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### Winds of change

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I spent most of last weekend sawing up a tree that had fallen foul of high winds that battered the west of Scotland. Living in Scotland you learn to love all kinds of weather and have to appreciate that sometimes it is good but within minutes it can be chaotic. As we start to appreciate the winds of change that we have experienced under a new Government it is worth bearing in mind that it is only a thin line which separates tranquility from chaos.

In a previous Moneyfacts article I covered the importance of a simple incentive system for pensions. We know that the Government introduced the changes to the contribution and incentive system with the aim of building a simple and sustainable set of rules whilst still achieving the required tax relief saving of £4 billion.

I stated that getting the foundations right for a simple and sound case for investing in a pension involved:

1. a clear incentive system that everyone understands.
2. simple rules around what you can contribute.
3. clarity & flexibility on what you can do with your money when it is in the pension arrangement.
4. flexibility & fairness on how you get your money back out in retirement or on death.

It is early days and I would be the first to admit that the system of tax relief is not perfect. However, I do know that in the first month of the new regime from 6 April 2011 we experienced a significant increase in new contributions to our SIPP's. As an example, contributions paid to Sippcentre are currently running at 270% of the figures we saw in the same period a year ago. Contributions in excess of the annual allowance (i.e. those where we know the clients will be using the new carry forward rules) are at 408% of the figures in 2010/11. This must be viewed as a positive step forward and I believe the drivers for this increase are straightforward:

- The removal of the anti-forestalling rules which, via the special annual allowance, limited most higher earners to contributions of between £20,000 and £30,000 p.a. Replacing this with a simple, single annual allowance of £50,000 ticks one of the boxes from above.
- The increase in higher rate and additional rate (50%) tax payers. The thresholds for higher rate tax and additional rate tax were not increased in 2011/12 meaning a much larger group of people are now subject to higher and additional rate tax. The Government's own statistics indicate that the number of higher rate taxpayers will increase by 20% this year, with additional rate taxpayers increasing by 12%. That is a lot more people who could benefit from tax relief on pension contributions.
- The re-introduction of carry forward, potentially allowing pension savers and their employers to pay contributions of up to £200,000 in any given tax year and receive tax relief.

Welcome contribution and tax planning opportunities have come from the return of a set of carry forward of unused allowance rules. With a fair wind the pick up in new contributions will continue.

Whilst things are looking up, I still have the nagging doubt that point 4 above will remain a stumbling block. We now have a uniform tax charge of 55% applied to lump sum death benefits paid from pensions in drawdown, and to benefits that have not been put into drawdown where an individual is over the age of 75.

We argued long and hard that the old ASP tax rules represented cliff edge tax policy and it was simply unfair. With no tax on death on pre-crystallised funds and a 55% charge on crystallised funds a cliff edge remains. If fairness is a key driver for change it would have been equitable for the Government coffers and simple to introduce a simple charge to tax on all residual pension funds irrespective of the age and vested status of the client of say 20% – 25%. Over time we will find out if this acts as a stumbling block for savers, my gut feeling continues to suggest that for some it will be.

One year on are the changes introduced by the Coalition Government working? As a package, I for one think that there has been far more to be positive about than negative. However, an old and very wise uncle of mine used to say that a

barometer is nothing but an ingenious instrument which indicates what kind of weather we are currently experiencing; a window achieves the same thing. One year on it feels like things are looking up but like the weather, it always could be better.

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**Notes for Editors**

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