



Pension Planning For Tax Mitigation 2011/12

CONTRIBUTIONS LEVELS

For contributions to qualify for tax relief in the current tax year it must be paid by 5th April 2012. Any payments made after that date will qualify for tax relief in the following year.

The annual allowance for pension contributions in the current tax year is £3,600 or 100% of salary whichever is the greater, subject to a cap of £50,000. This is tested against all pension contributions including employer contributions and defined benefit accrual. If you use your annual allowance in full in the current tax year and you were a member of a pension plan in the years in question, you can carry forward unused relief up to 3 years, subject to the £50,000 or 100% of salary cap less contributions limit made for each year. Tax relief is still applied in the current tax year.

TAX RELIEF

Personal Contributions paid to SIPPS, Personal Pensions or Stakeholder Pension Plans are made net of basic rate tax (i.e. 20%). This means that for every £100 you want to save you only pay £80. The tax relief added by HMRC tops up your contribution to £100. If you are a higher or additional rate tax payer making a pension contribution extends your basic rate band by the same amount of your pension contribution, effectively giving you higher or additional tax relief on your pension contribution falling in that band.

Furthermore, those earning over £100,000 per annum will lose some or all of their personal allowance. Making a pension contribution could help restore some or all of this personal allowance.

EXAMPLE

Brenda has profits of £130,000 so she will lose the use of her personal allowance. A pension contribution of £30,000 would see her writing a cheque for £24,000 (£30,000 net of basic rate tax), and qualify for a further £6,000 tax credit through her Tax Return or Tax Coding. Furthermore she will have use of her full personal allowance restored, reducing her tax liability for the year by a further £2,990.

TAX PREFERENTIAL TREATMENT OF FUNDS

As well as receiving tax relief on the way in, your pension fund grows virtually tax free, and remains exempt from assessment against Inheritance Tax if you die before drawing an income.

INVESTMENT OPTIONS

Most pension contributions are invested in investment portfolios, but you should remember that it is also possible to use your pension fund to invest in other assets such as commercial property.

IMPORTANT INFORMATION

A pension is a long term investment and the fund may fluctuate and can go down. Tax treatment is based on individual circumstances and it may be subject to change in the future. Contact us for more information on these issues.

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