

potential loss of higher rate tax relief

In the 2009 Budget the then Chancellor of the Exchequer announced changes to the tax system, which had a significant impact on high earning individuals contributing, or planning to contribute, to pension schemes.

In the Emergency Budget 2010, the new Chancellor of the Exchequer announced further proposed changes to legislation. The current situation is as follows:

- From 6 April 2011 the Government intends to introduce changes to the method of calculating tax relief on pension contributions and is in the process of consulting with the industry.
- Rules are in place to restrict higher rate tax relief on pension contributions for certain individuals for the period up to 5 April 2011. These restrictions apply to an individual, known as a **high income individual** (see definition):
 - whose **relevant income** (see definition) is £130,000 or higher and whose **gross income** (see definition) is £150,000 or higher;
 - who changes their normal ongoing level of **regular pension savings** (see over the page for definition); and
 - whose total pension contributions exceed the greater of £20,000 per annum and the average level of irregular contributions in the past three tax years, capped to £30,000.

This will remove the advantage to those individuals of increasing their pension contributions in excess of their current normal contribution pattern prior to the new rules coming into effect in April 2011.

It is therefore important that prior to the payment of any contributions to a registered pension scheme, by either an individual or an employer, it is determined whether the individual concerned is affected by the Budget announcements.

Should a contribution be paid by, or in respect of, an individual who is a high income individual prior to 5 April 2011, they will be subject to a personal tax charge, which has been set at 20% (or 30% on income which falls in the new 50% bracket) on the excess. This tax is collected via personal self-assessment.

HOW DO THE NEW RULES AFFECT THE NORMAL ANNUAL ALLOWANCE?

The normal annual allowance, for the **pension input period** (see over the page for definition) ending in the 2010/11 tax year; and the **special annual allowance** (see over the page for definition) will both potentially be applicable to a high income individual.

In circumstances where an individual is subject to both the annual allowance charge and the **special annual allowance charge** (see over the page for definition), the amount of contributions paid that are in excess of the annual allowance are deducted from the excess contributions paid over the special annual allowance.

DEFINITIONS

RELEVANT INCOME

The amount of total income received by a high income individual comprising the following:

- earnings from employment;
- earnings from self-employment, partnerships and limited liability partnerships;
- pension income (state, occupational and personal);
- dividend income from shares (listed and unlisted companies);
- rental income;
- income received by an individual from a trust (that is not a pension scheme trust);
- any salary sacrifice amounts agreed with an employer after 22 April 2009, or after 9 December 2009 for individuals receiving relevant income between £130,000 and £150,000;
- personal pension contributions under a net pay agreement.

It is possible to offset a variety of reliefs and deductions to which a person could be entitled against this total income.

GROSS INCOME

The amount of relevant income received by an individual plus the value of any employer pension contributions.

HIGH INCOME INDIVIDUAL

A person whose relevant income is £130,000 per annum or higher and gross income is £150,000 per annum or more in either this tax year or either of the previous two tax years.



REGULAR PENSION SAVINGS

The amount of pension contribution or funding that was established and in place as at 22 April 2009 in respect of an individual with relevant income in excess of £150,000, or from 9 December 2009 in respect of an individual with relevant income between £130,000 and £150,000.

For a money purchase arrangement this is currently calculated as being the amount of contributions paid into a scheme at least quarterly. Future increases in regular contributions that were agreed before 22 April 2009 or 9 December 2009 as applicable, can also be included. This includes both employer and personal contributions.

SPECIAL ANNUAL ALLOWANCE

This is an allowance of £20,000 per annum and the average levels of irregular contributions in the past three tax years, capped at £30,000, less the amount of an individual's regular pension savings.

SPECIAL ANNUAL ALLOWANCE CHARGE

This is a tax charge of 20%, (or 30% on income which falls in the new 50% tax bracket) applied where an individual has an **adjusted pension input amount** (see definition) which exceeds the special annual allowance. The individual is liable to pay this tax via their personal self-assessment tax return.

PENSION INPUT PERIOD

The period in which increases in a member's pension rights are assessed against the annual allowance.

ADJUSTED PENSION INPUT AMOUNT

The amount by which contributions paid by, or in respect of, an individual, exceed the higher of the special annual allowance or the amount of their regular pension savings.

This Technical Note outlines Rowanmoor Pensions' understanding of the changes to the tax system announced in the April 2009 Budget and subsequent amendments and is correct at the time of issue. As the amendments detailed in the Emergency Budget 2010 have yet to be fully defined this Technical Note may be subject to change. For more detailed information contact the Rowanmoor Pensions Technical Department on **08445 440 660** or your Rowanmoor Pensions Consultant.

We recommend that specific tax advice is taken if you are in any doubt about the tax implications.

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