KINGFISHER PENSION SCHEME

KINGFISHER

BUDGET 2010 – CHANGES TO TAX RELIEF FOR PENSION SAVINGS FROM 2011 FOR MEMBERS OF KINGFISHER PENSION SCHEME - MONEY PURCHASE SECTION (KPS-MP)

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 2011/2012 the Annual Allowance (see 2 below) 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 13 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 2010/2011 tax year is £255,000. From April 2011 the Annual Allowance will be £50,000.

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

As a member of KPS-MP (which is a defined contribution scheme) you and your Employer pay pension contributions as a percentage of your Salary (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).

Please see Example 1 for further details.

4. 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 saving is more than £50,000 in any one year (the pension input period – see 6 below). Even if your pension saving 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.

Please see Example 3 for further details.

5. Do I need to know how much I have paid in contributions and how much my Employer has paid in contributions?

Yes, your pension saving amount includes your contributions (including AVCs) and contributions paid into your Retirement Account by your Employer. Kingfisher Group Pensions will write to you within 90 days of the end of the Pension Input Period if your pension saving in any year is greater than £50,000.

6. What is the Pension Input Period?

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

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.

Please see Example 3 for further details.

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 (see 14 below). The Government has not announced any change to this.

9. 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.

10. If my pension savings exceed 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.

11. 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.

12. 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.

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.

13. 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.

14. 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 our occupational pension schemes 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.

15. 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.

Changes to Tax Relief for Pension Savings from 2011

Example 1

John has a basic salary of £30,000 at the start of the Pension Input Period. John contributes 5% of his salary into his Retirement Account and his Employer pays 5%. This means that the total contributions paid into his Retirement Account in the period ending 5 April 2012 are:

Member = £30,000 x 5% = £1,500
Employer = £30,000 x 5% = £1,500
Total £3,000

The pension saving for 2011/2012 is £3,000. This is less than the Annual Allowance of £50,000 so there is no Annual Allowance charge to pay.

Example 2

Kerry has basic salary of £40,000 at the start of the Pension Input Period. Kerry pays AVCs so she contributes 8% of her basic salary (5% normal contributions and 3% AVCs) into her Retirement Account and her Employer contributes 5%. This means that the total contributions paid into her Retirement Account in the period ending 5 April 2012 are:

Member = £40,000 x 5% = £2,000
Member AVCs = £40,000 x 3% = £1,200
Employer = £40,000 x 5% = £2,000
Total = £5,200

Kerry has been awarded a bonus payment of £15,000 and has decided to pay this into her SIPP.

The pension saving for 2011/2012 is £20,200. This is less than the Annual Allowance of £50,000 so there is no Annual Allowance charge to pay.

Example 3

Peter has basic salary of £120,000 at the start of the Pension Input Period. Peter pays AVCs so he contributes 10% of his basic salary (5% normal contributions and 5% AVCs) into his Retirement Account and his Employer contributes 5%. This means that the total contributions paid into his Retirement Account in the period ending 5 April 2012 are:

Member = £120,000 x 5% = £6,000
Member AVCs = £120,000 x 5% = £6,000
Employer = £120,000 x 5% = £6,000
Total = £18,000

Peter has been awarded a bonus payment of £40,000 and has decided to pay this into his SIPP.

The pension saving for 2011/2012 is £58,000.This is more than the Annual Allowance of £50,000.

However, Peter has unused Annual Allowance from previous tax years that can be carried forward. The unused Annual Allowance for the previous three tax years is;
2010/2011 £15,000
2009/2010 £10,000
2008/2009 £12,000

Together with the £50,000 Annual Allowance for 2011/2012 Peter has available Annual Allowance of £87,000. Peter's 2011/2012 Pension Input Amount of £58,000 is less than this so the Annual Allowance charge is not payable.

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