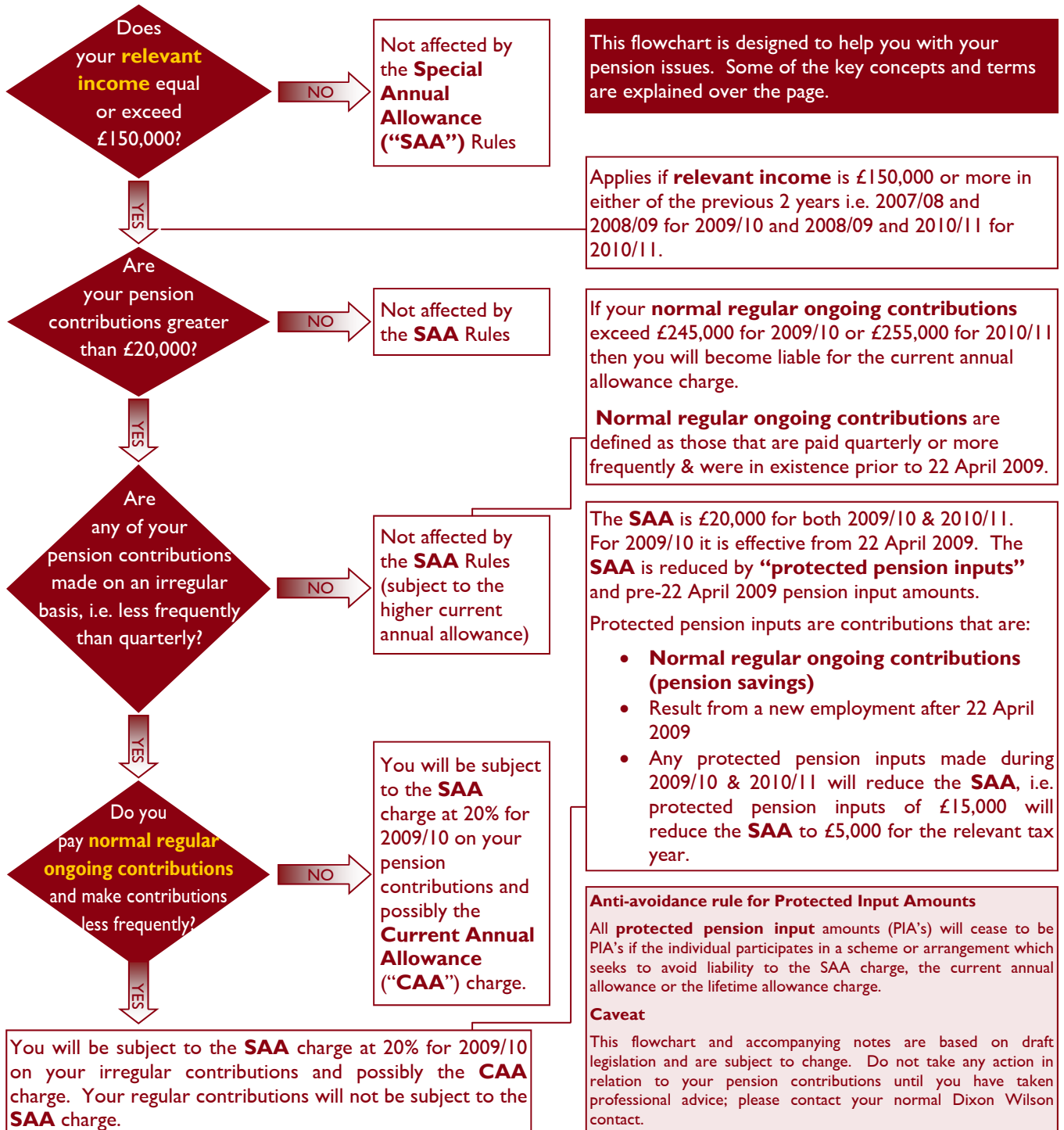


PENSIONS UPDATE



Relevant Income

Broadly, **Relevant Income** for the purposes of the **Special Annual Allowance** is

- your total income before pension contributions, personal allowances and other reliefs and deductions,
- less any normal deductions for reliefs (such as trading losses) including deductions for pensions contributions but up to a maximum of £20,000,
- less any gift aid deductions as per normal.

