

Article placed in Retirement Strategy

The way forward

February 2011

As we approach the reintroduction of carry forward on April 6, we coincidentally find ourselves approaching the 10-year anniversary of the abolition of the previous version and memories of the incredible contributions rush that it created. The prospect of combining that rush with a landmark birthday of my own in late March 2001, a holiday celebration for said landmark birthday, and dealing with those contributions meant only one thing was going to give. It was not the contributions.

Use it or lose it tax planning opportunities occurred before the 2001 tax year end and have done so since but 2001 was a big one.

With old favourites such as carry forward set to return and significant changes to the pension framework on the horizon, you will excuse me if I don't wait until late March to walk through some of the planning issues.

The new measures introduce major changes to the benefit regime, with an end to effective compulsory annuitisation at age 75 but, as carry forward remains a sore term, we will focus on contributions.

From April 6, 2011 the basic changes are:

- The annual allowance falls from £255,000 to £50,000
- Carry forward allows contribution of more than £50,000 to be paid in a tax year
- Don't forget - anti-forestalling rules remain in place until April 5, 2011.

For the current tax year, the anti-forestalling rules only affect those with "relevant income" exceeding £130,000 for the current or last two tax years. Calculation of relevant income is a little too complex to cover here but the key point is that anyone with relevant income of less than £130,000 is not limited by the special annual allowance of £20,000- £30,000. For these individuals, tax relief on personal contributions is still restricted to a maximum of net relevant earnings.

However, employer contributions can be made right up to the current annual allowance of £255,000. Care needs to be taken to ensure that employer contributions are not treated as salary sacrifice. This brings the contribution into the "relevant income" calculation and may push someone over the £130,000 limit.

When considering this opportunity, care also needs to be taken by anyone who has a pension input period which has already ended in 2010/11.

Pips are used to measure the level of annual allowance used up for a tax year but can end part-way through a tax year. If the Pip for 2010/11 has already ended, any contributions paid in the remainder of the tax year will be tested against 2011/12's much reduced annual allowance.

One benefit of the reintroduction of carry forward is that it will help to reduce the impact of this issue.

Turning to the reintroduction of carry forward, a key consideration is maximising tax relief and the most basic step is making sure that individuals are members of a registered pension scheme.

Unused carryforward allowances are not available if individuals were not a member of a pension scheme in the carry forward tax year. Assuming that most people will be a member of at least one pension scheme, carry forward will only be open to them if they exceed the new annual allowance of £50,000.

So, looking at a Sipp, you cannot sweep up your unused allowances from earlier tax years without contributing at least £50,000 to the Sipp.

If contributions exceed £50,000 in a tax year, individuals are given a deemed annual allowance of £50,000 for each of the previous three tax years and may use up unused annual allowance, starting with the earliest tax year, using carry forward. One important wrinkle to remember is that contributions paid in one carry forward tax year can restrict the ability to carry forward from earlier tax years.

As an example, a client has the following pension input amounts for his carry forward tax years:

2008/09: £30,000
2009/10: £100,000
2010/11: £20,000

It looks like they can carry forward £20,000 from the 2008/09 tax year (£50,000 deemed annual allowance minus £30,000 pension input amount).

However, the 2009/10 pension input amount exceeds the deemed annual allowance by £50,000 and so uses up all the carry forward available from the earlier tax year.

Our client is still able to carry forward £30,000 from 2010/11 tax year because the £100,000 contribution from 2009/10 only uses up carry forward from earlier tax years, not later ones.

All very interesting, and we have only scratched the surface of April's changes.

Sitting here in mid-January, the planning opportunities that the changes present us with can only be good news. With the legislators still working on drafts, I am getting older by the day but still not booking any flights yet.

Gareth James
Technical Marketing Manager
A J Bell

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Notes for Editors

Pictures available by contacting kirsty.zollinger@ajbell.co.uk.

Billy Mackay
Marketing Director
07525 236 580

Andy Bell
Chief Executive
07973 137 272

Kirsty Zollinger
PR & Events Manager
0845 40 89 100

billy.mackay@ajbell.co.uk

andy.bell@ajbell.co.uk

kirsty.zollinger@ajbell.co.uk

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