# Kingfisher Pension Scheme

## Changes to tax relief for pension savings – Questions you may have

### 1. Will the reduction in the top rate of income tax affect me?

The tax rate applying to any earnings above £150,000 will be reduced from the current level of 50% to 45% from 6 April 2013 and will only affect you if you earn more than £150,000.

### 2. Will the reduction in the Annual Allowance affect me?

From 6 April 2014, the amount of contributions that can be made into your Retirement Account each year, without incurring a tax charge, will reduce from the current level of £50,000 to £40,000.

The reduced Annual Allowance rules apply to everyone for every year they make pension savings. However, the Annual Allowance rules may only affect you if your pension savings are more than £50,000 in any one year (or the Pension Input Period). Even if your pension savings are more than £50,000 in one year, you may still not have an Annual Allowance tax charge if you have not used all your Annual Allowance in the last three tax years.

Please see *Example 2* for further details.

### 3. How do I work out the amount of my annual pension savings?

As a member of KPS-MP (which is a defined contribution scheme) you and the Company pay pension contributions as a percentage of your Basic Pay (details of which can be obtained from the KPS-MP Member Guide which may be downloaded from **www.kingfisherpensions.com**), plus any Additional Voluntary Contributions (AVCs) into your Retirement Account over a year (called the Pension Input Period).

Therefore your total pension savings made within the Pension Input Period is the overall amount of pension contributions made by both you and the Company.

Please see *Example 1* for further details.

You can access your personal Zurich Corporate Pensions account online and within the 'Payments made' section you can identify the monthly pension contributions you and the Company have made on your behalf. Please note you will need your personal User Number and Password to gain access to your account.

### 4. How can I maximise tax efficiency for my pension savings?

If you haven't done so already, you may wish to review the pension savings you have made over the last few years as it may be possible to reclaim some unused tax relief from the last three years.

As the new limits do not apply until 6 April 2014, you have the opportunity within this and the 2013/14 tax year to make pension savings totalling £50,000 for each tax year, subject to any Lifetime Allowance restrictions.

It will also be possible for you to carry forward unused Annual Allowance of up £50,000 for the tax years 2011/12, 2012/13 and 2013/14. This is in line with the current ability you have to carry forward any unused allowance for the tax years 2009/2010, 2010/2011 and 2011/2012.

Please see *Example 2* for more information on carrying forward unused Annual Allowance.

## 5. What if I pay more than the Annual Allowance limits?

If your total pension saving over the Pension Input Period exceeds the Annual Allowance (currently £50,000), then you may be liable to a tax charge. This tax charge is calculated as the excess of pension contributions over the Annual Allowance multiplied by your marginal rate of tax (which is based on your taxable income plus pension savings and less any personal allowances).

For example, if your taxable income, plus pension savings less personal allowances totalled more than £150,000 in a year, the tax applying to the excess pension saving would be 50%.

## 6. If I pay more than the Annual Allowance, how do I meet the tax charge?

If your total pension savings over the Pension Input Period exceeds the Annual Allowance, then you may be liable to a tax charge. If you are liable, you can facilitate payment of this tax charge by one of two means:

a) Through your annual tax return and if you complete your tax return online, the amount of tax you need to pay will be calculated for you

b) Subject to meeting certain criteria, by direct payment from your KPS-MP Retirement Account – if this is an option you would like to explore, then please contact the Kingfisher Group Pensions Department on **08456 807060** or by emailing **pensions@kingfisher.com**.

## 7. Are there any exemptions from the Annual Allowance charge?

The only exemptions are death benefits and serious ill-health retirement benefits (HMRC's definition of serious ill-health is where life expectancy is less than one year).

## 8. I am retiring soon and I've heard that my tax-free cash lump sum will be restricted to £50,000, is this true?

No, this is not true. Currently you are able to use up to 25% of the value of your Retirement Account to provide a tax-free cash lump sum subject to a maximum of 25% of the Lifetime Allowance. The Government has not announced any change to this.

## 9. Can I retain the higher Lifetime Allowance limit of £1.5m?

Yes - if you think you may be affected by the reduction in the Lifetime Allowance to £1.25m, you will be able to protect the existing limit of £1.5m – you can apply for this protection from summer 2013 by contacting HMRC. (Please note HMRC have not yet published details of how this '2014 protection' will work. When these details are available Group Pensions will publish them on the Trustee web site. The address is **www.kingfisherpensions.com**)

Even if you are a few years away from retirement, if your pension contributions are substantial and you are experiencing good investment growth, you may inadvertently breach the Lifetime Allowance sometime in the future and this could result in you paying a tax charge of up to 55% on any excess above the Lifetime Allowance if taken as a lump sum.

## 10. Who's responsible for keeping track of these Allowances?

Managing your tax situation in relation to the Annual and Lifetime Allowances is ***your*** responsibility, together with the payment of any tax charges. Kingfisher and the Trustee do not have full visibility of all your pension arrangements (and in particular any other pension and AVC arrangements you may have in place outside of the Kingfisher scheme).

## 11. What action should I be taking?

There are various actions that you can take to help ensure that you optimise the current and future tax regimes in relation to your pension provision:

- Review the annual contributions that you and the Company currently pay into your Retirement Account and how these are likely to change in the near future
- Reassess the value of your current pension benefits in relation to the current Lifetime Allowance.

