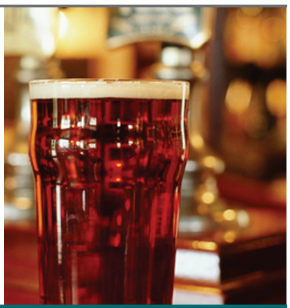
June

Review

Pensions



Pension Input Periods – are you drinking in the last chance saloon?

HMRC has indicated that pension plan trustees can retrospectively change Pension Input Periods up until the point that the Finance Bill 2011 receives Royal Assent (which is currently expected sometime in July). After that it will only be possible to change the position prospectively. If your pension plan has not previously nominated a PIP we suggest that you urgently consider whether it is worthwhile making a retrospective nomination now. Some trustees will reasonably decide that no action is necessary. However, for others a decision not to act may result in their members being levied with additional tax charges.

We have covered issues surrounding PIPs in previous communications. The legislation is, in our opinion, far from ideal. If you have not considered this issue there may still be time before "last orders" are called on retrospection.

Trustees should consider, as a matter of urgency, whether a retrospective PIP nomination should be made.

Reminder – what is a PIP?

In summary, a PIP is the period over which members test their pension savings against the Annual Allowance*. Trustees of DB plans can select their PIP and some trustees made such a nomination when the pensions tax regime changed on 6 April 2006. Where no nomination has been made, members at 6 April 2006 will be subject to a default PIP of 7 April to 6 April each year. In other words the default position is that the PIP does not align with the tax year. Under current legislation, members who have joined a pension plan since 6 April 2006 normally have an individual PIP determined by reference to the date that they joined a DB arrangement. In the case of DC plans, either trustees or members can nominate a PIP with the default position being derived from the date of the first contribution in respect of the member.

Impact of Annual Allowance reduction

From 6 April 2011 the Annual Allowance reduced from £255,000 to £50,000, making the PIP relevant to many more people. Those members with pension savings exceeding the Annual Allowance are taxed on the excess at their marginal income tax rate. Pension plans will need to support their members through the process of assessing the tax liability. Members may benefit from the alignment of their PIP with the tax year so that the Annual Allowance in any tax year is only relevant to input during that same tax year.

Legislative changes

The Finance Bill 2011 contains measures to take away the possibility of retrospective PIP nominations. It also makes changes to the way that PIPs can be nominated for the future. The current draft of the Bill provides that if trustees want to align an existing PIP with the tax year going forwards, this will involve extending the PIP beyond a year (in some cases up to almost two years). This will mean that, for the transitional period, even more members will exceed the Annual Allowance as more than one year's pension savings will be assessed against a single allowance. These members will either not be able to make the pension savings that they anticipated in that period or will be subject to tax charges.

Action

Whilst assessing the impact of PIPs on plan members is complicated, the process of nominating a PIP is relatively straightforward. If you have not already done so, we strongly recommend that you review the position of your pension plan as soon as possible, so that a decision to act (or not to act) is based on full knowledge of the facts.

FURTHER INFORMATION

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*For any member, the Annual Allowance is the amount of pension contribution/benefit accrual that can attract tax relief in any year from all registered pension plans