

Has your annual income exceeded £150,000 since April 2007?

**BUDGET UPDATE
APRIL 2009**

How will the 2009 Budget affect pension tax relief?

On 22 April 2009 the Chancellor announced some significant changes to the tax relief rules for pension contributions made by high earners. Transitional rules have taken effect from 22 April 2009 until 6 April 2011, when the new system should become fully effective.

Anyone with a total income (not just earnings) of less than £150,000 will be unaffected by these changes and will be able to continue to claim full tax relief on pension contributions.

For the purpose of these rules income is not limited to your earnings. It generally means total income on which Income Tax could be payable before pension contributions and personal allowances and other deductions have been applied. Any salary sacrifice in exchange for pension contributions entered into from 22 April 2009 onwards also needs to be included in the income amount.

From your income you can deduct pension contributions (excluding employer contributions) of up to £20,000 gross and the grossed up value of charitable donations that qualify for Gift Aid. It is possible that you may be able to deduct certain tax reliefs that you have received, but not any deductions from your Income Tax bill, such as through a Venture Capital Trust investment. Please refer to www.hmrc.gov.uk if you need further guidance.

This income limit includes the past two tax years, so even if your income hasn't reached £150,000 this tax year, but it did in any of the tax years from 2007/2008, then you could be affected by these rules. If you take action to reduce your total income below £150,000 to enable pension contributions to be made then it is possible that HM Revenue & Customs will apply these rules as if your income is £150,000.

Rules applying between 22 April 2009 and 5 April 2011

The government has introduced a Special Annual Allowance (normally £20,000). Until April 2011 if your total income is £150,000 or more then you may have to pay a personal tax charge on contributions over the Special Annual Allowance. This includes employer contributions and deemed contributions to Final Salary schemes. For the 2009/2010 tax year this charge is 20% which will effectively claw back higher rate tax relief.

This Special Annual Allowance is intended to prevent one off payments being made to circumvent the new rules when they are introduced in 2011. It therefore doesn't apply to regular contributions such as existing contributions set up to be paid quarterly or more frequently, as well as most benefits accumulated in final salary schemes or those paid before 22 April 2009, although these will count towards the Special Annual Allowance.

If you and your employer have made non-regular contributions (as described above) to a money purchase pension plan such as a Personal

Pension or SIPP that when averaged over the tax years 2006/07, 2007/08 and 2008/09 come to over £20,000 then you will have a Special Annual Allowance of this average or £30,000 whichever is lowest.

It is important to note that switching ongoing regular contributions to a new pension scheme may mean that these future regular contributions are now subject to the Special Annual Allowance and the 20% tax charge. This is one aspect on which we are waiting further clarification.

Summary

If you have relevant income of £150,000 or more you are limited to £20,000 p.a. gross contributions on which you can claim higher rate tax relief; unless

- you have regular contributions in excess of £20,000 p.a. when this higher amount is protected for ongoing contributions; and/or
- you have irregular contributions in excess of £20,000 p.a. when protection is given to the lower of the mean average of your irregular contributions in the last three tax years (2006/07, 2007/08 and 2008/09) or £30,000, whichever is lowest.

Rules applying from 6 April 2011

From 6 April 2011 onwards, tax relief will be restricted for people with taxable incomes of £150,000 or more. For income up to £150,000 up to 40% tax relief will continue to apply to pension contributions. On incomes above £150,000, tax relief will taper downwards and once income exceeds £180,000 tax relief on any pension contributions will be restricted to 20%.

Our views on the changes

For this tax year and the next we believe that it makes sense, in most situations, to maximise your pension contributions and to claim as much tax relief as possible whilst saving for your retirement. You should ensure that you are not going to be subject to any unwanted tax charges as described above. From 2011 onwards, anyone with an income of £150,000 or more should look at the rate of tax relief they will be personally eligible for and make a decision at that point as to whether investing in a pension is still an attractive option. Undoubtedly we will be revisiting this question over the next two years and refining our views on how to maximise the efficiency of your long term pension savings.

These rules are based on our understanding of announcements made in the 2009 Budget, the current legislation and guidance issued by HM Revenue & Customs. More information could come to light which might change our opinion and of course the rules could change.

None of the above should be taken to be advice and if you are unsure about how you are personally affected then you should seek financial advice. If you require further clarification you could visit the HM Revenue & Customs website: www.hmrc.gov.uk

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