Annual and Lifetime Allowances are a complex area of retirement planning and we therefore strongly recommend that you consult with an Independent Financial Adviser if you require further help or advice. If you do not have your own Adviser, you may find it helpful to refer to the following web site for guidance: **http://www.unbiased.co.uk/**

## 12. What about other pension benefits I may have outside of the Kingfisher Pension Scheme?

When assessing your Lifetime Allowance position, you should take into account the value of other pension benefits you may have from either a previous employer's scheme or from a personal pension arrangement.

For a defined contribution arrangement, this will broadly be the value of the fund. For any defined benefit pensions, the value is broadly assessed as £20 for every £1 of pension.

## 13. What about my deferred pension with a previous employer?

As a deferred member you will not have any new pension savings paid into your previous employer's scheme and you do not need to include the deferred pension in your current pension saving calculation when assessing against the Annual Allowance. However, if you join the KPS-MP part way through a tax year and suspect you may exceed the Annual Allowance, please contact Kingfisher Group Pensions.

## 14. What impact will the increase in the drawdown allowance have on my retirement benefits?

When you retire and subject to certain limitations, you can postpone the purchase of a pension until age 75 and instead take income from your Retirement Account. The increase in the drawdown allowance should allow you to drawdown more from your Retirement Account each year.

If you are considering drawing down your Retirement Account in this fashion, as it is a particularly complex area of pension planning, we strongly recommend that you take independent financial advice.

## 15. Automatic Enrolment is coming – what does this mean to me?

You will be aware that Automatic Enrolment for workplace pensions has been introduced by the Government and will apply to the Kingfisher Group from 31 March 2013. This means that if you're not currently a member of the KPS-MP, we will be automatically enrolling you into the KPS-MP. You will then have 30 days to opt-out of the KPS-MP. It is very important for you to note that it is ***your*** responsibility to take action to opt-out of KPS-MP if you don't want to jeopardise any protection you may have in place, such as Primary, Enhanced or Fixed.

## 16. What if I need more help or advice?

Annual and Lifetime Allowances are a complex area of retirement planning and we therefore strongly recommend that you consult with an Independent Financial Adviser if you require further help or advice. If you do not have your own Adviser, then please refer to **http://www.unbiased.co.uk/**

Please note, the Government expects to release more details over the next few months and we will update this Q&A document once further information is known.

# Examples

## 1. Assessing your pension contributions against the Annual Allowance

Your basic salary is £80,000 at the start of the Pension Input Period from 1 April 2012 to 31 March 2013 and you contribute 8% of your Basic Pay into your KPS-MP Retirement Account and the Company contributes 14%. This means that the total pension savings paid into your Retirement Account in the period ending 31 March 2013 is:

| | | |
|---|---|---|
| Your contributions | £80,000 x 8% | £6,400 |
| Employer contributions | £80,000 x 14% | £11,200 |
| **Total pension savings** | | **£17,600** |

You are then awarded a bonus payment of £15,000 and you have decided to pay this into your Group SIPP. This means that your overall pension contributions for 2012/2013 is £32,600 which is less than the Annual Allowance of £50,000 so there is no Annual Allowance charge to pay.

## 2. Making use of your unused Annual Allowance from previous tax years

Your Basic Pay at the start of the Pension Input Period is £120,000. You contribute 10% of your basic pay into your KPS-MP Retirement Account and the Company contributes 14%. This means that the total pension savings paid into your Retirement Account for the period ending 31 March 2013 is:

| | | |
|---|---|---|
| Your contributions | £120,000 x 10% | £12,000 |
| Employer contributions | £120,000 x 14% | £16,800 |
| **Total pension savings** | | **£28,800** |

You are then awarded a bonus payment of £40,000 and you decide to pay this into your SIPP.

This gives an overall pension savings for the Pension Input Period of £68,800 which is more than the Annual Allowance of £50,000.

However, you have unused Annual Allowance from previous tax years that can be carried forward as follows:

| | |
|---|---|
| 2011/2012 | £15,000 |
| 20010/2011 | £10,000 |
| 2009/2010 | £12,000 |
| **Total unused Annual Allowance** | **£37,000** |

Together with the £50,000 Annual Allowance for 2012/2013, you have available an Annual Allowance of £87,000. Therefore, as the Pension Input Amount of £68,800 is less than this, there is no Annual Allowance charge payable.

## 3. Impact of changes to Annual Allowance and top rate income tax

The following table illustrates the impact of the reduced Annual Allowance and top rate of income tax on your maximum pension contributions and tax relief in this and the next two tax years.

| | Tax year 2012 - 2013 | | Tax year 2013 - 2014 | | Tax year 2014 - 2015 | |
|---|---|---|---|---|---|---|
| | Maximum contribution | Tax Relief | Maximum contribution | Tax Relief | Maximum contribution | Tax Relief |
| **Higher Rate taxpayer (40%)** | £50k | Up to £20k (i.e. 40% of £50k) | £50k | Up to £20k (i.e. 40% of £50k) | £40k | Up to £16k |
| **Top-rate Taxpayer (50%)** | £50k | Up to £25k (i.e. 50% of £50k) | £50k | Up to £22.5k* (i.e. 45% of £50k) | £40k** | Up to £18k (i.e. 45% of £45k) |

* Top-rate tax relief reduces from 50% to 45%
** Annual Allowance reduces from £50k per annum to £40k per annum

This table shows that the maximum amount of tax relief applying to your pension contributions will reduce over the next few years and you may want to take this into consideration when planning your contribution levels. You can of course contribute more than the Annual Allowance, but you are likely to be subject to an additional tax charge as outlined in question 7.