioner .Com has submitted the following disclosures:

Pension Scheme Tax Reference	00371390RK
Pension Scheme Name	SINGLETON ENGINEERING (UK) LTD PENSION PLAN
Is the scheme an Occupational scheme?	Yes
Tax Year ended	05 Apr 2011
Date submitted	16 Jun 2011

Amended Return No

Accounting Period 06 Apr 2010 - 05 Apr 2011

During this period, was the aggregate of payments to and from the scheme greater than £100,000?	Yes
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At the end of this period, did the scheme have assets with a total value before pension liabilities greater than £400,000?	Yes
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Receipts and Payments

Total amount of the pension contributions received	£0
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Total amount of transfer-in payments	£0
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Total amount of transfer-out payments	£0
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Total amount paid out in lump sums and lump sum death benefits	£0
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Total amount paid out to purchase lifetime annuities and scheme pensions from an insurance company	£0
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Total amount borrowed	£0
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Other	Repayment of sums borrowed, scheme expenditure
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Other amount	£167815
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Connected Parties

At any time during the period from 06/04/2010 to 05/04/2011 did the scheme either directly or indirectly own assets that it had acquired from either:	No
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- a. a sponsoring employer or any person connected with that employer?
or
 b. a person who was a director of or a person connected to a director of a close company that was also a sponsoring employer?
or
 c. a person who was either a sole owner or partner or a person connected with the sole owner or partner of a business which was a sponsoring employer?
or
 d. a member or person connected with a member?

Cash and Bank Information

Total amount of all cash and bank balances at the beginning of the period	£231233
Total amount of all cash and bank balances at the end of the period	£251493
Total amount of interest credited to these accounts	£715

Arms Length Transactions

Total cost or market value of any assets owned at the end of the period	£2145000
Specify whether this amount is	Market value
Total amount of income from assets received	£193367

There we no reportable events arising during the scheme year.

There we no tax payments due during the scheme year.

No enquiries at the date of this report have been raised by HMRC or the Regulator.

4. Contribution limits and disguised remuneration

New rules came into effect from 6th April this year regarding how much you can contribute into a pension scheme.

If you will not be paying to pension schemes more than £50,000 in the 2011/12 tax year then this will not affect you. If you think you will be then you should bear in mind the following items:-

The maximum that you and your business pays into pension schemes cannot in total exceed £50,000. There is a caveat to this and that is the ability to carry forward “unused” relief from previous tax years but you must meet two conditions:

- You must have been a member of a pension scheme in respect of the period that you are using. Therefore, if you are setting up a pension scheme now but were not a member of one from last year, you cannot use the unused allowance for last year if you were seeking to pay more than £50,000 in the current year.
- If you were a member of a pension scheme, then the unused annual allowance from previous tax years is deemed to be £50,000; you may recall that it was in reality a lot higher than this. Therefore if you paid in say £80,000 in respect of the 09/10 tax year you cannot carry forward as the allowance was “deemed” £50,000. One other fly in the ointment is that the excess of £30,000 in this example is offset against previous allowances (to be confirmed in the new regulations).

You can carry forward any annual allowance that you have not used from the previous three tax years to the current tax year. The amount of unused annual allowance can then be added to this year's annual allowance. This will give you a higher amount for the current year.

The approach will be that the Company makes a contribution in the current year of up to £50,000 per member; the excess will be allocated to a general account within the pension scheme. The excess is then set off against future annual allowances.

New legislation has been introduced in Finance Bill 2011 which seek to avoid or defer the payment of income tax or national insurance contributions due on employment income or to avoid the restrictions on allowances for tax-privileged pension saving for registered schemes. In order to

ensure that large contribution does not fall into the hidden earnings and disguised remuneration regime we have agreed a criteria by which large contributions must meet. If you therefore wish to pay more than £50,000 your scheme consultant will talk through these key items.

5. Scheme Rules

The new tax regime was introduced from 6th April 2006, which is now commonly known as "A-day". Major changes to that tax regime have effect from 6th April 2011 (which we will call "B-day").

The earliest draft of the Finance Bill circulated by HMRC includes a clause that directly authorises scheme trustees to pay the new forms of benefit available from B-day, but the rules of the pension scheme must reflect that set out in the Finance Bill, which will receive Royal Assent shortly.

The purpose of scheme rules is to set out clearly and precisely the right framework for benefits: exactly what choices a member has, when he can exercise them, what death benefits are payable and when, and to give adequate safeguards for trustees. For example:

- carefully drafted scheme rules will give trustees certainty as to how to deal with a member's fund on death where potentially both a guarantee on the member's pension and separate lump sum death benefits / dependants' pensions are payable.
- carefully drafted scheme rules will ensure trustees can impose appropriate conditions on a member seeking flexible drawdown, e.g. ensuring any outstanding scheme expenses have been met if the arrangement is being completely "emptied", ensuring appropriate evidence is shown that the minimum income requirement is met.

