Budget 2009 – Important changes to pensions and tax

The UK Budget 2009 introduced changes to the tax relief available to high earners, including a special annual allowance of £20,000. This is an important change which may impact on decisions you take about your pension saving in tax years 2009-10 and 2010-11. Full details of the change can be found on the HMRC website: www.hmrc.gov.uk

Does this affect me?

This part of the Budget announcement only affects you if **all** of the following apply:

- Your "income" in the relevant tax year (or in either of the two previous years) is £150,000 or more; and
- Your "pension contributions" exceed £20,000 in the tax year; and
- You change your "normal pattern of pension saving".

Income means taxable income. It includes (among other things) salary, bonus, benefits in kind, dividend payments and bank interest. It excludes gift aid donations and tax-relievable contributions of up to £20,000 made to a registered pension scheme.

Pension contributions means

- contributions you pay to a money purchase scheme such as the NHS or Teachers AVC schemes or to a personal pension; plus
- the annual value of benefits accrued in any defined benefit scheme such as the NHS or Teachers schemes. This is calculated as the sum of (a) 10 times the increase, over the relevant tax year, of the accrued pension and (b) the increase, over the relevant tax year, of any automatic lump sum

Your **normal pattern of pension saving** means just that. If, on top of being a member of the NHS or Teachers schemes you routinely pay 3% of salary into the AVC scheme and 5% into Added Years or Added Pension and you carry on doing this after 22 April 2009, that is fine. But if you do anything different – for instance, you *start* making regular payments or you make a lump sum payment (whether you had already planned to do this or not) - then this disrupts your "normal pattern". If your employer was suddenly to do something to change pension arrangements for you and other scheme members, that would not invoke this test. However, if your employer pension arrangements for you alone that would disrupt the "normal pattern". Pay rises will not be seen as disrupting your "normal pattern" of saving.

What happens if I am affected?

If you are affected, then you will pay tax – at 20% in 2009-10 – on excess contributions and/or benefit accrual above the £20,000 special annual allowance. This tax will be known as the **special annual allowance charge** (not to be confused with the normal annual allowance charge which applies where the increase in benefits exceeds £245,000 in tax year 2009-10). The rate may increase to 30% for tax year 2010-11.

If I am liable for the special annual allowance charge, what happens then?

Additional tax will be assessed and collected through the tax system self-assessment process.

I have Enhanced Protection. Am I protected from this new tax charge?

No. (But you are protected from the "normal" annual allowance charge)

How do I avoid the new tax?

Bear in mind that **you have to meet all 3 conditions**. Provided that your normal pattern of pension saving does not change, you should not come within scope (pay rises are OK).

Are there other changes coming up in the future?

The changes outlined in this note refer to "anti-forestalling" measures, designed to prevent people taking advantage of current tax reliefs in advance of wider changes intended to come in from April 2011. We are waiting to find out how the 2011 changes will affect public service pension schemes.

Where do I find out more?

This newsletter sets out the SPPA interpretation of the new rules as they may apply to civil servants but you should not rely on information in this newsletter when making financial decisions. Visit the HMRC website www.hmrc.gov.uk for further information or consult your financial adviser.

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