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## Last chance to maximise pension contributions

**STANDFIRST:** Chartered Financial Planner Nicholas Wood from Watson French in Truro says act now if you want maximise your pension before a change in the rules.

As the end of the tax year approaches it is important that the significance of changes to the way pensions can be funded is clearly understood and any "last chance" opportunities are not missed.

The main change will be the reduction of an individual's annual contribution allowance from the current £255,000 to the new £50,000. This limit encompasses both Defined Benefit and Defined Contribution plans. As a balance to this reduction, the facility to "carry forward", which was abolished in 2006, has been resurrected from the start of the new tax year.

Broadly speaking the changes can be divided into the current rules applicable up to April 5 2011 and those that will come into force on April 6 and how these changes relate to earnings above or below £130,000.

Anti-forestalling rules were introduced in 2009 to restrict those with pensionable earnings in excess of £130,000 to a special annual allowance (or pension contribution limit) of between £25,000 and £30,000. This was to prevent taxpayers from making artificially large pension contributions prior to April 6 2011.

Whilst the anti-forestalling rules were introduced to apply to those with pensionable earnings in excess of £150,000, this was reduced in December 2009 to £130,000. The Special Annual Allowance rules introduced in support of this will remain in place until the end of this tax year. However, in certain circumstances, there remains an opportunity to make use of the £255,000 allowance – but you will need to move quickly.

All pension plans or schemes have a pension input period (PIP) although this is not necessarily allied with the tax year. Therefore even though contributions may already have been made that are up to the £50,000 limit (because the pension input period ends in the next tax year) it is possible to revise the PIP

so that it ends before April 6 2011 and so allows a contribution to be made up to the current £255,000.

In addition, special transition rules applicable to the 2011/12 tax year will allow up to £255,000 still to be paid into a pension.

From next year unused annual allowances, of £50,000, can be carried forward from the previous three years to the then current year. This will allow a pension provision to be made above the annual limit without triggering the annual allowance tax charge. The provisos are that total contributions in any one year cannot exceed annual earnings and that the new, reduced fixed Lifetime Allowance of £1,500,000 is not exceeded.

The transitional rules surrounding the pension input period have had the effect of increasing the mysteries of an already complex area. However, the overriding point to be remembered is that provided you are not restricted by the anti-forestalling rules, pension contributions in excess of £50,000 may still be made prior to April 5 this year. This is the last chance opportunity to make significant payments into your pension plan.

It is important to remember that taking advantage of any tax and or pension planning activity that expires with the end of any tax year is rather like taking a scheduled flight. Just because there is a specific departure time (April 5 2011) you need to check in beforehand to ensure you get a seat!

And finally, just in case you get things wrong and over-contribute, the tax charge is being increased from the fixed 40% to a variable rate up to 50%. So, tread carefully, act soon and seek qualified advice.

- Nicholas Wood is a Director of Watson French, the Truro-based Chartered independent financial planning and investment management company.