

## Pension Tax and Employers

### Pension saving – tax rules

There are rules around how much someone can save in a pension scheme and how much tax relief they can get on their contributions. The rules apply to everyone, no matter what type of scheme they are in or when they joined the scheme.

### What does it mean for employers?

Employers receive tax relief for their contributions on the same basis as all their other business expenditure.

Individuals can obtain tax relief on their contributions of up to 100% of their UK earnings. Therefore, employers who operate 'net pay' through the payroll on employee pension contributions do not need to worry about complex contribution rules.

### What are the key features of pensions tax?

There is no limit on the amount of pension saving an individual can build up in a registered pension scheme. There are only two key controls – a Lifetime Allowance and an Annual Allowance.

The annual allowance is £235,000 for the year 2008/09. If the increase in the value of an individual's pension rights or their contributions, (plus any contributions from the employer) exceeds the annual allowance there is a tax charge on the individual at 40% on the excess.

There is also a lifetime allowance (LTA), which is £1.65 million for the year 2008/09. When an individual takes their benefits, if their total pension savings exceed this, they will be taxed on any amount over £1.65 million. This 'Lifetime Allowance charge' is set at 25% if the additional savings are taken as a pension, and 55% if taken as a lump sum.

Tax relief is available for individuals on contributions of up to 100% of UK taxable earnings (including bonuses, overtime, benefits etc). Non-taxpayers and low-earners can also save for a pension and, for every £100 they contribute, HMRC will contribute a further £25, up to a combined total of £3,600 in a tax year. You can contribute more than this, but your fund will not receive any further contributions from HMRC.

### Are there any additional benefits?

A single set of rules on pensions in payment allows scheme members to take a proportion of their overall benefits in the form of a tax-free lump sum. Subject to the rules of their scheme, this can be up to 25% of the value of their pension fund within the value of the lifetime allowance.

Employers have the commercial freedom to design schemes and change scheme rules to meet the requirements of modern working practices without worrying about complex tax rules.

Flexible retirement is easy as the rules allow pension savers to take some pension benefits while continuing to work – even for the same employer (although this is subject to scheme rules). Therefore, your employees are able to contribute their skills and knowledge on a part-time basis without being penalised by an associated drop in income.

### Anything else to note?

Individuals can claim protection of pre-6 April 2006 rights from the lifetime allowance charge by registering a claim with HMRC. They can also protect existing lump sum rights where these would be greater than is permissible after 6 April 2006. **Claims must be registered by 5 April 2009** on the *Protection of the Existing Rights* form (APSS 200).

Individuals can join more than one scheme, for example, an employer's occupational scheme and a personal pension scheme. Employers do not need to worry about what other pension provision an individual has. This, combined with the single set of rules means a reduction in the burden on Scheme Administrators resulting in lower administration costs for pension schemes.

The minimum pension age must be raised from 50 to 55 by 2010 – but protection is available for most pre-6 April 2006 members of pension schemes who have an agreed lower normal retirement age.

For those employers wishing to contract-out, the 'Election to Contract-out' forms are now combined to two forms.

## Who administers a pension scheme?

The only person who can register a scheme for tax purposes is the Scheme Administrator. The tax rules require that a registered pension scheme must have at least one Scheme Administrator. That is to say, a person or persons legally responsible for fulfilling certain functions on behalf of the pension scheme. Often the employer or an individual director will be the Scheme Administrator for their scheme.

### **The registration of all new schemes must be done online.**

Reporting obligations rest with the Scheme Administrator. The online filing system is Pension Schemes Online through which Scheme Administrators make returns of information and submit reports. It is mandatory for many of the reports and returns to be filed online. Scheme Administrators need to pre-register with Pension Schemes Online service to be able to use it.

Scheme Administrators & Employers need to decide who they want to submit the required returns and reports for their scheme and with whom they want HMRC to correspond. Practitioners can be authorised by a Scheme Administrator, so long as they have pre-registered with Pension Schemes Online on the Pensions Scheme Service.

Authorised practitioners have all the same privileges as Scheme Administrators, although they will not be able to register a scheme for tax relief in the first instance. Unauthorised practitioners can submit reports, but they will have limited visibility on scheme data, HMRC will communicate only with Scheme Administrators and authorised practitioners.

For more information about the Scheme Administrator, please see our factsheet on our website at [www.hmrc.gov.uk/pensionschemes/scheme-administrator-facts.pdf](http://www.hmrc.gov.uk/pensionschemes/scheme-administrator-facts.pdf)

For information on using the HMRC Pension Scheme Online service, there is a guide at <http://www.hmrc.gov.uk/pensionschemes/online-user-guide.pdf>

## What should employers do now?

Familiarise yourself with the rules.

If you don't know who the Scheme Administrator is for your scheme you may wish to check with your pension provider. And if you are the Scheme Administrator, you should make yourself fully aware of your responsibilities. Remember, it is mandatory for Scheme Administrators to file information returns to HMRC online!

You may also want to check your scheme rules to see if any changes need to be made. Schemes are responsible for deciding what benefits they wish to offer members and whether they want to include the full benefits allowed by the rules. For example, scheme rules do not have to allow flexible retirement provision or a 25% tax-free lump sum.

Also schemes will need to consider how they will communicate any changes in scheme rules to their members to ensure that they know exactly what their particular scheme offers.

### **Where can I find out more?**

Visit our website at [www.hmrc.gov.uk/pensionschemes](http://www.hmrc.gov.uk/pensionschemes) to get the most up to date information on pensions tax simplification including all the required forms and completion notes.

Look for guidance specifically written for employers, including explanations of the terms used in this handout. This can be found at: [www.hmrc.gov.uk/manuals/rpsmmanual/index.htm](http://www.hmrc.gov.uk/manuals/rpsmmanual/index.htm)

Phone our Helpline on **0845 600 2622**  
(Monday to Friday 09.00 to 17.00)