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## ANOTHER BUDGET RAID ON PENSIONS

In its 2009 Budget, the Government has once again chosen to meddle with the pension system and is once more hindering long-term retirement saving for higher earners to try to achieve a quick fix of the other problems that it has created.

The new proposals have substantial ramifications on pension planning for employers and individuals, contemplating further pensions savings. In addition, those who have commenced or who are eligible to commence pension drawing, may need to review their strategies as a result of announced tax increases. We highlight and summarise the major changes below.

### Tax changes on pension contributions

- **No changes have been introduced for persons whose "Relevant Income" in each of the tax years 2007/8, 2008/9, 2009/10 and 2010/11 is below £150,000. In these cases, current rules and tax relief on employer and member contributions to all types of registered pension schemes continue as before.**
- "Relevant Income" is an individual's total income from all sources – including investment income – less personal pension contributions up to £20,000, less normal allowances, less amounts donated under Gift Aid.
- For 2009/10, and 2010/11 if Relevant Income, for any individual, in **any one** of that year or the preceding two tax years exceeds £149,999, then that person could face restrictions on the amount of higher rate tax relief given on some of their personal pension contributions in that year. Further, such persons could also suffer tax on some of the employer contributions paid on their behalf, at the difference between higher rate tax and basic rate – even though employer contributions are paid direct to pension schemes and not to the individual.
- If Relevant Income, in one of the periods above, is greater than £149,999 then the recipient should **still be eligible for higher rate tax relief** on personal contributions in the 2 years to 5<sup>th</sup> April 2011, on contributions up to a new annual limit known as the Special Annual Allowance (SAA) - set at £20,000.
- For persons with relevant Income greater than £149,999 personal pension contributions up to £245,000 in 2009/10 and £255,000 in 2010/11 in excess of the SAA (or any higher established regular pattern) - **will only be eligible for tax relief at Basic Rate – with an exception for contributions made between 6<sup>th</sup> April and 21<sup>st</sup> April 2009.**
- Where there is an established pattern of regular contributions to pension plans - paid quarterly or more frequently - set before 22nd April 2009, then contributions, if continued to the same plans on the established pattern, will be eligible for higher rate tax relief even though their total exceeds £20,000 (the SAA). Any additional contributions paid will only be eligible for basic rate tax relief, if total contributions fall within the annual allowances above.

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Member of the Association of Member-Directed Pension Schemes

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- Contributions paid between 6<sup>th</sup> April 2009 and 21<sup>st</sup> April 2009 will receive relief at the same rates as applied pre-22<sup>nd</sup> April 2009. Such contributions will, however, reduce the SAA for 2009/10 for that individual.
- From 6<sup>th</sup> April 2011 the Government intends to restrict relief on contributions, on a tapering basis, for all those with income in excess of £149,999 p.a.. Where relevant earnings exceed £179,999 **total tax relief** on pension contributions will be restricted to basic rate.

### Increase in Income Tax

- **The Government has announced that a top level income tax rate of 50% and a dividend tax rate of 42.5% will apply from 6<sup>th</sup> April 2010, for individuals with earnings in excess of £149,999. For individuals earning £100,000 or more, Personal Allowances will reduce – dropping to zero if income exceeds £149,999. This will clearly affect many pensioners and potential pensioners from next year.**

### Action Points

- All clients who may have drawn total Relevant Income of £150,000 p.a. or more after 6<sup>th</sup> April 2007 **and who wish to have further pension contributions paid for or by them** should consult with us and their accountants before any further contributions are paid.
- Directors and proprietors of family businesses should also contact us and their accountants to discuss opportunities for pension planning.
- Clients whose Relevant Income has not exceeded £149,999 will have a possible window of opportunity for maximising pension contributions in the next 2 years which should be discussed.
- Clients who have enjoyed high income in the last two years may benefit from an income planning exercise for 2011 onwards, if they wish to maximise tax relieved pension contributions thereafter.
- All members who currently draw a pension - or are eligible for such - should review their income requirements and drawing strategies with a view to maximising their net of tax proceeds – particularly in the light of the introduction next year of a top-level income tax band. This review should be with us and their accountants and take account of Inheritance Tax implications.
- **We remind clients who have Enhanced Protection that payment of any contributions for or by them will destroy their Enhanced Protected status and that no such contributions should be considered without prior discussion with us.**

### NOTE

This summary is based on our initial understanding of the draft Government proposals and interim Guidance and Technical notes, published following the Budget Speech. These may change as a result of amendments made during the passage of Finance Bill 2009 and in consequence, we cannot accept liability for any actions taken on the basis of this summary. It is clear, however, that the proposed changes will dictate revised planning and the formulation of new strategies for many clients.