

Pension update

The Finance Act 2011, officially sanctioned in July, introduced far-reaching changes to pension rules and regulations, however, as ever, with change comes opportunity.

To advantage of these opportunities requires careful planning and action taken within the next few months.

Opportunity 1

Reduction in the Lifetime allowance: Applying for Fixed Protection

The Lifetime allowance will be reduced by c17% from the current £1.8m to £1.5m as from 6 April 2012.

Those who have based their retirement planning on the £1.8m lifetime allowance will be able to apply for Fixed Protection to maintain their Lifetime Allowance at £1.8m. However, this process must be completed by 5 April 2012. (Based on prior experience the information gathering process could take several months so action needs to start now).

Careful consideration needs to be given to applying for Fixed Protection as it means that no further pension contributions can be paid after 6th April 2012. Applying for Fixed Protection will avoid the threat of a 55% tax charge should retirement benefits when taken exceed £1.5m, and could lead to a maximum tax saving of £165,000.

Opportunity 2

Reduction in the Annual allowance / Carry Forward

The Annual Allowance has been reduced by c80% from £255,000 in 2010/11 to £50,000 per annum and will remain at that level until at least the end of the 2015/16 tax year.

For contributions exceeding this annual allowance, the excess can be offset against any unused allowance from the previous three tax years, assuming you have been a member of a registered Pension Scheme. There is an opportunity to make an extra year's contribution by altering the Pension Input Period which can be done prior to applying for fixed protection; this means that a client with sufficient earnings could shelter up to £250,000 in their pension arrangement and receive tax relief at their highest marginal rate in this tax year.

There has been some press speculation of a Government review of tax relief on pensions and it could be prudent to pay any top-up pension contributions prior to the Chancellor's Autumn statement on 29th November.

For further information on the above changes and how you can benefit from the opportunities they provide, please contact your Asset Manager.

This article is based on Collins Stewart Wealth Management's interpretation of the law and HM Revenue & Customs practice as at August 2011. We believe this interpretation is correct, but cannot guarantee it. Tax rules and HMRC practice is subject to change.

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