

PENSION CONTRIBUTIONS

(AFTER 6.4.06)

From 6 April 2006 the rules on pension contributions and their tax deductibility will change significantly.

Under the old rules there were various different pension contribution regimes, with maximum contribution levels different under each regime.

From 6 April 2006 – so called A Day – there is just one regime for all personal, occupation and self invested / self administered pension schemes. The features of the new regime are:

- Maximum contributions set according to annual contributions

2006/07	£215,000	
2007/08	£225,000	
2008/09	£235,000	
2009/10	£245,000	
2010/11	£255,000	Later years to be announced

- Individuals can contribute a minimum of £3,600 up to a maximum of 100% of their earnings./ the annual maximum (which ever is lower).
- Employers can contribute up to the annual maximum for their employees (but HMRC may not allow a deduction in the business accounts if the contributions are unreasonable given the remuneration / benefit package of the individual – this issue is still be debated at the time of writing, and HMRC have yet to produce final guidance).
- Retirement age - 50 until 6.4.10, then age 55.
- 25% of fund can be taken as tax free cash
- At retirement, the fund can be used to:
 - By an annuity
 - Take an unsecured income up to age 75
 - Take an alternatively secured income (can go on after 75, but maximum levels are lower).

An unsecured income and alternatively secured income are similar to Income Drawdown under the old rules.

- Maximum individual pension fund limits (lifetime limit), set at:

2006/07	£1,500,000	
2007/08	£1,600,000	
2008/09	£1,650,000	
2009/10	£1,750,000	
2010/11	£1,800,000	Later years to be announced

Protection is available for those with pensions exceeding this figure at A day, otherwise there are tax charges of 25% or 55% dependant on whether the excess is taken as pension or lump sum.

SIPP excitement

Under the original A day proposals residential properties were to be permitted to be held within pension funds. This led to a lot of excitement about the possibilities of using a Self Invested Pension Scheme to hold a rental property or holiday home. In the December 2005 pre budget report the Government indicated that the rules were to be changed to exclude residential properties, including holiday homes, from being held by pension funds. Commercial property can still be held by a pension fund.

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