

## PENSION PLANNING – THE NEW REGIME FROM APRIL 2011 – SOME TAX PLANNING POINTS

The UK pension regime has changed several times over the past two or three years but further Government announcements, made in October 2010, have brought in changes from 6 April 2011 which favour some but disadvantage others. Some issues arising under the current regime are as follows:-

- 1 A UK resident individual should be able to pay £50,000 (or earnings if less) into an approved pension scheme in any tax year. Normally it should also be possible to use any unused relief for the previous three years, subject to certain conditions. Thus an individual who has only been making pension contributions of, say, £5,000 annually could make a total payment of £185,000 in 2011/12, assuming he or she had earned income of at least this quantum.
- 2 Pension funding is not for everyone and many clients have chosen to fund their retirement through other means – for example, through accumulating an investment or property portfolio. Careful consideration will need to be given to the considerable merits of this given the favourable change made and noted in 1 above.
- 3 Contrary to earlier proposals, it will now be possible for high earners to get **full** tax relief on large contributions and individuals with income above £100,000 may be able to get 60% tax relief on some of their contribution.
- 4 The split of contributions between spouses will need to be considered carefully in order to maximise tax reliefs available. Consideration will also need to be given as to how the pension will be taxed in retirement assuming the individual continues to live in the UK. Funding of pension for **both** spouses may mean that the family's pension in retirement is taxed at overall lower rates.
- 5 Company contributions will generally be best for all concerned, rather than the individual paying out of salary which has been subject to both employer's and employee's National Insurance. (Company contributions are broadly also covered by the £50,000 rule noted in 1 above and this limit will apply to the **aggregate** of company and employee contributions.)

- 6 Careful consideration may be needed to be given to the timing of pension input periods and this may mean that in any particular tax year larger contributions may be made, than might be expected.
- 7 Those on lower income, or no income, may be able to contribute to stakeholder pensions which allow £2,880 (net) to be contributed annually, regardless of the level of income. The Government will top this up with £720 tax credit. Some clients have chosen, therefore, to make pension payments of this quantum for children or grandchildren or non-working spouses, thus providing useful (albeit long term) pension provision and potentially saving inheritance tax.
- 8 Care needs to be taken to ensure that the death benefit on any pension scheme is properly nominated or written in trust to avoid inheritance tax.
- 9 It is normally possible to take a quarter of any approved pension scheme as **tax free** upon retirement. Larger amounts may be available in the case of retirement through ill-health or injury. Returning expatriates who receive lump sums from overseas approved pension schemes may be able to have these free of tax altogether by virtue of a Revenue concession.
- 10 Pensions received in respect of foreign service may also be tax free depending on the terms of the UK's Double Taxation Agreement with the particular country concerned. One example is that pensions received from Hong Kong by UK residents should be tax free, in most cases from April 2011. In addition, lump sums from certain foreign pension schemes may be tax free, where lengthy foreign service is concerned.
- 11 There are special rules for defined benefit schemes, which may result in unexpected tax charges.

Creaseys LLP  
12 Lonsdale Gardens  
Tunbridge Wells Kent TN1 1PA  
01892 546546  
[www.creaseys.co.uk](http://www.creaseys.co.uk)

If you have any queries on this note  
please contact  
Richard Holme or Mark Howard  
[richard.holme@creaseys.co.uk](mailto:richard.holme@creaseys.co.uk)  
[mark.howard@creaseys.co.uk](mailto:mark.howard@creaseys.co.uk)