

## Pensions Tax Relief

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In the days and weeks building up to the comprehensive spending review (CSR), much was made of what would or would not be in the Chancellor of the Exchequer's statement.

So, with all of the possibilities and speculation flying around in the media, there was the potential to be unable to see the wood for the trees, when it came to bracing for more aggressive financial constraints.

Indeed, it would have been easy for some to have missed news that tax relief on pensions has been severely restricted by the government.

I say "severely" not to shock, or to over-egg the pudding, but because the amount by which people can put tax-free income into their pensions has been cut by more than 80%.

By reducing this annual limit from £255,000 to £50,000, the Treasury hopes to eventually save more than £4 billion a year, cutting into the budget deficit.

Some experts have warned that people with long service in final-salary pension schemes could face unexpected tax bills, though high earners will continue to be able to claim tax relief on pension savings at the highest rate at which they pay income tax.

As well as the reduction in the annual limit, from April 2012, the lifetime allowance on monies accrued in a pension fund and receive tax relief has also fallen, from £1.8 million to £1.5 million.

The government says that 100,000 pension savers per year will be affected, most of them on incomes of more than £100,000.

Other changes include changes to the formula for calculating the increase in someone's pension if they are in a defined benefit scheme, which could lead to some people receiving a tax bill at their highest rate of tax.

Offsetting the increase in an underlying pension pot is an option, but to the untrained eye, it is a minefield. The changes that are being implemented have planted more little traps and it is going to prove increasingly easy to blow large amounts of money in tax bills, if we put one foot wrong.

The potential for inflation to grow could also put more people in the precarious position of being faced with having to tackle such tax laws.

Working out the growth of a pension pot, re-valued in line with the consumer price index, increased by a multiple of 16 – as opposed to the previous ten – and then taking unused pension tax allowance into account from the three previous years, and so on, is a mathematical challenge that even Carol Vorderman would consider a conundrum.

High earners and entrepreneurs need to step back and put some real time in with an expert to work out the best way forward for pension schemes. The way forward for those wishing to maximise their savings from the future is going to have to involve a more complex path than the less complex pensions of old.

While the CSR came with a message of fairness and shared pain, that doesn't mean that people have to roll over, without exploring the options.

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