



## Tax simplification

6 April 2006 (A-Day) is the date when new pensions simplification legislation came into force in Britain. All existing pension rules literally changed overnight to become the most radical overhaul of the British pension system of the past 50 years. Here's a quick rundown on some of the main changes:

### Single tax regime

One of the aims of the new legislation has been to simplify pension rules and make all pensions subject to the same tax treatment. This applies to everyone, regardless of the type of pension scheme or when the scheme began.

For the first time, it's now possible to invest in virtually any type of pension you want, regardless of whether you're already a member of a pension scheme. The new allowances allow you generally to invest far more into a pension than previously and give you far more choice as to the type of scheme you can invest with.

### Introduction of new allowances

Previous limits on pension contributions and benefits have ceased to exist. Since A-Day, everyone has 'allowances'. These allowances may be exceeded but any amount above the allowance is subject to tax. Contributions of up to 100% of earnings in any tax year now benefit from tax relief, subject to the Annual Allowance level.

### Annual allowance

Contributions into a pension scheme are now subject to new 'Annual Allowance' rules. Put simply, this is the amount of money that can be contributed to your pension each year that benefits from tax relief. Tax relief is given for contributions in any tax year up to 100% of earnings up to the Annual Allowance level. Salary, bonuses, benefits-in-kind and self-employed earnings are all included as earnings.

The Annual Allowance for the 2006/7 tax year has been set at £215,000, rising by £10,000 each year to £255,000 in the 2010/11 tax year. Contributions in excess of the Annual Allowance will be taxed at 40%.

If you are a member of the Superannuation Fund, any increase in the value of your pension over the course of the tax year will also be subject to Annual Allowance rules.

### Lifetime allowance

A 'Lifetime Allowance' now replaces all previous benefit limits. This is the total value of your pension savings.

When your pension funds are 'crystallised' (the new term for when you draw your pension), the values of all your pension arrangements being crystallised are totalled and tested against the Lifetime Allowance. Any amount above the Lifetime Allowance will be taxed at 25% if used to provide pension income (which is then subject to income tax) or taxed at 55% if taken as cash (these taxes are called 'recovery charges'). In 2006/7 the allowance has been set at £1.5m, rising to £1.8m in 2010/11.

If you're a Superannuation Fund member, the value of your pension (and any tax-free cash) will also be tested against the Lifetime Allowance. Any amount above the Lifetime Allowance will be subject to a recovery charge.

## **Pensions while working**

Members of occupational pension schemes no longer have to retire from their employment to draw a pension, so benefits can be taken while still in work with the same employer.

## **Age when retirement benefits can be taken**

Retirement and pensions no longer go hand in hand. That's because you can now draw your pension while still in employment, if you're a member of an occupational pension scheme.

The minimum age at which you can start taking your private or company pension will be raised from 50 to 55 on April 6 2010. This means anyone born after April 5 1960 will not be able to draw a pension until their 55th birthday at the earliest.