KINGFISHER PENSION SCHEME

KINGFISHER

BUDGET 2010 – CHANGES TO TAX RELIEF FOR PENSION SAVINGS FROM 2011 FOR MEMBERS OF KINGFISHER PENSION SCHEME - FINAL SALARY SECTION (KPS-FS)

As you may be aware the Government has recently announced changes to tax relief for pensions savings which are due to be implemented from April 2011. We set out below, in the form of a Q&A, details of the changes as we understand them, based on the information available.

1. I have heard that the Government has announced changes to some of the current pension rules. What are the main changes?

The main changes are:

- From the 2011/2012 tax year the Annual Allowance will reduce from £255,000 to £50,000;
- The factor used to calculate the annual pension saving under a defined benefit pension (like the Kingfisher Pension Scheme – Final Salary section (KPS-FS)) will increase from 10:1 to 16:1
- There will be a three year carry forward rule that allows you to carry forward any unused Annual Allowance from the last three tax years if you have made pension savings in those years. This means if your pension saving is more than £50,000 in one year you may not have to pay additional tax;
- In addition, there will be a reduction to the Lifetime Allowance from £1.8 million to £1.5 million (see 15 below) from April 2012.

2. What is the Annual Allowance and how is it changing?

The Annual Allowance is the maximum amount of pension saving you can have each year that benefits from tax relief. This includes pension savings that you make plus any made by your employer. If your pension saving is more than the Annual Allowance you may have to pay an additional tax charge. This tax charge is called the Annual Allowance charge.

The amount of the Annual Allowance for the 2010/11 tax year is £255,000. From April 2011 the Annual Allowance will be £50,000.

February 2011

3. What is the Pension Input Period?

The Pension Input Period (PIP) is the period used to calculate the increase in your pension input amount. The PIP period for KPS each year is 1 April to 31 March.

4. How do I work out the amount of my pension savings?

As a member of KPS-FS, the Annual Allowance test for defined benefits pensions (like the KPS-FS) will continue to be based on the value of the increase in defined benefit rights over each pension input period (rather than the contributions paid to the Scheme). The value of the increase is known as the pension input amount. There are, however, two important changes to the details of the calculations from tax year 2011/12 onwards:

- The fixed factor for valuing defined benefit accrual will increase from 10:1 to 16:1; and
- The opening value of the individual's defined benefit rights will be revalued in line with CPI (based on the increase in the CPI index for the year to the September before the start of the tax year in which the pension input period ends).

Please see Example 1 for further details

Example 1
Scott is a member of a defined benefit pension scheme providing a pension of 1/60th of pensionable salary for each year of membership. During his latest pension input period 1 April 2011 to 31 March 2012, Scott completed 20 years pensionable service and his pensionable salary increased from £60,000 to £66,000. His pension input amount for the tax year is calculated as follows:

	Start of input period (01/04/2011)	**End of input period (31/03/2012)**
Pensionable service completed (years)	19	20
Pensionable salary	£60,000	£66,000
Accrued pension	£19,000	£22,000
Accrued pension revalued by CPI (Sept' 10 3.1%)	£19,589	n/a
Increase in accrued pension over input period		£2,411
Value for testing against the annual allowance (x16)		**£38,576**

The pension input amount is £38,576. This is less than the Annual Allowance of £50,000 so there is no Annual Allowance charge to pay.

5. Are Additional Voluntary Contributions (AVCs) taken into account when calculating my pension savings?

Yes, the total AVCs paid over each pension input period should be added to the total value for testing against the annual allowance, (as above) to calculate your total Pension Input Amount.

Please see Example 2 for further details

Example 2
Mandy is a member of a defined benefit pension scheme providing a pension of 1/60th of pensionable salary for each year of membership. During her latest pension input period 1 April 2011 to 31 March 2012, Mandy completed 15 years pensionable service and her pensionable salary increased from £70,000 to £75,000. In addition Mandy paid AVCs of 3% of her basic salary during the 2011/12 period.

