Nigel Sloam & Co

Actuaries & Consultants

Our ref: Your ref:

Roman House
296 Golders Green Road
London NW11 9PY
T: 020 8209 1222
F: 020 8455 3973
info@nigelsloam.co.uk
www.nigelsloam.co.uk

YOU WOULDN'T BELIEVE IT....OH YES YOU WOULD!!!!

On 3 July 2009 the Government proposed further amendments to its own Finance Bill which change again (and slightly improve) the tax reliefs on pension contributions - announced by Alistair Darling in the April 2009 Budget – and detailed in our previous circular –" Another Budget Raid on Pensions".

Since the Budget changes were originally unveiled, there has been consistent and national pressure from the entire financial planning, pension and insurance industry - which was non-politically motivated. These new amendments result directly from this pressure but offer only a slight improvement. They may, however, provide the opportunity to some clients who were making pension contributions at the end of the fiscal year – or at the end of their business financial year – to make some meaningful tax-relieved pension contributions to provide for their late middle age!

The current Finance Bill is making progress through Parliament and given that these new amendments derive from HM Treasury – and the fact that the Bill has now passed to the Lords - we would expect these changes to be enacted.

We have updated our summary of the position now incorporating the latest changes – highlighting the latest amendments in blue. Please call us, if appropriate, to discuss the relevance of this to you.

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.

Partners: Nigel S Sloam MA FIA ASA CMATH MMA Amit Shah BSc FIA Salvatore Avanzato Cert PFS Guy Young BSc Cert PFS
Senior Associate: Elizabeth A Sloam

Member of the Association of Member-Directed Pension Schemes
This firm is authorised by The Financial Services Authority and regulated by the Financial Services Authority and The Institute of Actuaries in the conduct of investment business.

- 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 5th 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 6th April and 21st 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.

- **Where there has been a pattern of irregular contributions (as is standard and what the Government describe as "infrequent") – paid less frequently than quarterly in the tax years 2006-07, 2007-08 and 2008-09 - the average of these irregular contributions over these last three tax years will constitute a Protected Pension Input Amount (PPIA) - which will be capped at £30,000.**

- **It is our understanding that the average or "relevant mean" (a fair description!) only includes irregular contributions in the last three tax years. Provided that the relevant mean of contributions over the last three tax years is at least £30,000, then an individual will be able to contribute up to £30,000 per annum in the tax years 2009-10 & 2010-11 and obtain full tax relief.**

- **If the relevant mean is £20,000 per annum or less, the Special Annual Allowance (SAA) will apply unless there is - in addition - a regular pattern of contributions which exceeds this level.**

- **The requirement to pay contributions to the same Scheme still remains and should be borne in mind.**

- Contributions paid between 6th April 2009 and 21st April 2009 will receive relief at the same rates as applied pre-22nd April 2009. Such contributions will, however, reduce the SAA for 2009/10 for that individual.

- From 6th 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 6th 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 6th 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. 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.

Nigel Sloam & Co **20 July 2009**