



**Nottinghamshire
Pension Fund**



**Budget and Pension Implications for High Income Individuals
in the
Local Government Pension Scheme**

Recent changes to tax law and how it affects high earners in the Local Government Pension Scheme have now been considered by the Local Government Employers and they have produced a 22 page explanatory leaflet. These changes should be made known to individuals who are receiving a gross income in excess of £100,000 pa and where necessary, a leaflet made available to them.

The leaflet encompasses all known areas regarding these tax changes however additional regulations are still awaited and a change in political power could stop these rules becoming law as they currently stand.

The main points covered within the leaflet are:

- (a) from 6 April 2010, the basic tax free personal allowance for income tax (currently £6,475) will be gradually reduced by £1 for every £2 that an individual's "adjusted net income" exceeds £100,000 until the tax free personal allowance is reduced to Nil;
- (b) from 6 April 2010, there will be an additional higher tax rate of 50 per cent on taxable income above £150,000;
- (c) from 6 April 2011, higher rate pensions tax relief for individuals with an annual income of £150,000 or more will be tapered away so that for those earning over £180,000 tax relief will be worth 20 per cent; and
- (d) to prevent those individuals in (c) above from seeking to take advantage of the higher pensions tax relief in the meantime, a new special annual allowance tax charge was introduced from 22 April 2009. This will apply to those with "relevant income" of £150,000 or more who change their normal ongoing regular pension savings and whose total pension savings in the tax year exceed £20,000 (the anti-forestalling measures).

And in relation to points (c) and (d)

- (e) from 6 April 2011 the restriction of higher rate pensions tax relief will apply to those with gross incomes of £150,000 and over. Gross income will incorporate all pension contributions, **including** those provided by or eventually funded by an employer, and before any deductions for charitable donations are made. However, individuals with pre-tax incomes, **excluding** employer pension contributions, of less than £130,000 will be unaffected (even if adding back employer pension contributions would take the gross income to £150,000 or more); and
- (f) the anti-forestalling measures will be extended from 9 December 2009 so that they will cover all those with “relevant income” of £130,000 and over.

The legislation governing the anti-forestalling measures is subject to a series of anti-avoidance tests designed to prevent attempts to circumvent the application of the anti-forestalling rules.

In his Pre-Budget Report the Chancellor of the Exchequer also said:

- (g) “Public sector workers will make a greater contribution to the increasing value of pensions, with those earning over £100,000 paying more.”

The leaflet provides detail on each of these points and also worked examples. Copies can be obtained from the publications / leaflets section within www.lge.gov.uk or from the Notts LG Pensions Office (contact details below). A copy is also available on our own website at www.nottspf.org.uk.

Disclaimer from Local Government Employers (LGE)

The information contained in the leaflet is based on LGE’s understanding of the law and current consultation papers as at January 2010. It should not be treated as a complete and authoritative statement of the law. You may wish, or will need, to take your own legal and financial / tax advice on the interpretation and effect of the law on you. We accept no responsibility whatsoever for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by anyone relying on information contained in this leaflet.

Additional Voluntary Contributions (AVCs)

Discussions have been undertaken with Prudential Assurance, one of this Fund’s AVC providers, and they have submitted the following paragraph for inclusion in this leaflet:

Whether or not your tax liability is likely to change you may wish to consider Additional Voluntary Contributions (AVCs) as a way of reducing your tax payments. This is particularly beneficial to all higher rate taxpayers and even

more so to those with overall income over £100K as the loss of personal allowances will effectively mean paying some tax at a rate of 60%. As part of this communication we have arranged with Prudential, our AVC provider, to offer individual meetings to explain how AVCs can reduce your tax bill and subsequently provide a tax free lump sum on retirement. If you would like more detail you can book a meeting by e-mailing jessica.shukie@prudential.co.uk or by telephoning her on 07799 657237. There is no cost for this service and you always have the opportunity of referring these details to your own adviser.

Further details

Please note that the Pensions Office is not able and is not registered to provide scheme members with individual financial or tax advice. This should be sought from your own legal and financial / tax advisers. If you wish to raise any matter concerning this leaflet please contact either:

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