But in calculating your Relevant Income you must add in any amount of employment income foregone by salary sacrifice in return for pension contributions or additional pension benefits if the agreement was put in place on or after 22 April 2009.

Individuals will be affected only if their relevant income is £150,000 or more in the tax year, or in either of the previous two tax years. As the provisions are designed to prevent individuals either themselves or via their employer or third parties bringing forward pension contributions the tax years you need to consider are 2007/08, 2008/09, 2009/10, and 2010/11. Once we reach 2011/12 the removal of higher rate relief on pension contributions will be effective and the **SAA** will be removed.

Normal, Ongoing Regular Pension Contributions

The **SAA** will apply to increases to your normal, ongoing regular pension contributions on or after 22 April 2009. Normal, ongoing regular pension contributions will be known as **protected pension inputs**.

If you are a member of a scheme provided by your employer and your regular pension contributions go up only because you have had a pay rise or a promotion, these will be protected pension inputs.

If you are in a **final salary arrangement**, all your savings in this will be a protected pension input provided that the way your benefits are calculated under the scheme does not change on or after 22 April 2009.

If you have a **money purchase arrangement**, the protected pension input will be:

- the annual amount of your total contributions (including any employer contributions) to the arrangement providing that the contributions were made at least quarterly **before 22 April 2009**, plus
- any increase in your contributions that was agreed **before 22 April 2009**.

If you increase your contributions but the increase was not agreed before 22 April 2009, the increase will not be a protected pension input and will be tested against the **SAA**.

Special Annual Allowance ("SAA")

2009/10	£20,000*
2010/11	£20,000*

If the **SAA** is exceeded then a **SAA** charge will be levied on the individual taxpayer. The charge for 2009/10 will be at a rate of 20% on the amount by which the total adjusted pension input amount for the year exceeds the SAA limit for the respective tax year and will be collected from the individual through their Self-Assessment return.

* The **SAA** will be adjusted in a number of circumstances:

1. If you ever became liable to both the **SAA** charge and the **CAA** charge there will be a reduction to the amount subject to the **SAA** charge to prevent double-charging.
2. Is reduced by the amount of your regular normal ongoing pensions savings.

Current Annual Allowance ("CAA")

2009/10	£245,000
2010/11	£255,000

If the **CAA** is exceeded then a **CAA** charge is levied on the individual taxpayer. The charge is 40% of the excess over the **CAA**.

Pension Savings

This is all of your pension savings that receive UK tax relief and includes:

- savings in all registered pension schemes including
 1. defined benefit schemes (these are often referred to as final salary schemes because benefits are usually calculated by reference to the salary, years of service and the scheme's accrual rate,) and
 2. money purchase schemes (also known as defined contribution schemes)
 3. contributions paid both by individuals and anyone on their behalf and by employers
- savings in non-UK pension schemes that benefit from UK tax relief.

You work out the value of your pension savings (the pension input amount) in a specified period (the pension input period) in a similar way as you do when comparing it against the existing annual allowance.

For money purchase arrangements this generally means the total contributions, including any from your employer, paid into your pension scheme during the pension input period.

For defined benefit arrangements (for example, a final salary scheme) this means any increase in the value of your accrued rights during the pension input period.

Pension Input Periods

The tax year.

Refunds

Because the new rules came in overnight, it is possible that some people may inadvertently exceed the new special annual allowance.

In certain circumstances, individuals can ask their scheme for a refund of their contributions, depending on the type of contributions they have made. It is down to each pension scheme to decide whether or not they want to offer this option, but the scheme must deduct tax before any contributions are refunded. Any refund will be paid as a lump sum and can only be paid in the year after the contributions were made.

Refunds will be due only in the following circumstances:

- You were liable to the **SAA** charge in the year the contributions are paid.
- The contributions were non regular contributions paid to personal pension schemes (including such schemes as retirement annuity contracts) and AVCs.

You will already have been entitled to tax relief at the marginal rate on any contributions being refunded. The tax deducted from the refund is therefore designed to recoup the rate of tax relief given on these contributions. For contributions paid in 2009/10, tax will be deducted from refunds at 40%. Any special annual allowance charge already declared on a tax return in respect of these contributions would have to be amended.

Calculation of Relevant Income

Relevant income is calculated as follows:

Step 1 – total income

This figure of total income includes:

- earnings from employment
- earnings from self-employment/partnerships
- most pensions income (State, occupational and personal pensions)

- interest on most savings
- income from shares (dividend income)
- rental income, and
- income received by an individual from a trust.

