

Article topic: Financial Management

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Unapproved Pensions – the way forward?

We all know the merits of investing in a pension scheme and saving for our old age, but for high earners, this admirable idea seems to have taken a wrong-turn.

Up until the 2009 Budget, the attraction of 40% upfront tax relief on pension contributions and tax free growth in the scheme often outweighed the prospect of a possible 82% tax charge on death after 75 or having to buy an annuity. However, recent changes imposing a 20% tax charge for high earners on contributions over £20,000 have changed the goal posts again, which will prompt many to reassess the way they plan for retirement.

In particular, there is growing recognition that a retirement fund does not solely have to be a registered pension scheme, but can comprise an array of investments across different asset classes, with or without specific tax reliefs.

Unapproved pension schemes offer certain advantages over registered schemes, such as flexibility, and are increasingly being used by high earners. A common example is an Employer Funded Unapproved Retirement Benefits Scheme - more commonly known as EFURBS.

These are funds set up by an employer to make a provision for retirement for its employees. Unlike registered schemes, a separate set of rules exist for EFURBS and whilst the headline tax treatment may not be as favourable as for registered schemes, there can still be substantial tax benefits.

The key advantages of EFURBS include:

- No limit on contributions for employees or impact on annual or lifetime pension allowances.
- No PAYE or NIC on contributions made to the fund by the employer.
- Corporation tax relief is available in full for contributions when benefits are taken.
- They can be set up specifically for one employee and their family, or a number of employees.
- Investment returns are free of UK tax if the EFURBS is administered offshore.

EFURBS offer great flexibility and can make loans to members on commercial terms before or after retirement. They are also able to invest in a wider variety of asset classes, including residential property, antiques and overseas holiday properties.

Benefits can be taken in retirement, either as a regular pension or lump sum (up to 100%) which are likely to be subject to income tax and NIC if the beneficiary remains UK resident. Alternatively benefits can be taken as an interest-free loan. In addition, the fund is generally outside of the individual's estate for UK inheritance tax purposes. There is no requirement to buy an annuity at 75 and the fund is available to benefit family members after death.

This summary is for information only regarding the tax treatment of EFURBS. It is in generic form and does not contain investment advice which must be obtained from an FSA regulated entity. If you would like to receive more information about EFURBS, please contact us:

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