HAS YOUR ANNUAL INCOME REACHED £130,000 SINCE APRIL 2007?

HIGH EARNERS FACTSHEET

In the April 2009 Budget, the chancellor reduced the amount of higher rate tax relief payable on pension contributions made by those with incomes of £150,000 or more in this or the previous two tax years. In the December 2009 Pre Budget Report the income limit was further reduced to £130,000. Broadly speaking:

1. You should be able to contribute at least £20,000 gross a year into pensions and get tax relief of 40%.
2. If you have been making regular monthly or quarterly contributions (even if they are greater than £20,000) which you set up prior to 22nd April 2009 you can continue to make these contributions and get tax relief of up to 40%.
3. If you have made lump sum contributions over the previous three tax years you can contribute the total of these contributions divided by three; up to a maximum of £30,000 and receive 40% tax relief. If this amount comes below £20,000 then the £20,000 limit in point 1 will apply.

For everyone else with income below £130,000 the current rules remain the same. See the 'At a Glance' box below for a summary of what you can contribute.

From April 2011 higher rate tax relief will effectively be tapered down for people with income in excess of £150,000 and will cease when income reaches £180,000. From this date the definition of income will become wider.

INCOME BETWEEN £130,000 AND £150,000 - If your income falls in this band and you have been making regular monthly or quarterly contributions (even if they are greater than £20,000) which you set up prior to 9th December 2009 you can continue to make these and get tax relief of up to 40%.

HOW DO I CALCULATE MY INCOME? The income on which the government bases the £130,000 threshold includes your total income on which tax could be payable which would include investments, but exclude ISAs. From your income you can deduct pension contributions (excluding employer contributions) of up to £20,000. Oddly this means if your income was £149,999 for instance you could make a pension contribution of £20,000 gross to reduce your income to under £130,000. You would then be free to contribute up to a further £129,999 gross into a pension and get higher rate tax relief on the whole lot. You can also deduct the grossed up value of charitable donations that qualify for Gift Aid. (You cannot claim more higher rate tax relief than you've paid)

If you take action to reduce your total income below £130,000 to enable pension contributions to be made then it is possible that HM Revenue and Customs will apply these rules as if your income is £130,000.

STILL A GOOD DEAL WITH BASIC RATE TAX RELIEF?
Contributions which exceed the limits described above will continue to receive basic rate tax relief of 20% providing they do not exceed the lesser of your annual earnings or the current normal Annual Allowance of £245,000.

WHAT SHOULD I DO NOW?

- ✓ We believe anyone affected by these rule changes who wishes to maximise their retirement savings should aim to invest as much as they can afford, up to their maximum allowance - whether £20,000 or £30,000 for the current and next tax year. Taxes are set to rise considerably from next April so it would make sense to squirrel as much away from the taxman as you can for retirement on the most favourable terms possible.
- ✓ We also believe that many people will continue to fund pensions even without the higher rate tax relief. After all, inside a SIPP your money is shielded from personal income tax (until you take an income) and capital gains tax and of course you still get the basic rate tax boost.

These rules are based on our understanding of draft and 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

AT A GLANCE: HOW MUCH CAN I CONTRIBUTE?

If you have any questions call us on **0117 980 9926** *(Mon - Fri 8.30am - 6.00pm)*

- Most people can contribute as much as they earn into their pensions each year (effectively capped at £245,000 for the current tax year). So if you earn £50,000 a year, you could contribute up to £50,000 gross. Because of the tax relief you would only need to write a cheque for £40,000.
- If you have no earnings or earnings which are less than £3,600 per annum you can make a gross contribution of up to £3,600. Because of the tax relief you would only need to write a cheque for £2,880.
- If your income is £130,000 or more in this or the previous two tax years you should be able to get full tax relief on at least £20,000 worth of contributions and basic rate tax relief on the remainder.

ADDITIONAL NOTES

Employer contributions and deemed contributions to final salary schemes must be included when calculating how much you have contributed. If you have a final salary scheme you can check your deemed contributions by contacting your scheme administrator. Here is a rough example of how it could be calculated:

You are in a pension scheme which provides 1/60 of your final salary for each year of service. On 6 April 2009 you have 10 years of service and a pensionable salary of £60,000 giving you a pension earned of £10,000 p.a. (10/60 X £60,000). On 5 April 2010 your salary is now £66,000 and you have another year's service. This gives you a pension of £12,100 p.a. (11/60 X £66,000). The pension earned in the tax year is the difference between the two of £2,100 and you then multiply this figure by 10 to give a deemed contribution of £21,000.

Higher rate tax relief is withdrawn by a tax charge of 20% being applied to you, whether the contribution is a personal one or from an employer.

Salary sacrifice in exchange for pension contributions entered into after 22 April 2009 also needs to be included in the income amount.

Switching regular contributions from one scheme to another may result in them becoming subject to the 20% tax charge.

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