

Subject Pre Budget Report 2009

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Christmas is normally the time for wise men to bear gifts.....although if somehow wise men included MPs no doubt they would claim them back on expenses.

With the Government having difficulty finding one wise man, let alone three, it was left to Alistair Darling to deliver his Pre-Budget Report (PBR) where he announced a number of changes which will impact on pension provision.

High Earners – Restricting Tax Relief on Pension Contributions

Background

As previously announced in April's Budget 2009 and set out in the Finance Act 2009, tax-relief on "high earners" pension contributions is to be restricted from 6 April 2011 to 20% (the basic rate of income tax).

At the same time, new rules (known as anti-forestalling) applied from 22 April 2009 preventing people making substantial additional pension contributions, taking full tax relief before the changes in 2011.

Tax Relief for High Earners from 6 April 2011

Tax relief on pension contributions will be tapered away so that for those earning £180,000+ will be restricted to 20% (basic rate). There will be a sliding scale from 50% (additional rate) to 20% (basic rate) relief on pension contributions for individuals earning £150,000 to £180,000.

The definition of earnings *for these purposes* will include the value of pension benefits (or at least the value as funded by the employer – essentially treating employer contributions as a benefit in kind). For defined contribution schemes this is relatively easy - essentially just the amount of employer contributions. For the LGPS and other defined benefit pension schemes this is a lot less straightforward and a number of approaches are possible. Yet again we have some desperate politicians not really engaging their brain before spouting forth – so time to ask the audience and yet another time consuming consultation is launched on how to squeeze some more cash out of so called high earners. Never has so much effort been expended on so few – the consultation ends on 3 March 2010.

Anti-forestalling from 22 April 2009 (Special Annual Allowance Charge)

To discourage high earners from making significant pension contributions before the 2011 changes, individuals are subject to the anti-forestalling rules if their gross income (e.g. salary,

bonus, investment income etc) is £150,000 or more. Note that employer contributions will not count as income for the anti forestalling measures (no doubt as they know it will take some time to agree how to measure these in DB schemes) – another aspect of pensions simplification in practice...

The PBR said that the “anti-forestalling” measures already in place will be amended slightly from 9 December 2009 to reduce the threshold from £150,000 to £130,000.

They will now apply to individuals:

- whose ‘relevant income’ is £130,000 or over in a tax year (or any previous two tax years)
- who change their “normal ongoing regular pension savings”
- and whose total ‘pension savings’ in a tax year exceed £20,000 (or the lower of £30,000 and average contributions over the past three years, if contributions are less regular than quarterly)

These individuals will suffer a recovery charge (currently 20%) on tax-relief which will be generally processed via their Self-Assessment tax return.

For the purposes of the charge, ‘relevant income’ is:

- Total income subject to income tax (i.e. after deduction of LGPS pension contributions, AVCs, ARCs etc, where tax relief is given under net pay arrangements)
- Plus pension contributions and AVCs/ARCs made
- Less any qualifying losses (such as trading losses)
- Less deductions for pension contributions and AVCs/ARCs up to a maximum of £20,000
- Less any gift aid deductions

Simple really.....in other words:

THINK VERY CAREFULLY BEFORE YOU CHANGE YOUR PENSION CONTRIBUTIONS

as this may lead you to receiving an income tax charge.

Income Tax Changes from 6 April 2010

A new 50% tax rate will apply to individuals with taxable income of £150,000+ from 6 April 2010.

In addition, the individual Personal Allowance (on which no income tax is paid) will be restricted for individuals with income over £100,000. For each £2 of income over £100,000, the personal allowance (£6,475 in 2009/10 for under 65s) will be reduced by £1. The mathematicians will have worked out that this means an effective tax rate of 60% on earnings between £100k and around £113k.

Further Information

The **LGPC Bulletin 57 – April 2009** covers the 2009 Budget in greater detail as to the implications for the LGPS.

Not to forget www.hmrc.gov.uk/pensionschemes for the most up to date information on pension schemes.

Public Sector Pensions

Our Darling Chancellor also made a broad statement about capping employer contributions and that the Government will expect those earning over £100,000 to pay a greater contribution.

Although, the PBR did not include any details on the above, the Pre Budget Report on Public Finances did mention that the Parliamentary Contributory Pension Fund has implemented the policy with a combination of increased contributions and benefit changes, and that this has already been incorporated in the rules of the PCSPS and NHS, not forgetting the Teachers Pension Scheme, where a employer contribution cap of 14% exists.

As you are aware the Policy Review Group has been discussing cost sharing and a cap for the LGPS England & Wales, where we are still waiting on the outcome.

Regarding high earners contribution levels, nothing in the detail, but this has already been reflected in the last CLG consultation, where the existing top band of those earning more than £75k would no longer pay 7.5% but instead have two new bands (£75k - £100k paying 8.5% and £100k+ paying 10%).

Public Sector Commission

With the daily growing interest in the match between private and public sector pension provision, then it is not surprising that an a special commission has been launched to focus on the key issues affecting the future of public sector pensions.

The Public Sector Pensions Commission will be chaired by Peter Tompkins (actuary with accountants PWC), and was set up as a result of an initiative primarily from the Institute of Economic Affairs and the Institute of Directors.

Their task is to provide a report to whichever Government is in charge by summer 2010, although they claim that their aim is not to attack the public sector, they will no doubt express their concerns that the private sector has largely withdrawn from final salary schemes.

Summary

Desperate times call for desperate measures – or so the saying goes. Having (sort of) simplified pensions and tax in 2006, this Government, desperate for an improvement in the opinion polls, reckons there are some votes to be had in yet again complicating the tax treatment of pensions albeit it will only affect a small proportion of tax payers - but maybe catch a few of those despicable bankers - and (one would suggest) an even smaller proportion of its (current) supporters.

In the same way it was agreed that interest rate policy is too important to be left to politicians, surely the case can also be made for pension policy.

With all the evidence projecting a much poorer retired population in future, unless there is more encouragement for proper pension provision, more complicating legislation can only help increase future pensioner poverty and the tax burden on future generations (who are already going to be taxed to the hilt).

Will the last one to leave please remember to turn out the lights/blow out the candles.....

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