HM Revenue & Customs

Pension Tax Simplification and Individuals with International Interests

From 6 April 2006 ('A-Day'), HM Revenue & Customs are introducing new simpler rules on how much you can save in a pension and how much tax relief you can get on your contributions.

The current complicated rules will be replaced with a new set of rules for UK pension schemes that applies to everyone, no matter what type of scheme you are in or when you joined the scheme. There will also be new rules for UK members of overseas pension schemes. These changes potentially affect anyone who is a member of a UK pension scheme or who works in the UK and is a member of an overseas pension scheme.

There will be greater choice and flexibility in when and how you can save for your retirement, allowing you to pay more towards your retirement while still gaining the tax benefits. 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 UK pension scheme?

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

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

So how much tax relief can I get?

For UK schemes, you can get tax relief on contributions of up to 100% of your UK earnings, or, 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.

If your contributions, with any contributions from your employer, exceed an annual allowance, initially set at £215,000, you will have to pay a tax charge at 40% on the excess.

There is also a lifetime allowance (LTA), which will initially be set at £1.5 million. 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 paid automatically either through their pay packet or by their pension scheme, so all you need to do to get tax relief is pay your pension contributions. In other cases, for example higher rate taxpayers or in relation to migrant member relief, you will need to make a claim to obtain relief.

When can I take my pension?

The Government is changing the rules for UK schemes 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 2010 every UK pension scheme must have an age limit of at least 55.

The new rules mean that, subject to individual scheme rules, you can carry on working and take some or all of your pension, which will allow you more flexibility in planning and managing your move to retirement. You must, however, have started taking your pension by age 75, although there are a number of options on how you can do this.

Will I be taxed on my pension?

Any pension that you receive will continue, as now, to be subject to income tax. If you become resident overseas, your UK tax liability may depend on the terms of a double taxation agreement between the UK and the country where you are resident. In addition to a pension, however, most UK schemes 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 UK schemes can, if they choose, offer a tax-free lump sum of up to 25% of the member's pension fund when they first take their pension.

I'm thinking of moving abroad. What are my options?

You will be able to remain a member of your UK pension scheme if your scheme rules allow it. There will be no residence restrictions for tax purposes on members of UK registered pension schemes.

You can, alternatively, transfer your pension fund to an overseas scheme. You will not have to emigrate to do this. Transfers out of UK registered pension schemes will be tested against the lifetime allowance (LTA) and any amounts transferred above your lifetime allowance will be subject to a tax charge of 25%. Transfers below the LTA won't attract a tax charge on transfer as long as the overseas scheme is a 'qualifying recognised overseas pension scheme' (QROPS). After the transfer, other charges may also be applicable, because certain payments made out of overseas schemes containing funds which have benefited from UK tax reliefs may be liable to UK tax charges such as the annual allowance, lifetime allowance and unauthorised payment charges.

Transfers to an overseas pension scheme that is not a QROPS are treated as "unauthorised payments" and will be subject to tax charges.

If you choose to leave your pension in a UK scheme, and you leave the UK before 6 April 2006, but your UK pension later comes into payment, it will be subject to a test against the lifetime allowance.

I have moved to the UK from overseas. What can I do about my pension?

There are no tax restrictions on transferring into UK-registered pension schemes from pension schemes abroad. If your transfer is from a recognised overseas pension scheme you may wish to consider claiming an enhanced LTA by registering with HMRC. Claims can be registered with HMRC using the *Enhanced Lifetime Allowance (International)* form.

If you are a member of a non-UK pension scheme, 'migrant member relief' (MMR) may enable you, when you come to work in the UK, to claim UK tax relief on the contributions that you make whilst resident here. You will get the same reliefs as if you were contributing to a UK registered pension scheme. Employers can also get UK tax relief on their contributions to the overseas scheme. MMR replaces 'corresponding relief' and has fewer restrictions.

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 A-Day. If you do want to increase your 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.

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.

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 after A-Day. Claims must be registered by 5 April 2009 on the *Protection of Existing Rights* form. If you think you might be affected by this, you should seek financial advice.

Where can I find out more?

This handout provides only general information. For further details on how the new rules will apply to your situation, you can

- visit our website at **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 on international matters, including explanations of the terms used in this handout. This can be found at **www.hmrc.gov.uk/manuals/rpsmmanual/index.htm**