Her pension input amount for the tax year is calculated as follows:

	Start of input period (01/04/2011)	**End of input period (31/03/2012)**
Pensionable service completed (years)	14	15
Pensionable salary	£70,000	£75,000
Accrued pension	£16,333	£18,750
Accrued pension revalued by CPI (Sept ' 10 3.1%)	£16,839	n/a
Increase in accrued pension over input period		£1,911
Value for testing against the annual allowance (x16)		**£30,576**
Total AVCs paid during the PIA (£75,000 x 3%)		**£2,250**
Total Pension Input Amount		**£32,826**

The pension input amount is £32,826. This is less than the Annual Allowance of £50,000 so there is no Annual Allowance charge to pay.

6. Will I be affected by the changes to the Annual Allowance?

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 input amount is more than £50,000 in any one year. (the pension input period).

Even if your pension input amount is 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 (see 7 below).

Please see Example 3 for further details.

7. How does carry forward work?

If you have not used all your Annual Allowance in one or more of the last three tax years, the unused amount is added to the Annual Allowance available for the current tax year. This means you can make pension savings above the Annual Allowance (£50,000) in one year and not have to pay an Annual Allowance charge if you had sufficient unused Annual Allowance from the previous three tax years. For PIPs beginning in the 2011/12 tax year, the 2008/09, 2009/10 and 2010/11 Annual Allowance is assumed to be £50,000.

8. Carry forward and tax relief

Where unused Annual Allowance carried forward from an earlier tax year is being used up, the usual pension tax relief rules still apply to any contribution above the standard Annual Allowance:

- Tax relief only applies to personal contributions up to 100% of the individual's relevant UK earnings for the current tax year; and
- Relief against corporation tax on employer contributions is subject to the usual wholly and exclusively test.

9. The carry forward framework

Unfortunately, working out how much Annual Allowance can be carried forward is not simply a case of looking at how much was paid in each of the previous three tax years and then carrying forward the balance (if any) from each year to the current year. There are strict rules governing how carry forward works:

- **Three year carry forward window:** Unused Annual Allowance can only be carried forward to the current tax year from the previous three tax years. Any unused Annual Allowance is lost after the three year window closes.
- **Was a scheme in place during the earlier year(s)?:** Annual Allowance can only be carried forward from a tax year if the individual was a member of a registered pension scheme at some point during the year in question (but there's no need for any contributions to have been made to the scheme in that year).
- **Deemed £50,000 allowance for 2008-2011:** To work out the amount that can be carried forward, it is assumed that the Annual Allowance for tax years 2008/09, 2009/10 and 2010/11 was £50,000.
- **Impact of excess provision in earlier years:** Where there is unused Annual Allowance to carry forward from a tax year, but the Annual Allowance has been exceeded in a later year within the three year carry forward period (known as an intervening year), the excess will use up some of the unused allowance from the earlier year.
- **Using-up carried forward allowance:** Unused Annual Allowance carried forward from earlier tax years can only be used once the current year's Annual Allowance has been fully used up. The carried forward allowance is then used-up starting with the oldest unused allowance first.

Example 3 for further details

Example 3
Sally is a member of a defined benefit pension scheme providing a pension of 1/60th of pensionable salary for each year of membership. During the Scheme's 2011/12 pension input period, Sally completed 30 years pensionable service and her pensionable salary increased from £80,000 to £95,000 following her promotion. Her pension input amount for the 2011/12 tax year is calculated as follows:

2011/12	01/04/2011	31/03/2012
Pensionable service completed (years)	29	30
Pensionable salary	£80,000	£95,000
Accrued pension	£38,666	£47,500
Accrued pension revalued by CPI (Sept ‘ 10 3.1%%)	£39,865	n/a
Increase in accrued pension over the input period		£7,635
Value for testing against the annual allowance (x16)		**£122,160**
Excess over annual allowance		**£72,160**

On the face of it, this leaves Sally facing a hefty Annual Allowance tax bill on her excess provision of £72,160 as a reward for her promotion! However, because her salary growth was limited during the early years, Sally has unused Annual Allowance of £96,480 available to carry forward from the previous three tax years (see calculations below). This is sufficient to cover her excess provision for 2011/12 and remove the risk of a tax charge.

