Pension Practitioner.com

June 2011 Newsletter

Contribution limits

Paying more than £50,000 into a pension scheme?

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

The rules are (unsurprisingly) complicated, however we have summarised the contribution limits in a more digestible format to that published by HM Revenue & Customs.

If you will not be paying to pension schemes more than £50,000 in the current tax year then this will not affect you. If you think you will be then you should take note of the following:-

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 used 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.

This all sounds fairly depressing news but there may be a solution for those clients who do not have any unused relief available. HMRC have confirmed that the ability to pay contributions into a non allocated account will be allowed to continue; if you have a SIPP then you will not be able to use this facility whereas if you have an employer sponsored scheme such as a small self administered scheme (SSAS), you will be.

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. In order to ensure that the pension contribution is tax deductible for the business in the current year, HMRC will seek to ensure that the contribution is not excessive and is not paid as a one off capital sum to a retiring director. Therefore, tax planning work is needed in advance of the payment. This non allocated rule only extends to where there are two or more directors in the pension scheme. If you require a copy of HMRC's guidance on this please let us know as it is not where you would expect to find it on their website!

Life Insurance

The premiums for life assurance benefits are increasing reflecting the rising cost of mortality rates and the below par performance of the stock market in recent years.

It is therefore somewhat unhelpful that as a trade off against a tax charge on death in retirement after age 75 of 82% where funds are paid out to your kids there is a flat rate of tax of 55% for everyone.

The 55% tax charge arises where the funds are paid to anyone connected to you other than your spouse/dependant in the form of an income during retirement. This substantial tax charge could force a sale of assets to meet the tax liabilities.

Life assurance policies can be held by trustees to meet such eventualities and we have used the collective number of schemes members under administration which now exceeds 500 to seek "group" insurance rates. The life policy would be an asset of the pension scheme and the premiums would be met from the trustee bank account. It would be written on the life of the members affected and would be subject to "group terms".

This means that the cost of the insurance policy would be the same were you a member of a large employer's pension scheme, although each policy would be ring fenced to the SSAS scheme used. The policy is also likely to attract a free level of cover; which means that you would have life insurance without the need for underwriting.

Life assurance provision falls into regulated business and we will therefore be in touch with your financial advisor to advise you on its suitability for your scheme. If you do not have a financial advisor attached we have an excellent panel of firms we work with who are efficient, knowledgeable and cost effective.

Pension Scheme Returns

Another tax year passes and clients may have received notices in connection with the preparation and submission of pension scheme returns to HMRC. We are the registered address for most pension schemes and as such this paperwork comes to us directly. A copy of the return can be viewed online with your government gateway and password.

We are in the process of requesting data from clients and will also be inviting clients the option for an annual trustee meeting once we complete the scheme tax reporting.

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Property Insurance

Following our completion of pension scheme returns from last year we noted that more than half of all clients own commercial property. Given the growth of schemes under administration we made contact with a number of agents to establish whether group terms could be available to scheme trustees for building and landlord insurance.

We have been asked to provide a comprehensive list of properties and will contact trustees and their advisors to see whether they are willing to have the insurance terms re-assessed under a group product. We receive no commission for this introduction, it forms part of our annual pension service to clients and their advisors.

Work based pension schemes

As an employer it is likely that you will be affected by the new regulations coming in effect from 2012 to provide certain members of your workforce with a pension scheme. This has come about because people are living longer and the government feels that people are not saving enough for retirement- hence these work based pension schemes are now a mandatory requirement.

Even if you provide an existing pension arrangement for your workers, the new reform criteria stipulates that certain conditions must be met by the pension scheme in terms of contributions paid or benefits received. If you do provide a pension scheme already it may meet the qualifying criteria; your financial advisor will be able to review your existing arrangement and tell you whether it does qualify, and if not what needs to be done to ensure that it does. We offer a review service also where you do not have a financial advisor appointed to the pension scheme.

Employees who will need to automatically enrol are known as 'eligible jobholders'. This encompasses the following people:

- those who earn more than the minimum earnings threshold
- are aged between 22 and state pension age; and
- work in the UK.

As an employer you will be required to make an employer's contribution towards their pension. You must contribute at least 3% of their earnings (you can contribute more if you wish), they will contribute the rest and will receive tax relief on the contribution- the total contribution is set at an 8% minimum. You will also be required to register the pension scheme with the Pensions Regulator and give them details on the number of employees that you have automatically enrolled.

You will be given a starting date issued by the government from which the pension scheme will have to be in place- the first starting date will begin in October 2012 and will continue until 2016. Employers who employ a large number of workers under PAYE will have an earlier start date than those who do not employ as many in their PAYE scheme. Please visit the following link to find out broadly when your start date will be www.tpr.gov.uk/staging.

There is, of course, no restriction on setting up a work based pension scheme prior to your start date. Pension Practitioner.Com are can administer work based pension schemes now - please call/e-mail us if you require more information on this. We will also be launching a website over the summer dedicated to work based pension schemes - the domain name of the website will be **www.workbasedpensions.com.**

Important Note:

The information contained in this newsletter is based on our understanding of pension law and treasury guidance at the time of print. However, changes will arise and whilst we also endeavour to produce accurate information, we cannot guarantee the accuracy of the contents therein. You should not rely on the information given to make a financial decision, you are recommended to obtain financial advice where appropriate.