The trustees derive most of their powers, and the protections they need in the exercise of those powers from the trust deed. They should not agree to do something which is not permitted by the trust deed. There are many reasons for this, for example:

- it is likely to be a breach of trust.
- any third parties involved in the scheme, e.g. banks lending in connection with property purchase, will need to be satisfied that the trustees have the power to do what they want to do.

As examples, the new rules will reflect the following changes to the tax regime from B-day:

- defer taking any lump sum or pension indefinitely, not just until 75;
- pay out the member's whole fund as an "authorised" lump sum on death at any age, not just before 75;

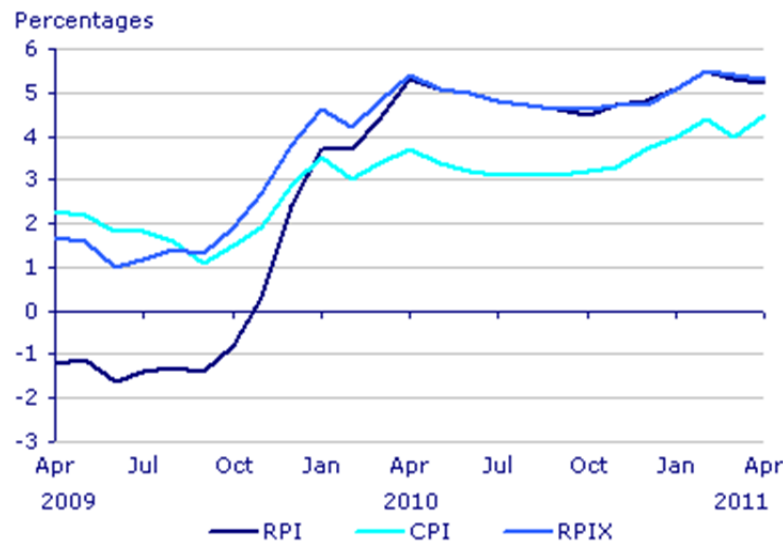
- draw unlimited amounts as "flexible drawdown" where the minimum income requirement is met;
- protection against accidental triggering of penal tax charges once flexible drawdown taken;
- changes to the overall language of the tax legislation, e.g. "unsecured pension" and "alternatively secured pension" become simply "drawdown";
- ability to make tax-free payments to charity on death at any age.

Over the 5 years since A-day, other improvements to scheme rules have been devised and these will be included at the same time, e.g:

- clearer scope for reallocating funds tax-free within the scheme to "unconnected" beneficiaries (including "common law" partners) on a member's death (this becomes potentially attractive in drawdown at any age, as the 35% tax on lump sum payments out of schemes is rising to 55%);
- potential for a member to allocate funds for dependant's pensions, where that would be a tax-efficient way of keeping within the lifetime allowance;
- strengthened wording re investment powers;
- measures to protect against accidental loss of enhanced protection (and, in the future, "fixed" protection of a £1.8m lifetime allowance) where further contributions are made.

We will provide further information on the new scheme rules to the trustees at the next meeting.

6. Inflation Statement



CPI is the consumer prices index. It is the prime measure adopted by the Government for the inflation target. The required target of inflation is 2%. The CPI is used for the price indexation of benefits and tax credits from April 2011. RPI is the retail prices index - the uses of the RPI include indexation of index-linked gilts. Historically the RPI has also been used for indexation of pensions and state benefits.

In the year to April, RPI was 5.2 per cent. The UK CPI rate was 4.0 per cent. The average yield on income arising from the FTSE100 which is the UK's 100 largest companies listed on the London Stock Exchange is 3.15%.

Whilst the CPI rate continues to set a high benchmark for UK pension funds, it should be noted that equity and fixed income returns were positive for all the key investments sectors, the strongest returns coming from Pacific ex-Japan equities hitting 23.4% and emerging markets equities with a 22% return. Canada posted a strong equity return of 22%, and the return for UK equities was 14.5%. UK bonds posted 7%, international bonds posted a 10% return for the year with estimated UK property return for the year was 6-7%.

This information has been kindly provided by the National Statistics Office, NAPF, Debt Management Office and LSE.

7. Benefits Statement

Retirement Benefits Statement for Mr Peter Singleton

Prepared on the basis that you are entitled to 36.13% of the value of the fund

In the event of your death before taking benefits from the scheme, as at 5 April 2011 your beneficiaries will be entitled to receive your share of fund as a capital sum on death without deduction of tax from the assets of the scheme.

In the event that you elected to take benefits from the scheme as at age 65, you could draw a tax-free lump sum of £176,027. This is based on a total fund on retirement of £704,107.

The balance of the fund must be used to provide you with a pension which is taxed as earned income. The pension amount you may draw could be £31,906 p.a.

Notes:

This benefit statement is for illustrative purposes only and is not guaranteed.