2008/2009	01/04/2008	31/03/2009
Pensionable service completed (years)	26	27
Pensionable salary	£75,000	£78,000
Accrued pension	£32,500	£35,100
Accrued pension revalued by CPI (Sept '07. 1.8%)	£33,085	n/a
Increase in accrued pension over the input period		£2,015
Value for testing against the annual allowance (x16)		£32,240
Unused allowance available to carry forward from 2008/09		£17,760
2009/10	01/04/2009	31/03/2010
Pensionable service completed (years)	27	28
Pensionable salary	£78,000	£80,000
Accrued pension	£35,100	£37,333
Accrued pension revalued by CPI (Sept '08. 5.2%)	£36,925	n/a
Increase in accrued pension over the input period		£408
Value for testing against the annual allowance (x16)		**£6,528**
Unused allowance available to carry forward from 2009/10		£43,472
Cumulative carry forward available		**£61,232**
2010/2011	01/04/2010	31/03/2011
Pensionable service completed (years)	28	29
Pensionable salary	£80,000	£80,000
Accrued pension	£37,333	£38,666
Accrued pension revalued by CPI (Sept '09. 1.1%)	£37,744	n/a
Increase in accrued pension over the input period		£922
Value for testing against the annual allowance (x16)		**£14,752**
Unused allowance available to carry forward from 2010/11		£35,248
Cumulative carry forward available		**£96,480**

10. 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 Lifetime Allowance to provide a tax-free cash lump sum subject to a maximum of 25% of the Lifetime Allowance (see 15 below).

The Government has not announced any change to this.

11. Are there any exemptions from the Annual Allowance charge?

The only exemptions are death and serious ill-health retirement (HMRCs definition of serious ill-health is where life expectancy is less than one year). The Government is currently considering an exemption for 'major' ill-health and we expect further details including a definition in the coming months.

12. How do I know what my pension input amount is?

Kingfisher Group Pensions will write to you within 90 days of the end of the Pension Input Period, if your Pension Input Amount is greater than the £50,000.00 Annual Allowance.

13. If my pension input amount exceeds the Annual Allowance what charge will I pay?

The Annual Allowance charge is payable at the individual's marginal rate of tax based on your taxable income plus the amount of your excess pension savings. If you complete your tax return online the amount of tax you need to pay will be calculated for you.

14. How will I report and pay the Annual Allowance charge?

You are responsible for telling HMRC that you are liable to the Annual Allowance charge. In most cases it is likely that tax will be collected through self-assessment. If you do not normally complete a tax return you should tell HMRC that you need to complete one.

The Government is currently considering alternative options for payment and we expect further details in the forthcoming months.

15. 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.

16. Is the Lifetime Allowance changing?

The Lifetime Allowance is used to measure the total value of member's pension benefits from all registered schemes at the time the benefits are put into payment.

The Lifetime Allowance is currently £1.8 million. The Government has announced that the Lifetime Allowance will reduce to £1.5 million from 6 April 2012.

17. Can I increase my pension savings before the changes are implemented?

Anti-forestalling regulations (introduced in April 2009) continue until April 2011. If you have earnings over £130,000 (including salary, bonuses, vested PSP and allowances and redundancy payments in excess of £30,000) and you are considering making any changes to your pension contributions we suggest that you consider your personal circumstances and look into the detail carefully before proceeding, whether it is within KPS or to any external pension arrangements.

You should seek the services of an Independent Financial Advisor (IFA). You can search for a local IFA on the Unbiased website www.unbiased.co.uk. This website is run by IFA Promotion Limited, who promotes independent financial advice for consumers.

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

18. Are there any exemptions from the pension Annual Allowance test from 2011?

From tax year 2011/12 onwards, there are very few circumstances where pension input amounts will not be tested against the Annual Allowance. Exemptions from the Annual Allowance test will only apply on:

- Death;
- Serious ill-health (i.e., life expectancy of under a year); or
- "Major" ill-health (details to be confirmed).

The exemption in the year of retirement that applied up to tax year 2010/11 does not apply from tax year 2011/12 onwards.

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