# Budget summary

Whilst some will feel a significant impact from the changes introduced in this year's Budget it is worth emphasising that the headline changes relating to pensions will only affect a relatively small proportion of individuals. For the majority the benefits and incentives for investing in pensions remain the same.

The key points introduced by the 2009 Budget were:

- From 6 April 2011, a restriction on higher rate tax relief on pension savings for those with incomes of £150,000, or more.
- The immediate introduction of interim measures to prevent individuals with incomes of £150,000, or over, paying additional contributions and benefiting from higher rate tax relief before 6 April 2011.

The Government have announced that there will be a consultation period before the exact detail of the 2011 changes is finalised. The consultation period will give those in the pensions industry an opportunity to influence Government policy for the benefit of those who continue to use the significant tax reliefs available from contributing to pensions.

With so much of the detail still to be released, and sitting at the start of the consultation period, the sight of press releases highlighting supposed loopholes are unhelpful, and potentially damaging to the interests of those savers.

**Will the changes affect me?**

The precise details of the changes due in 2011 have not yet been published and will not be known until more information is released as part of the consultation period.

What is known is that the changes will only affect those with income in excess of £150,000. Tax relief will be tapered down for those with incomes of between £150,000 and £180,000, so that those earning more than £180,000 receive only basic rate tax relief of (currently) 20%.

More immediately, the Treasury has introduced measures to prevent individuals benefiting from higher rate tax relief on the payment of significant contributions in the period leading up to 6th April 2011.

**How will the changes affect me?**

If you have taxable income of less than £150,000 nothing has changed and you will continue to qualify for tax relief as before.

If you have taxable income above £150,000 there are two distinct periods that you need to be aware of.

**Interim arrangements up to 6th April 2011**

In summary, these measures will see the introduction of a Special Annual Allowance and a Special Annual Allowance Charge of 20% on any individual who:

- has relevant income of £150,000, or more, in any of the tax years from 2007/08 to 2010/11;
- increases their pension savings on, or after, 22 April 2009, beyond their normal, ongoing, pension saving pattern; and
- has total annual pension savings to all registered pension schemes exceeding the Special Annual Allowance (£20,000 for 2009/10).

Pension savings includes not only, contributions paid by an employer or someone else on the member's behalf but also, for example, any increase in the value of benefits provided under a final salary pension scheme.

Case Study

*Mr. Smith has income of £300,000 in the 2009/10 tax year and has an existing SIPP funded entirely by transfers. No contributions have ever been made to his SIPP.*

*At the end of the 2009/10 tax year he decides to make a contribution to his SIPP to benefit from higher rate tax relief as he knows it is disappearing in 2011. On the 31st March 2010 he pays a net contribution of £40,000 (gross £50,000) to his SIPP with the intention of claiming the higher rate tax relief through his self assessment tax return.*

*Mr. Smith will effectively face a Special Annual Allowance Charge of £6,000 (20% of the £30,000 excess over the Special Annual Allowance). The impact of this will be felt through an adjustment in the tax relief available to him through the self assessment system.*

The above is relatively simple to understand. However, if it had been left as simple as that, the Government believed that it would also have been relatively simple for tax advisers to get around. Therefore, to prevent any exploitation significant further detailed requirements have also been introduced. These have been released in the form of over 100 pages of new legislation and guidance notes aimed at pension professionals and savers.

For a more detailed summary of the pre and post 6th April 2011 position please refer to our FAQs. Alternatively further details can be found at http://www.hmrc.gov.uk/budget2009/tax-relief-pen-cont.htm.

**Position from 6th April 2011**

Precise details of the 2011 changes are not yet available. Contrary to some information provided there is no suggestion that any of the interim arrangements related to the Special Annual Allowance will stay in place.

For individuals with income in excess of £150,000 this may mean that it is beneficial to pay contributions up to the £20,000 Special Annual Allowance in the intervening years to maximise higher rate tax relief whilst it remains available.



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