

Simplification Key Points

7/12/2005

- Amended drawdown (to be known as ‘unsecured pension’) limits – 0 – 120% of ‘new’ GAD (includes PR Drawdown)
- Tax free cash (to be known as ‘benefit commencement lump sum’) on all pensions - 25% of fund, including PR and FSAVC.
- Currently transfers from Occupational Schemes for ‘regulated individuals’ can result in ‘certification’ where the tax free cash is the lower of 25% of the fund or the certified amount increased in line with inflation. Transfers from FSAVC schemes are subject to a ‘nil certificate’. After A Day (6 April 2006) there will be no certification & no nil certificates
- NB Where a member can take more than 25% of the fund in cash pre A Day this cash can be protected, so it is essential that full salary and service information is obtained prior to any transfer.
- There will be no Appendix XI and no maximum transfer test
- Maximum employee contributions: 100% of earnings (with tax relief against unearned income as appropriate)
- No carry forward after 4/06 and no carry back either (even though premium would be treated as paid before 4/06, it cannot be).
- Maximum employer contribution £215,000 for ITY 2006/07. NB Employer contributions must be “wholly and exclusively for the purposes of the trade” if they are to attract corporation tax relief – previously this was assumed if it was actuarially justified. The Revenue has given the example of a director’s wife who is earning £5,000 p.a., but for whom the company pays £100,000 to pension. If there are other members of staff earning similar amounts for whom a similar pension contribution is not paid they are likely to decide that the pension contribution is not “wholly and exclusively for the purposes of the trade”.
- Alternatively Secured Pension can be provided instead of annuity at 75, but not for PR funds
- Earliest retirement age (benefit crystallisation event) from April 2010 will be 55. PR benefits can be taken from 50 from April 2006 and then 55 from April 2010.
- Lifetime Limit of £1.5m in 06/07. Existing funds can be protected.
- Primary Protection – only possible if funds at A Day exceed £1.5m – funds plus RPI protected but excess growth will be taxed at 55% (recovery charge).
- Enhanced Protection – possible for funds both above or below £1.5m - means opting out of future provision, but avoids recovery charge. NB Enhanced Protection is lost (even before it has been applied for) if any pension contribution including pension term is paid after 5/04/06.
- Trivial will be £15,000, but only once and only if aggregate funds are below £15,000.

All changes to Occupational Schemes are subject to suitable rule amendments.