

## Payroll

### The New Pension Rules: A Day 6th April 2006

The rules for pensions have changed with effect from 6<sup>th</sup> April 2006. The new government reforms are intended to simplify the pension system and will scrap the current rules.

The new rules mean that ALL pensions will be either: -

Occupational or Private  
Defined Contribution or Defined Benefits

The same basic rules will be applied including the contributions, tax relief and how and when pensions can be drawn.

The Chancellor has indicated in his Budget that the rules he originally outlined in his pre budget report will be changed, now that residential properties will no longer be allowed to be held within a SIPP.

The most important change is the inclusion of a lifetime limit allowance, which would set the maximum size of the pension pot at £1.65million (2008/09) rising to £1.8 million by 2010/11. Pension pots larger than this maximum limit will face heavy taxes on any excess. With the revised maximum annual contribution of £235,000 (or the entire salary if this is less).

There is limited information available at: -

<http://www.dwp.gov.uk>

More details are available from the Bank of Scotland on: -

<http://a-dayadvice.co.uk>

Everyone with a pension is affected, but especially those with funds in excess of £1.65million. Most pensions allow a tax free lump sum of 25% to be taken from the fund at the start of the pension period, and advice should be sort about the best options to minimise tax payments.

Current pension funds, that are greater than £1.65 million, can have an application made for enhanced protection. The fund, including investment growth can be ring fenced from HMRC, provided no further contributions are made after 6<sup>th</sup> April 2006.

Exceptionally high taxes up to 90% could be paid on pension income if a pension exceeds the £1.65m and the annual allowance of £235,000.

An option could be to delay retirement until after 6<sup>th</sup> April 2006, as larger tax-free lump sums maybe available.

In addition there are a number of changes that must also be considered

From 2010 the minimum retirement age will rise from 50 to 55.  
The requirement to take a compulsory annuity before the age of 75 has been scrapped.

A penalty will apply to excess funds over the lifetime allowance of 25% where excess benefits are taken in the form of pension and 55% of excess taken as a cash lump sum.

Income drawdown policies will cease at age 75 and will become known as alternative annual allowances to

2006/07	£215,000
2007/08	£225,000
2008/09	£235,000
2009/10	£245,000
2010/11	£255,000

in pension plans.