However, it does not include amounts giving rise to income tax liabilities which are not treated as income for general tax purposes in connection with

- the recovery of excessive relief where the individual's self-assessment for the tax year is final (for example, the withdrawal or reduction of Enterprise Investment Scheme relief or the recovery of excess credit for overseas tax),
- deduction of tax at source where the liability is not in respect of the individual's own liability, and
- stand-alone tax charges (for example tax charges in respect of an unauthorised payment from a registered pension scheme).

The list is not comprehensive and advice should be sought.

Step 2 - contributions to registered pension schemes under PAYE net pay arrangements and contributions under corresponding relief

Add to the amount of the total income figure found in Step 1 the amount of any pension contributions made in the tax year under

- the net pay arrangement, or
- under the corresponding relief provisions in accordance with paragraph 51, Schedule 36 of the Finance Act 2004.

Step 3 – certain losses and other reliefs

Deduct from the total figure after Step 2 amounts upon which you are entitled to tax relief for the tax year concerned. They are mainly deductions for trade and property losses, but do include some other items.

The list includes:

- Trade loss relief against general income
- Carry-forward trade loss relief
- Terminal trade loss relief
- Post-cessation trade relief
- Carry-forward property loss relief
- Property loss relief against general income
- Post-cessation property relief
- Employment loss relief against general income
- Share loss relief
- Loss relief against miscellaneous income.

Normal loss relief set off rules apply.

Step 4 – relievable pension contributions

From the amount found after Steps 1, 2 & 3, deduct the amount of any of the following:

- relievable pension contributions paid by, or on behalf of, the member during the tax year;
- any contributions in respect of which the individual is entitled to a tax reduction under section 788 of the Income and Corporation Taxes Act 1988 and
- any contributions paid by the individual that qualify for relief under the corresponding relief provisions in accordance with paragraph 51, Schedule 36 of the Finance Act 2004.

This is subject to a maximum deduction of £20,000. If an individual had relievable contributions of more than £20,000 for the tax year the amount in excess of £20,000 cannot be deducted.

Step 5 - salary sacrifices

Salary sacrifice is where an employee's employment income is reduced in exchange for the employer providing some other benefit. In this context, the employee's remuneration is reduced in exchange for a pension contribution by the employer. This step applies only if the salary sacrifice was agreed on or after 22 April 2009.

For the purpose of calculating the income of an individual to compare with the £150,000 or more limit, add back to the amount found after Step 4 any amount which has been agreed between the employee and the employer as being sacrificed in exchange for employer pension contributions.

For this purpose 'a pension contribution by the employer' means an individual's employer, or some other person,

- agreeing to pay contributions (or additional contributions) to a pension scheme in respect of the individual, or
- agreeing to secure increased benefits under any pension scheme, whether by a contribution or by some other means, to which any of the following have an actual or prospective entitlement
- the individual
- a dependant of the individual; or
- any person connected with the individual.

Step 6 – gift aid

Deduct from the amount found after Step 6 the amount that represents any donations made in the tax year that qualify for 'gift aid'. This amount can also include amounts of qualifying donations that are treated as made in the same tax year under an election to carry back relief. The amount found after Step 6 is the 'relevant income figure'.

If the amount is £150,000 or more, then the **SAA** provisions will apply. If total adjusted pension input amounts exceed the individual's available **SAA**, then the **SAA** charge will apply.

Pre 22 April 2009 (Budget day) Pension Savings

Any non regular pension savings from 6 April 2009 to 21 April 2009 will reduce your **SAA**, but will not themselves be subject to the **SAA** tax charge. Regular pensions savings will not be subject to

the **SAA** tax charge and also will not reduce the **SAA**.

Increases in Pension Saving

The **SAA** charge will affect individuals in a tax year if they have an income of £150,000 or more in that tax year or in either of the two previous tax years who increase the level of their annual pension savings.

This increase may be as a result of the individual making large additional pension contributions over and above their normal regular ongoing pension savings or by changes to the way their pension benefits are calculated. This might be, for example, where the rate at which benefits accrue in a final salary scheme changes from 1/60th of salary per year to 1/40th of salary per year but where this only applies to certain members.

This firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. The services described in this brochure may include investment services of this kind.

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