

# Pension Tax Simplification and You

## Saving for your pension - new tax rules from 6 April 2006

From 6 April 2006 (A-Day), there will be new simpler rules around how much you can save in a pension scheme and how much tax relief you can get on your contributions. The current complicated rules will be replaced with a new set of rules that applies to everyone, no matter what type of scheme you are in or when you joined the scheme.

There will be greater choice and flexibility in when and how you can save for your pension, allowing you to pay more towards your retirement while still gaining the tax advantages. The new rules will allow you to pay what you want when you want to pay it. This will make it easier for you to plan with confidence for a comfortable retirement.

## Does this mean I can pay more into my pension?

Yes

- The changes mean that providing your pension scheme agrees, there is no limit on the amount you can put into your pension.
- but there are limits on the tax relief you can get.

You will also be able, should you wish, to save in more than one pension scheme at the same time, for example in both a personal pension and an occupational pension.

## So what are the tax limits?

You can get tax relief on contributions of up to 100% of your UK earnings if you are a UK taxpayer.

If you are a non-taxpayer, every £100 of contributions will receive a contribution of £28 from HMRC up to a maximum of £3600 per tax year.

Any contributions from your employer would not count against the tax relief you could receive.

There will be an annual allowance, initially set at £215,000 for the year 2006/07. If the increase in the value of your pension rights or your contributions, (plus any contributions from your employer) exceeds the annual allowance, there is a tax charge at 40% on the excess.

There is also a lifetime allowance (LTA), which will initially be set at £1.5 million for the year 2006/07. If your total pension savings exceed this, you may be taxed on any amount over £1.5 million. This 'Lifetime Allowance charge' is set at 25% if you take the additional savings as a pension and 55% if you take them as a lump sum.

So most people can save as much as they can afford without worrying about limits.

## So how does tax relief work?

For most people tax relief is given automatically either through their pay packet or by their pension scheme. In which case all you need to do to get tax relief is pay your pension contributions.

This means that for every £100 you want to put into your pension you only need to find £78 out of your income after tax - as the Government contribute the remaining £22.

You pay	Government pays	Your pension contribution is worth
£78	£22	£100

## When can I take my pension?

The Government is changing the rules on the earliest age at which you can take your pension. This is currently 50, although many pension schemes may have a higher limit. By 6 April 2010 every pension scheme must have an age limit of at least 55.

Different rules apply if you retire due to serious ill health or if you already have the right to retire before age 55 at 6 April 2006.

The new rules mean that if you want, you may be able to carry on working and take some or all of your pension which will allow you more flexibility in planning and managing your move to 'full' retirement.

You must start taking your pension by age 75, although there are a number of options on how you can do this.

If you are unsure about any of this contact your pension scheme for advice.

## Will I be taxed on my pension?

Any pension that you receive will continue to be subject to income tax. However most schemes, in addition to a pension offer a tax-free lump sum.

## So what lump sum can I have?

This will depend on the rules of your particular scheme, but the new rules mean that all schemes can, if they choose, offer a tax-free lump sum of up to 25% to members when they first take their pension.

## If I only have a small pension fund, what are my options?

From 6th April 2006, if the total value of all your pension savings (in all schemes if you are a member of more than one scheme) is £15,000 or less and your scheme rules permit, you may be able to take your entire fund as a lump sum. This is known as 'trivial commutation'. 25% of the lump sum would be tax-free and the rest would be taxed as part of your income. Trivial commutation of pensions already in payment would be fully taxable as income.

## What do I need to do now?

The majority of people do not have to do anything other than start thinking about whether they would like to take advantage of the new rules after 6 April 2006. **If you do want to increase your pension savings you may wish to take financial advice.**

The new rules mean that everything you have built up in your pension pot up to A-Day will automatically be transferred into the new system and you will continue to get, at the very least, the same benefits that you were promised before.

Only those few individuals with pension savings (or potential pension savings) of over £1.5 million, or promises of a lump sum of greater than £375,000 will have to apply to HMRC to ensure they are exempt from the lifetime allowance charge. Those with promises of lump sums greater than 25% but that are worth less than £375,000 automatically receive protection so long as they stay in their pension scheme

You will be able to claim protection of pre-A-Day rights from the lifetime allowance charge by registering a claim with HMRC. You can also protect existing lump sum rights where these would be greater than is permissible under the tax rules after A-Day. Claims must be registered by 5 April 2009 on the *Protection of Existing Rights* form. If you think you may be affected by this, you should seek financial advice.

## Where can I find out more?

- Visit our website at [www.hmrc.gov.uk/pensionschemes](http://www.hmrc.gov.uk/pensionschemes) and select the link to Pensions Simplification to get the most up to date information on pensions tax simplification including all the required forms and completion notes.
- Phone our pensions simplification helpline on **0115 974 1600** or **0115 974 1777** (Monday to Friday 9.00am to 5.00pm)
- Look at guidance for pensions scheme members, including explanations of the terms used in this handout. This can be found at [www.hmrc.gov.uk/manuals/rpsmmanual/index.htm](http://www.hmrc.gov.uk/manuals/rpsmmanual/index.htm)