The dawn of a new tax year
Richard Lishman discusses planned changes in Tax Year 2011/12

As a new tax year dawns, it is essential that dental practitioners familiarise themselves with the proposed changes that the Coalition Government are going to introduce to the financial system this year and next. This holds particular significance where pensions are concerned as practitioners are among those professions with high pensionable earnings and will therefore be particularly affected.

Included in these changes is the elimination of the ‘default’ retirement age as from October 2011, making employers unable to force someone to retire at 65. The basic state pension itself will rise by whichever gives the highest amount from either:

- the average wage increase in earnings for that year
- the cost of living increases for that year
- 2.5 per cent

Other elements of the State Pension will continue to rise in line with prices. The Government is referring to this plan as their ‘triple guarantee’.

**Annual Allowance**

As from April 6, the yearly amount that can be saved into a pension through tax relief will be reduced from £225k to £50k. This change to the annual allowance will include the increase in the NHS Pension Scheme benefits and contributions to any other pensions. In addition, those with enhanced protection will no longer be able to exempt from the annual allowance.

If a pension contribution exceeds the annual allowance, the tax relief received by the pension needs to be repaid in full at the highest marginal rate at which relief was received. For example, if a practitioner pays £60k in their pension, £10k above the limit, the rate of tax relief is 50 per cent. (£60,000 - £50,000) x 50 per cent = £5,000.

The standard Lifetime Allowance (LTA) is the total amount of pension savings you can build up tax efficiently over your lifetime and as of April 6 2012, the Coalition plans to reduce this from its current £1.8 million down to £1.5 million. As with the annual allowance, any amount over the LTA in a pension will be taxed according to how the excess is received. As a lump sum, any excess will incur a tax charge of 55 per cent: as regular income, the tax charge of 40 per cent will apply to the excess. The charge for lump sum is higher as it will not be taxed later, whereas the pension income will be taxed at the practitioner’s highest marginal rate.

With these changes in mind, individuals should know that the Government has not released any plans to review this cap until 2016, and such a review would not necessarily lead to the limit being raised. With the rise in inflation, many more dentists could be affected by these excess charges. Furthermore, younger dentists should begin to consider pension planning now to avoid unnecessary tax charges in the future, especially as these alterations are making the process more complex.

**Alternative forms**

Despite these proposed changes, there are ways that practitioners can keep their excess savings free of tax, by looking at alternative forms of long-term saving alongside their current pension plans. For instance, the amount that can be saved, tax free, into an Individual Savings Account (ISA) is increasing annually with inflation and as of April 2011 the savable amount will have increased to £10,680.

It is the responsibility of the individual to ensure that they stay within the new limits that the Coalition Government has proposed for April 2011/12, and currently, there is no system in place to prevent the overfunding of pensions when the annual allowance is reduced. Practitioners are advised to acquire guidance from an independent financial adviser, who are one step ahead and can already offer an analytical formula that can help determine whether the practitioner will be in this position in the current year.

**About the author**

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