

"THE NEW ARRANGEMENTS WILL COMMENCE IN THE TAX YEAR 2011-12."

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ADVICE TO GOVERNMENT

PENSIONS TAX RELIEF FOR HIGH EARNERS

Pensions tax relief is a substantial benefit to savers, providing around £28 billion a year in forgone income tax revenues to government. However, around 25% of this money is captured by the 2% of savers who earn over £150,000 a year.

The Government believes this is unfair and unnecessary and plans to restrict the amount of tax relief which high-earners can claim on their pension contributions. [HM Treasury have consulted widely on the proposals](#). Further details will emerge in the Finance Bill, following the Budget.

GOVERNMENT PROPOSALS

The Government is proposing that anyone earning over £130,000 (*excluding* employer funded pension contributions) will have their tax relief restricted if their total income (*including* employer funded pension contributions) is over £150,000. Those with total income over £180,000 will have their tax relief restricted to the basic rate of 20%. Those with total income between £150,000 and £180,000 will have their tax relief gradually reduced, tapering from the marginal income tax rate of 50%, to 20%.

Anyone whose tax relief is restricted will have to pay a 'recovery charge' to HMRC on the value of both the employer and employee contributions. However, if the charge is over £15,000 the member may opt for their pension scheme to meet the charge, with their pension reduced accordingly.

"FOR A DEFINED BENEFIT SCHEME COMPLEX CALCULATIONS MAY BE REQUIRED."

IMPLICATIONS FOR PENSION SCHEMES

Pension schemes will have to provide affected members with statements of the additional pension benefits earned in each tax year. They will also need to implement the consequent benefit reduction if the member opts for the Scheme to pay the recovery charge.

"THOSE WITH TOTAL INCOME OVER £180,000 WILL HAVE THEIR TAX RELIEF RESTRICTED TO THE BASIC RATE OF 20%."

The proposals are not expected to have onerous implications for defined contribution schemes. But for defined benefit schemes complex calculations may be required, reflecting the value of the additional pension built up as a result of increased pensionable service and any increase in the member's pensionable salary. The specific details of the calculations will become clearer when the draft regulations are published later this year.

TIMESCALES

It is intended that the new arrangements will commence in the tax year 2011-12. In the meantime, the Government has introduced [anti-forestalling rules](#) to prevent high earners from circumventing the new rules by paying substantial contributions before April 2011.

The proposed new arrangements have not been finalised and therefore may change before they come into force.

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