

Reductions to tax relief on pension savings

From the Ladbrokes Pension Plan ("the Plan") Trustees

This guide has been prepared to help you understand the changes to tax relief on pension savings from April 2014, as announced by the Chancellor of the Exchequer in December 2012 in the Autumn Statement.

Key points

- Annual Allowance reduces from £50,000 to £40,000. This is the value Her Majesty's Revenue & Customs (HMRC) places on pension earned during the year. Any excess over £40,000 will be subject to income tax at your marginal rate.
- HMRC place a value of £16 on each £1 of pension earned in the year.
- Unused Annual Allowance from the 3 previous years may be carried forward.
- The Lifetime Allowance on tax approved pension savings is reducing from £1.50m to £1.25m.

For most, these reductions to tax relief are unlikely to have a direct impact to their Plan membership. However, the Government's planned changes to the State Pension system will result in 1.4% National Insurance increases for all members.

The Annual Allowance

The Government has made further reductions to the "Annual Allowance" test for pension contributions. The Annual Allowance will reduce to £40,000 for the 2014/15 tax year. Pensions savings "for a year" which total more than the Annual Allowance will incur a tax charge payable upfront. "Pension savings" include the value placed on pension earned in a defined benefit scheme (such as the Plan) along with any money purchase contributions made by you* and Ladbrokes.

Bearing in mind that pensions are subject to income tax when paid in retirement, pension savings above the Annual Allowance are being taxed twice.

When might the Annual Allowance changes first affect me?

Your pension savings are tested against the Annual Allowance normally over a 12 month period, known as the "Pension Input Period" (PIP). The Trustees have selected the Plan's PIP to be the twelve month period to 30 June each year.

The first test applied to a PIP which was a partial year (from 14 October 2010 to 30 June 2011 and compared with the Annual Allowance of £50,000). Each subsequent tax year, your pension savings in the Plan will be measured over the 12 months ending on 30 June and compared with the Annual Allowance.

*Note - contributions you actually make may be gross or net of basic rate tax depending on the type of scheme you are in and how you have paid them, but it is your gross contributions that are tested for Annual Allowance purposes.



Example: John

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No tax charge below the Annual Allowance

Pension John earned during the year: **£1,500 a year**

HMRC pension value (£16 x £1,500): **£24,000**

The £24,000 value of John's pension earned during the year is within the Annual Allowance of £40,000, so no additional tax is payable.

2**Example: Jane****Tax charges payable for exceeding the Annual Allowance**Pension Jane earned during year: **£5,000 a year**HMRC pension value (£16 x £5,000): **£80,000**

The £80,000 value of Jane's pension earned during the year exceeds the Annual Allowance of £40,000. The £40,000 excess will be subject to income tax (but see the 3 year carry forward example below).

How much extra tax will I pay and when?

Any tax due for exceeding the Annual Allowance will need to be identified and reported by you through the self-assessment tax system (NB it will not be collected through PAYE). Any tax due for 2011/12 will therefore not be payable until January 2013. However, if the tax across all your schemes is greater than £2,000 you may be able to ask each scheme to pay a share and reduce your benefits due from the scheme to pay the tax. If you are interested in this option please contact Phil Rixon, Ladbrokes Pension & Benefits Manager.

I have a pension from previous employment – is that taken into account?

This is unlikely to have an impact on whether you exceed the Annual Allowance. However, you should ask your previous scheme to confirm this for you if you think you might exceed the Annual Allowance.

3**Example: Jane****Using the 3 year carry forward**

In the previous 3 years (when the annual allowance was £50,000), the value of Jane's pension earned in each of these years was:

	Value	Unused allowance
3 years ago:	£30,000	£20,000
2 years ago:	£40,000	£10,000
1 year ago:	£50,000	Nil

Jane's unused allowance can be carried forward so that the value of pension earned in the current year can be £60,000 (£3,750 pm = £60,000 ÷ 16) before she suffers a tax charge.

Are there any exemptions from the Annual Allowance test?

Yes, in certain cases of serious ill health and on death.

State Pension

The Government has confirmed that a single tier State Pension will be introduced from April 2016. One consequence of this is that "Contracting Out" will end so your National Insurance contributions (and those of Ladbrokes) will increase. Once these plans are finalised, the Trustees and Ladbrokes will be able to provide more details of the Government's report.

The Lifetime Allowance

The Government is also reducing the "Lifetime Allowance" from £1.50m to £1.25m with effect from 6 April 2014. The Lifetime Allowance relates to the value of the total pension fund you build up across all your pension arrangements. If you draw benefits worth more than the Lifetime Allowance, then you will pay 25% extra tax on the excess benefits when you draw them as pension.

HMRC place a value of £20 on each £1 of pension at retirement to calculate your Lifetime Allowance. If you think you already have total pension benefits that might build up to be close to the Lifetime Allowance, it is important that you take advice as there may be opportunities to register for special protections from the tax.

4**Example: Adam****Exceeding the Lifetime Allowance**Adam retires in 2014 with a pension of: **£100,000 a year**HMRC pension value for the Lifetime Allowance (20 x £100,000): **£2.00m**Lifetime Allowance in 2014: **£1.25m**Amount Adam exceeds the allowance by (£2.00m - £1.25m): **£750,000**This excess is equivalent to an annual pension over the allowance of (£750,000 / 20): **£37,500**

Adam will suffer an additional 25% tax each year on the £37,500 of pension each year that takes him over the Lifetime Allowance.

Income tax is also due on his £100,000 a year pension.

What do I need to do?

If you believe that you may be affected by the Annual Allowance or Lifetime Allowance, you should consider taking independent financial advice, taking into account your personal circumstances.

Neither Ladbrokes plc, the Trustees nor Hymans Robertson LLP (the Plan Administrator) are authorised to give you financial advice.

HMRC has published draft guides for individuals on their website at the following links:

<http://www.hmrc.gov.uk/pensionschemes/understanding-aa.htm>

<http://www.hmrc.gov.uk/pensionschemes/understanding-la.htm>

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