



Addendum to Key Features – December 2009

The Pre Budget Report on 9 December 2009 saw further announcements in respect of the Government's intention to restrict the amount of tax relief available on contributions made to registered pension schemes by or on behalf of higher rate tax payers. From 6 April 2011 those client's with total annual incomes (including salary, investment income, rental income, bank interest etc) of £130,000 or above will have their tax relief restricted on a tapering scale, depending on their earnings. At an income level of £180,000, the tax relief will be the equivalent to basic rate tax relief on contributions paid to registered pension schemes, either personally or by someone else on their behalf e.g. their employer. The full details of these changes have yet to be worked out.

In addition special transitional rules have been introduced so that any large contributions made between 9 December 2009 and 6 April 2011 do not benefit from the existing rules for high rate tax relief. This has seen the introduction of the 'Special Annual Allowance' of £20,000.

If a client's total annual income is below £130,000 then they will not be affected by the changes and tax relief at their marginal rate will still be available. However those clients with total annual incomes of over £130,000 will see higher rate tax relief restricted to the first £20,000 worth of contributions in any one period. Any amount paid over £20,000 will only be eligible for basic rate tax relief.

The new rules also affect contributions made to registered pension schemes by employers. A client with a total annual income in excess of £130,000 who benefits from contributions, paid to all pension arrangements, of more than £20,000 will either receive tax relief at the basic rate, if paid personally, or receive a tax charge of 20% on the amounts over this threshold, if paid for by a third party/the employer. The total of all pension contributions, personal and paid for by a third party are known as the "pension input".

However those clients who have total annual incomes of over £130,000, and who have an existing regular pension input (to all pension arrangements) of over the £20,000 threshold prior to 22 April 2009 (the date of the original announcements in the 2009 Budget), will be allowed to continue to benefit from the full tax relief on these ongoing contributions up to April 2011. However, for a pension input to be classed as regular, the timing of the payments must be no less frequent than quarterly. This point is currently subject to consultation as it penalises regular annual savers.

These new rules also affect those clients who had total annual incomes exceeding £130,000 in the 2007/8 and 2008/9 tax years.

It is important to note that the above rules are subject to consultation and may be amended before the legislation is passed. Correct as at December 2009.

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Examples

1. A client who has a total annual income of £125,000 for the current tax year may benefit from a pension input of £100,000. Any personal contributions will receive tax relief at the marginal rate of tax and there will be no tax liability on the member in respect of any employer contribution.
2. The employer of a client whose total annual income is £200,000 pays a pension contribution of £50,000 on their on 5th April every year. Under the new rules, this contribution is not viewed as a regular contribution as the payment frequency is less than quarterly. Therefore the client is personally liable for tax charge of £6,000 (20% of £30,000, being the excess over the new £20,000 threshold).
3. A client who made contributions of £10,000 net per month since January 2006 and who earns £500,000 per year will still be eligible for higher rate tax relief until 6 April 2011 because the frequency of the payment is monthly.

Please note that the advice given above is IPM's view on the recent budget announcements and should not be taken as a definitive as the implementation of the changes is subject to consultation.

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