

Pension Update - The New Rules

Background

The Budget 2009 announced the intention to introduce new rules for pension tax relief to apply from 6 April 2011. At the same time anti-forestalling measures were introduced from 22 April 2009 to prevent substantial pension contributions being made to take advantage of higher rate relief prior to the changes coming into force.

The pension rules are complex and where there is any doubt a more detailed analysis will be required. The proposed 2011 rule changes have recently been announced and involve a reduction of the annual allowance from £255,000 to £50,000 combined with a reduction in the lifetime allowance from £1.8m to £1.5m from 2012.

Anti-forestalling measures

From 22 April 2009 a special annual allowance charge was introduced for 2009/2010 and 2010/2011. The 'special annual allowance charge' will apply only if:

- a. On or after 22 April 2009 the level of pension contributions is increased beyond normal, ongoing regular (at least quarterly) savings; and
- b. The amount of pension contributions during the year (including employer contributions) is greater than £20,000 (or the lower of £30,000 and the average of contributions over the past 3 years if contributions were less regular than quarterly). This is known as the 'Special Annual Allowance'; and
- c. In the year in which pension contributions are increased, or in either of the previous two tax years, relevant income exceeds £130,000.

Where contributions exceed the amount of the Special Annual Allowance any excess is subject to the Special Annual Allowance Charge. If the charge applies, the amount of the additional contributions will be subject to a tax charge to recover tax relief given at above the 20% rate.

Compulsory annuity purchase

Under current rules money saved into a pension fund must be used to secure an income, which is usually achieved via the purchase of an annuity, by the age of 75. In the Budget in June the Chancellor announced an end to this from April 2011. Interim measures were introduced to ensure those reaching 75 before then will not be disadvantaged.

The options and tax position after April 2011 are expected to be as follows:

Annuity

Buy one of the various annuity options on retirement. It seems likely that a 'money back guarantee' annuity option will be introduced in the case of death after 75, allowing individuals to protect pension savings from the possibility of dying early, which should make this option more attractive.

Capped drawdown

Similar to the current Unsecured Pension where an income is taken but the underlying pension fund assets remain invested exposing the beneficiary to an element of investment reward and risk.

Whilst there is a maximum income limit, based on Government Actuaries Department (GAD) tables, it is not yet clear at what level this will be set although it appears likely that the minimum limit will remain at zero.

Flexible drawdown

This option will allow individuals to 'draw down' unlimited amounts from the pension pot, provided they can demonstrate they have secured sufficient minimum income to prevent savings being exhausted prematurely. The minimum income requirement must be a pension currently in payment and would include basic and additional state pensions.

The 25% tax-free cash option will remain available, even after age 75.

On death any funds in drawdown (capped or flexible) which are paid out as a lump sum will be taxed at 55%. This compares with 35% now for Unsecured Pensions (USP) and 82% for Alternatively Secured Pensions (ASP). Beneficiaries will be able to avoid this tax by buying a dependant's annuity or by providing for the dependant to continue in drawdown.

Pension funds can be paid out as cash, free of Inheritance Tax on death before 75. After 75 it is likely that untouched pension funds will suffer a 55% tax charge. A table is attached which summarises the effect of the probable rule changes.

The above synopsis represents our view on the likely rule changes and may require amendment when the final rules are published.

	Current rules			Possible new rules		
	Purchase an annuity	Income draw-down (USP) (pre 75)	Income draw-down (ASP) (post 75)	Purchase an annuity	Income draw-down (capped)	Income draw-down (flexible)
Tax free lump sum 25%	✓	✓	✗	✓	✓	✓
Money back guarantee annuity available	✗	N/A	N/A	✓ (post 75)	N/A	N/A
Flat rate charge						
In drawdown	N/A	35%	82%	N/A	55%	55%
No benefits taken	N/A	Nil	N/A	N/A	Nil	55%
Maximum income limit	N/A	✓	✓	N/A	✓	✗
Minimum income limit	N/A	✗	✗	N/A	✗	✗

Online filing of Corporation Tax Returns and electronic payment of Corporation Tax

Paper filing of most Corporation Tax Returns will not be permitted after 31 March 2011. From this date, companies will also be required to make the CT payment electronically.

These rules will apply such that from 1 April 2011 companies will have to file CT Returns online where the accounting period ends after 31 March 2010 and the Return is delivered after 31 March 2011.

Please note:

- for accounting periods after 31 March 2010 where the Return is delivered early, e.g. before 31 March 2011, a paper Return may be submitted.
- for accounting periods that end before 1 April 2010, a paper Return may be submitted if delivered after 31 March 2011.

When e-filing, HMRC will expect to receive the Return (CT600), the tax computations and the accounts in iXBRL format (inline extensible business reporting language). In plain language it will not be possible to send computations and accounts simply as a word, excel or pdf document without the appropriate iXBRL tagging being applied.

Accounts produced by Chavereys will have iXBRL tagging, however where clients produce their own accounts they should contact us to discuss how the tagging may be applied.

HMRC has indicated that, for the small number of non-corporate entities that are required to produce Corporation Tax Returns (for example clubs, associations and unincorporated charities), the accounts will not require iXBRL formatting. They will, however, have to submit Returns electronically.

From 1 April 2011, as well as filing the Return online, an organisation must pay its Corporation Tax for any period electronically. HMRC counts all of the payment methods below as electronic. Payments by post are not an option.

- Direct debit
- Internet, telephone banking or BACS direct credit
- Debit or credit card over the internet: Billpay
- CHAPS transfer
- Bank giro
- Paying at the Post Office

Copies of correspondence from H M Revenue & Customs

As part of a cost saving exercise, H M Revenue & Customs has decided to cease sending copies of certain letters and other correspondence to agents.

As such, from September 2010, Chavereys will no longer receive a copy or a notification if the following documents are sent to you:

- PAYE Notice of coding (P2)
- Tax calculation (P800)
- Targeted review form (P810 - sent to individuals who do not complete Self Assessment Tax Returns)
- Letters advising individuals of their Unique Taxpayer Reference and of a requirement to complete a Self Assessment Tax Return
- Letters advising that H M Revenue & Customs will no longer require Self Assessment Tax Returns to be completed

If you receive any correspondence from H M Revenue & Customs please ensure that you make your usual Chavereys contact aware.

Fake tax refund emails

We have had a number of clients contact us following the receipt of emails apparently from HM Revenue & Customs (HMRC). These emails, which are increasingly sophisticated in their presentation, indicate a tax refund is due and request personal bank/ credit card details.

These emails are fake no matter how formal they appear. HMRC does not issue such emails.

The only legitimate email you may receive regarding a tax repayment will be from your usual contact at Chavereys.

Please take care not to disclose any personal details no matter how innocent the request may appear.

Please contact your usual Chavereys contact if you have any specific questions on the above.

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