1. It has been assumed that:

- Investment Growth 5%
- Expenses before Retirement 1%
- RPI 2.5%
- The pension is payable monthly in advance

2. The figures are based on criteria set down by the Institute of Actuaries and are based on a given set of assumptions which may be indicative of future returns generated by the pension scheme.

Should you require a more detailed calculation specific to your requirements, including a targeted benefits statement for retirement at a future date please contact Pension Practitioner .Com.

**Retirement Benefits Statement for
Mr Duncan Singleton**

Prepared on the basis that you are entitled to 23.28% of the value of the fund

In the event of your death before taking benefits from the scheme, as at 5 April 2011 your beneficiaries will be entitled to receive your share of fund as a capital sum on death without deduction of tax from the assets of the scheme.

In the event that you elected to take benefits from the scheme as at age 65, you could draw a tax-free lump sum of £140,727. This is based on a total fund on retirement of £562,908.

The balance of the fund must be used to provide you with a pension which is taxed as earned income. The pension amount you may draw could be £24,129 p.a.

Notes:

This benefit statement is for illustrative purposes only and is not guaranteed.

1. It has been assumed that:

- Investment Growth 5%
- Expenses before Retirement 1%
- RPI 2.5%
- The pension is payable monthly in advance

2. The figures are based on criteria set down by the Institute of Actuaries and are based on a given set of assumptions which may be indicative of future returns generated by the pension scheme.

Should you require a more detailed calculation specific to your requirements, including a targeted benefits statement for retirement at a future date please contact Pension Practitioner .Com.

**Retirement Benefits Statement for
Mr David Singleton**

Prepared on the basis that you are entitled to 22.03% of the value of the fund

In the event of your death before taking benefits from the scheme, as at 5 April 2011 your beneficiaries will be entitled to receive your share of fund as a capital sum on death without deduction of tax from the assets of the scheme.

In the event that you elected to take benefits from the scheme as at age 65, you could draw a tax-free lump sum of £129,619. This is based on a total fund on retirement of £518,477.

The balance of the fund must be used to provide you with a pension which is taxed as earned income. The pension amount you may draw could be £24,827 p.a.

Notes:

This benefit statement is for illustrative purposes only and is not guaranteed.

1. It has been assumed that:

Investment Growth 5%
Expenses before Retirement 1%
RPI 2.5%
The pension is payable monthly in advance

2. The figures are based on criteria set down by the Institute of Actuaries and are based on a given set of assumptions which may be indicative of future returns generated by the pension scheme.

Should you require a more detailed calculation specific to your requirements, including a targeted benefits statement for retirement at a future date please contact Pension Practitioner .Com.

Pension Drawdown

Martin Singleton

Martin Singleton is entitled to a drawdown of pension income from the scheme known as unsecured pension income.

The pension anniversary for the member showed a share of fund of £347,532. This fund under rates prevailing could support a pension in retirement of £25,857 p.a. at this time. The pension rates are reflective of prevailing rates in the market and also assumes that the underlying assets can continue to maintain this income amount.

An option considered is a scheme pension. For a pension to qualify as a scheme pension:

- *the member/dependant must have declined an opportunity to select a lifetime annuity*
- *it is payable until the member's death; or unless the member purchases a lifetime annuity.*

It must not reduce at any time with the exception of:

- *a reduction to take account of and not exceeding state retirement pension*
- *a reduction in consequence of a pension sharing order or provision*
- *a reduction in the rate of all scheme pensions under the same scheme*
- *a court order*
- *suspension of a pension paid early due to ill-health*

Minimum and Maximum Limits

There is no minimum or maximum amount for a scheme pension, whether in absolute terms or by reference to the size of the supporting fund.

Reductions are only possible in limited circumstances. One of these is "a reduction in the rate of all scheme pensions under the same scheme". In the event that there is only one person in receipt of scheme pension, this reduction is easily enforceable, but where say, Peter and Martin both elect for scheme pension, then both pensions must be both reduced.

Death benefits

A scheme pension broadly mirrors an annuity provided, albeit from the scheme. At outset the member should select the reserve either as a fixed or percentage amount of the sum required with any increases that may apply. On the death of the pension member, the remaining fund can be used to provide the following payments:

- provision of dependants' pensions of any type

- provision of annuity protection lump sum death benefit

Over the last 6 weeks we have approached the following insurers for an impaired life pension rates:

Canada Life

Legal & General

Prudential Insurance

Zurich Insurance

Axa Insurance

Of the insurance companies requested, Canada Life and Prudential quoted for pension income on an equivalent scheme pension basis. The pension rates quoted showed a scheme pension of £26,307 payable in respect of Martin Singleton. This pension represents an increase of slightly less than 3% against pension drawdown and reflects the opinion that based upon the evidence of health provided, the member is not deemed to be significantly impaired, but there is at least some margin for an increase in pension.

The member should take independent financial advice from Graham Williams to change to scheme pension; as it is not possible to revert back to pension drawdown once elected.