

MARCH 2008 NEWSLETTER

The Budget

For once there was nothing negative in the Budget about pensions. Nor sadly was there much that was positive.

The Lifetime Allowance for 2008/09 was confirmed at £1.65M, with the Annual Allowance also being confirmed at £235,000.

The triviality maximum is also increased to £16,500 for 2008/09, as expected.

Mr Darling also announced a relaxation of the triviality position as it relates to company schemes. If someone has a company pension that, when it comes into payment, has a value of less than £2,000 (which is effectively pensions below £100 per annum), it can be wholly commuted for a cash sum. It appears that this will be on a scheme by scheme basis i.e. if someone has a pension in one scheme of £80 a year and in another scheme of £70 a year, then when they are due to start receiving them, they could commute each of them for a lump sum. 25% of the lump sum would be tax free; the other 75% would be subject to income tax at their marginal rate.

Whilst this is aimed at reducing administration costs of company schemes, and as such is laudable, it does create yet another difference between company pension schemes and personal pension schemes (remember that the original idea was that all pension schemes were equal after 6th April 2006!). It will also only be possible if the rules for that scheme are amended to allow such commutation (unless it turns out to be over-riding legislation, which is unlikely).

Some of the detail is still awaited, but potentially it means that in future there will be 2 different “triviality” regimes – for personal pensions it will be the global £16,500 limit whilst for company schemes it will be on a scheme by scheme basis, with a limit per scheme of £2,000.

It is also unclear how, if at all, these 2 different approaches will interlink: if someone commutes a small company pension for say £1,500, does it mean that their triviality limit for their personal schemes will be £15,000 or is it still £16,500?

A further reminder that the end of the tax year is looming

We are rapidly approaching the end of the 2007/08 tax year. So IFAs, Accountants, and tax advisors should be checking with their clients as to whether any additional pension contributions should be paid by 5th April.

Remember; company pension contributions can be used by the company to reduce their Corporation Tax bill; personal pension contributions attract tax relief at the highest marginal rate i.e. up to 40%.

The Annual Allowance for the 2007/08 tax year is £225,000.

The basic rate of tax reduces to 20% from 22% from 6th April 2008. So those clients who are basic rate tax payers should consider maximising their pension contributions in the 2007/08 tax year, to ensure tax relief at 22% rather than 20% i.e. their tax savings this tax year will be 10% higher.

For existing MW SIPP clients we can accept contributions by cheque up to 5th April. Telegraphic transfers must be in the client account by 5th April

Act now!!

Gilt yield for drawdown rates

The gilt yields to be used for drawdown calculations are:

| | |
|---------------|-------|
| November 2007 | 4.75% |
| December 2007 | 4.50% |
| January 2008 | 4.50% |
| February 2008 | 4.25% |
| March 2008 | 4.50% |
| April 2008 | |

We do not give financial advice and no comments here are intended as such. Before taking any action you should consult a qualified financial and/or tax adviser.

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