

# Benefit from pension changes

Jon Drysdale outlines the advantages of new pension legislation

The current meagre limit on tax relief for those with income above £150,000 is to be discarded from 6th April 2011. The proposed graded removal of tax relief for those with income above £150,000 will also be re-

moved. Instead a relatively generous annual contribution limit of £50,000 has been introduced for all.

Dentists should take advice on how their NHS pension contributions and existing personal pen-

sion contributions interact with this limit. It is likely that most will have the opportunity to make substantial personal pension contributions. PFM has calculated that an NHS dentist performing a contract value of £200,000 will have used less than half of their an-

nual allowance. When assessing the limits, the unique nature of the practitioners' pension scheme (as opposed to the Final Salary NHS scheme) is likely to give dentists a significant advantage where they undertake increased NHS work.

## Annual limits can be 'carried forward' up to three years

Individuals contributing less than the £50,000 annual limit will have three years to make up for the missed opportunity. This is ideal for self-employed practitioners with varied earnings. 'The carry forward' rules come into effect from 6th April 2011 so any practitioners who haven't maximised contributions since the 2008/9 tax year will become eligible to do so. We recommend that specialist advice is taken to avoid overstepping the limits.

## 'Age 75' rule abolished – no compulsory annuity purchase

One of the most controversial and least-liked aspects of pension legislation is to be removed: Pension savers will no longer be compelled to take their pension benefits by age 75. This is a major improvement with increased flexibility for income and estate planning. The removal of the compulsory annuity will be an advantage to existing pension savers but may also re-ignite the interest of those who previously might have been deterred.

## New flexible drawdown options – income when you need it

It will now be possible to take any level of income you wish from your fund after age 55, as long as you already have a 'secure income' of £20,000 pa. 'Secure income' can include state pension benefits and other pension income including the NHS pension. This provides real flexibility for pension savers and is appropriately provided through a Self Invested Personal Pension (SIPP).

## Enhanced death benefits before and after age 75

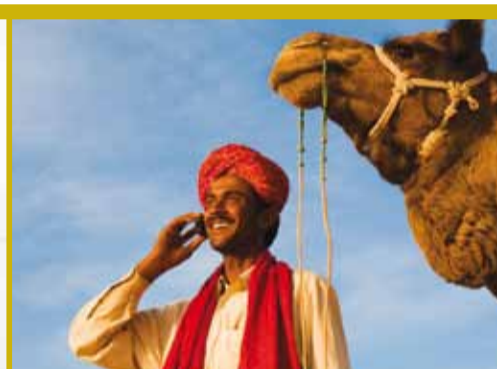
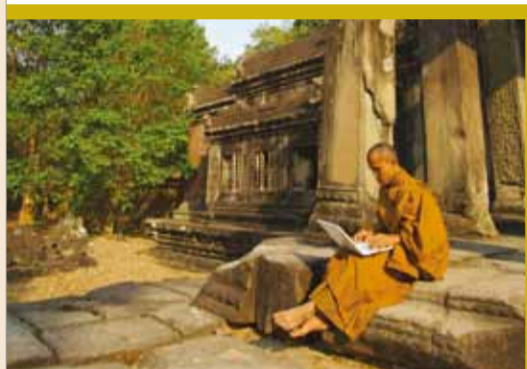
On death, pension funds can be passed to a spouse or financial dependent either as a cash lump sum or to provide a pension. Beyond age 75, where a cash lump sum is released there will be a resulting 55 per cent tax charge (previously 82 per cent!). However where the fund provides financial dependents with income there is no tax charge other than the recipient's liability to income tax. In the event of death before age 75, the fund can be released into your estate without tax charge or liability to Inheritance Tax, assuming you aren't drawing an income from the fund.

The Pension legislation as described above is expected to take effect from April 6, 2011. Although we have provided a summary of the main issues, advice on pensions is often complex and dentists should seek professional advice taking into account their individual circumstances.

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