

Annuity compulsion may be withdrawn

A Private Members Bill to relax the requirement on pension funds to purchase an annuity at age 75 has been tabled by Labour MP John Butterfill and passed a first reading in January. Butterfill claims cross party support for the measure and the Sunday Times is crusading on the issue.

Butterfill believes that pensions are receiving much less favourable treatment than tax-efficient ISAs, venture capital trusts and enterprise investment schemes. Let's hope that sense will prevail on this important issue.

Income Drawdown - transfer now possible

A change to Personal Pension Scheme regulations (SI 2001 No 119) means that it will be possible from 14 February to transfer an existing Income withdrawal arrangement from one provider to another. The transfer option will only be available to existing plans that have been in force for at least twelve months. This will enable holders of the Equitable Managed Annuity policies to transfer their funds.

Equitable Life

Funds outflow has accelerated, the search for a new Board of Directors has commenced and a buyer for saleable elements of the organisation is still being sought. Capping of the GAR liability must be the top priority for any new management but that is easier said than done. With a with-profits fund total return of 2.7% for 2000 and a 5 month interim bonus of 3.2%, with-profits fund values may require adjustment to reflect real asset values.

We stress the importance of taking advice on your individual circumstances.

Spring Seminars

Saunderson House are holding lunchtime seminars on Friday 16 February at Ironmongers Hall (beside the Museum of London) and on Friday 2 & 9 March at the Institute of Directors in Leeds for partners in professional firms on the maximisation of pension fund benefits. An Equitable Life update will also be provided. Please call Julia Langford to book your place.

Venture Capital Trusts

The season is upon us and issues are filling up rapidly. Currently open are Matrix Trivest, Singer & Friedlander AIM VCT 3, Baronsmead 3 and Pennine Downing AIM VCT 2. These investments are high risk and should only form a small proportion, if any, of your overall portfolio.

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This note is for general guidance only and represents our current understanding of law and Inland Revenue practice as at January 2001. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments and any income from them can go down as well as up and you may not get back the full amount you invested. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstances of the investor. For income drawdown policies, it should be noted that: high income withdrawals may not be sustainable during the deferral period; taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken - this could result in a lower income when the annuity is eventually purchased; annuity rates may be at a worse level when annuity purchase takes place and a certain investment return is required simply to "keep pace" with an annuity because a pension withdrawal fund does not receive a benefit from the early death of other pensioners, 'mortality drag', as does an annuity.

*Personal Pensions - changes from 6 April 2001
(no changes to RAPs)*

New Contribution limits

For those not in company pensions, regardless of earnings, a contribution of up to £3,600 gross per tax year may be made. For higher contribution calculation purposes, you will be able to nominate a 'basis year' for your Net Relevant Earnings. The basis year may be the current tax year or any one of the previous five tax years. If you cease to have Net Relevant Earnings, a basis year in the last five years can be selected and used to validate your contributions for the following five years.

Contributions by employees and the self-employed will be paid net of basic rate income tax. Employers will continue to pay gross.

Carry back and carry forward of contributions

At present, you must make the election to carry back before 31 January in the tax year after the one in which your payment is made. From 6 April 2001, the election to carry back can only apply to payments you make by 31 January in the tax year. Furthermore, the election to carry back must be made at the point of contribution payment. If you pay less than the maximum contribution permitted in any of the previous six tax years, the unused relief can be carried forward to the current tax year. From 6 April 2001, this carry forward facility is being abolished for all personal pension plans. The final opportunity to use the carry forward facility is for contributions paid before 31 January 2002 which are elected back to the 00/01 fiscal year.

Protection Benefits

The maximum contribution towards life assurance is currently 5% of your Net Relevant Earnings. For Personal Pension Plans commenced after 6 April 2001, this is being changed to 10% of pension contributions. For personal pension plans commenced after 6 April 2001, waiver of contribution will not be a permitted option that means the cost will no longer be tax deductible.

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