



BLACKTOWER FINANCIAL ADVISERS LIMITED

The Professional Forum

Pensions Update February 2006

We are fast approaching April 2006 and pensions simplification, and are slowly receiving further clarification from the Revenue regarding the changes to be implemented.

Doctor's and Dentists - NHS Pension Contributions

The Revenue has recently announced changes to the tax relief on NHS Pension Scheme contributions for general medical and general dental practitioners.

- **Now the 14% 'employer' contributions are to be considered as individual contributions.** This means that instead of total contributions being deemed to be 6% member and 14% employer, the full 20% is deemed to be member contributions.
- This change will have adverse effect on those who are foregoing tax relief on their NHS contributions, to enable them to pay PPS contributions on their total capped income.
- **Instead of 6%, they will now be foregoing relief on 20% contributions, or more if they are paying additional contributions.**

Is it still the best advice to make use of the A9 concession for PPS contributions, particularly in light of these changes, and also when one considers the April 2006 changes?

Tax relief on employer contributions

The Revenue has recently published draft guidance in respect of the deductibility of employer contributions to registered pension schemes. **Employer contributions will be deductible if they are made wholly and exclusively for the purposes of the employer's trade.** There are limited circumstances where a non-business purpose may exist for making contributions:

- Large contributions paid for a controlling director or a relative or close friend of them.
- Contributions paid by someone other than the former employer after the trade has ceased.

However, there is a great deal of uncertainty regarding contributions paid in respect of business proprietors, and their family and friends. Evidence that may be considered in determining whether there is a non-trade purpose are:

- Are similar payments made for comparable third-party employees?
- Is there a valid reason such as the rectification of a funding deficit?
- Does the salary and pension contribution reflect accurately the value of the work being done?
- Low salary and high contribution may indicate tax and NI planning as a purpose.

Clients will have to proceed with a degree of caution, at least until we all gain some experience of how the Revenue are going to exercise their powers in this area.

SIPPS and Protected Rights - Clarification

- The revised draft regulations **do not allow SIPPS to hold protected rights**, as the regulations regarding appropriate schemes will not be extended to include SIPPS.
- The only schemes which can be appropriate schemes are those which invest in insured, unit trust, or cash deposits.
- Instead they permit appropriate pension schemes to hold a SIPPS arrangement within them for separate investment of all non-protected rights monies.

Borrowing Post April 2006

There has been much speculation that Property SIPPS, with secured 75% borrowings taken out before A-Day, would be able to remortgage post April 2006 on the same terms, without being restricted to the new lower borrowing limits.

We have recently had indirect confirmation from the Revenue that and this is not the case. **Any changes or re-mortgages post April 2006 will mean the borrowing limits will revert to a maximum of 50% of scheme assets.**

Our Technical Fact Sheet and Client Mailers are all available upon request and we would be delighted to arrange a presentation for your colleagues and clients if appropriate.

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