

PREMIER PENSIONS MANAGEMENT

TECHNICAL UPDATE: 06/09

Budget 2009 - Pension Implications for High Earners

In this year's Budget, the Chancellor announced that higher rate tax relief on pension contributions will be restricted for those earning over £150,000pa. Pensions tax relief will be reduced gradually on earnings in excess of £150,000, reaching 20% on incomes over £180,000. This change will take effect from April 2011 and the Government has indicated that they will consult on the implementation of this measure.

Looking at this from an occupational pension viewpoint, there are a number of points to consider:

- People with income in excess of £150,000 will be affected by this change.
- A number of measures have been introduced to stop high earners loading up their pensions before the tax incentives are reduced in April 2011.
- The current levels of regular pension contribution will be protected and will continue to receive full tax relief up to April 2011. These contributions are called '**protected pension input**'.
- High earners will receive a special annual allowance (the higher of £20,000 and the **protected pension input**), for pension savings which will continue to receive full tax relief up to April 2011. Tax relief on contributions above this level will be restricted to the basic rate.
- Any pension contributions made by salary sacrifice must be added to income.
- In addition, any pension contribution made by the Employer will also be treated as benefit in kind.

For Defined Contribution arrangements, including Group Personal Pensions, this change should be relatively straightforward to operate. All contributions made to a DC arrangement relating to an individual, including any from the employer, must be included.

Our initial assessment of this new tax charge has highlighted some points which may present problems in practice:

- An individual who has a salary of £140,000 will receive full marginal tax relief at 40% on their pension contributions. If that individual receives a £20,000 bonus within the same assessment period, they will be required to pay back the tax relief that they had been granted and, in some cases, this could lead to the individual being taxed at a marginal rate of say 60% if the total pension contributions are sufficiently high.
- For occupational scheme members, it is going to be very difficult to assess when, and to what level, this tax charge will apply in practice. This will lead to lots of fiddly adjustments to tax codes and deductions.

Legislation introducing these changes to higher rate tax relief will be included within Finance Bill 2009.

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*This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129.
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