

HR: prepare for pensions tax legislation now

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HR managers need to be aware of new legislation affecting pension contributions which is coming into force in April this year.

At the moment if someone's total earnings for the current and previous two tax years is less than £130k per annum, then an individual or company can make pension contributions of up to £255k and receive full tax relief at their highest rate, providing this is done by 5 April 2011.

From 6 April 2011 the rules will change and pension contributions will be capped at a maximum of £50k per annum.

"Despite the new £50k limit, one thing to consider is that providing there is an existing pension plan in place, (even if no pension contributions have been made into it) there is a three year carry forward period of unused tax relief which could be used to pay a large contribution of up to £200k next tax year," explains Rod Milne, joint managing director for HFS Milbourne.

The new rules are most likely to affect (although not exclusively) company directors who are looking to extract money from the business in a tax efficient way and employees who receive lump sum payments as part of a salary package.

"It would be very unusual for a HR manager to be expected to know the finer details of the legislation. However, just being aware that pension rules are changing should flag up the need to talk to a trusted independent advisor, not least to ensure staff receive best advice," adds Rod.

He continues: "Pensions can be very complex and things are set to become even more complicated with the introduction of a whole raft of new legislation, when compulsory workplace pensions come into force in 2012. If in doubt seek expert advice."

HFS Milbourne has recently advised 'John', a principal of his own limited company, who draws a salary of £6,500 per annum and £4,000 per month in dividends, well within the £130k annual earnings limit.

“One option was for John to pay himself a large dividend, but this would attract a significant amount of tax. Instead we suggested that the company make an employer payment of £100k into John’s pension plan by the cut off date of 5 April 2011.”

Certain criteria had to be met in order for this large contribution to meet the current rules. For example, the pension contribution had to be made into a new pension plan. Plus we had to ensure that rules on the Pension Input Period were satisfied. This involved us working with the pension provider to make the necessary adjustments so that the Input Period ended within the relevant tax year, in this case 5 April 2011.

“The net result of our advice: John’s company received full corporation tax relief on the payment, and John successfully increased his pension funding by £100,000,” says Rod.

“It is also worth noting that if anyone is thinking about using a self administered pension scheme to buy a commercial property in the next six months or so, it could well be worth putting as much as possible into their pension before the year end to take advantage of the same rules,” concludes Rod.

- *For further information on the new rules, please contact HFS Milbourne: you can [download an information pack](http://www.hfsmilbourne.co.uk) from the website www.hfsmilbourne.co.uk*