

Tax News & Tips

Welcome...

...to our new-look Tax News & Tips (TNT) - the e-publication that updates you about important changes in the world of tax. Following recent legislative changes, this issue of TNT aims to clarify the current position relating to pension contributions and the way that they are taxed, along with helping you to understand how the new rules may affect you.

As ever, we'd be interested to hear what you think about this publication so please share any feedback with **Victoria Doyle** by calling **0113 297 6767** or email **v.doyle@sagars.co.uk**

Making sense of the new pension regime

In his budget on 22 April 2009, the Chancellor announced some dramatic changes to the way that certain pension contributions would attract tax relief.

It has taken quite a while for the final rules to become clear, not least because the proposals were altered several times before the Finance Bill was granted Royal Assent.

A reminder about pre-2009 rules for individuals

Before we go through the new rules, we have set out a brief reminder of the rules that were implemented on "A Day" - 6 April 2006. From A Day, an individual could pay a pension contribution of up to 100% of net relevant earnings, receiving full tax relief up to a maximum of £215,000, a figure which increased each year to the 2009 limit of £235,000.

Pre-2009 rules for companies

Under A Day rules a company could contribute up to £215,000 per person per annum. These contributions had no personal tax implications for the individuals and the company could get corporation tax relief, subject to successfully demonstrating that their contributions were "wholly and exclusively" for the benefit of the trade.

Clarification of the new regime

The new rules, which will effect pension contributions made after 5 April 2009, broadly limit higher rate tax relief on pension contributions made by anyone with taxable income over £150,000. In addition, because income is something that a taxpayer can potentially manipulate (e.g. if you own your own company, you can choose what to pay yourself in a given

tax year), a two year look-back test has been introduced with the aim of uncovering any such income manipulation.

Explaining how the new rules apply

If your taxable income for the tax years 2007/08, 2008/09 and 2009/10 is consistently below £150k then you should not be affected by these new rules. For example, if your total income was equal to or less than £120k for each of the three years and you paid pension contributions of £40k a year, you can expect full tax relief on these contributions assuming you had sufficient relevant net earnings.

However, if your total taxable income was above the £150k threshold, the new rules will limit your ability to get higher rate tax relief on your pension contributions. If you have made regular (at least quarterly) pension contributions, you may still be able to make contributions at that level in each of the tax years to 5 April 2010 and 2011. Otherwise you will be limited to the lower of £30k or the average of your annual contributions in the three tax years to 5 April 2009. The fall back position is that you can get full tax relief on £20k of contributions.

From 6 April 2011 the rules are due to change again - probably to limit higher rate tax relief all around.

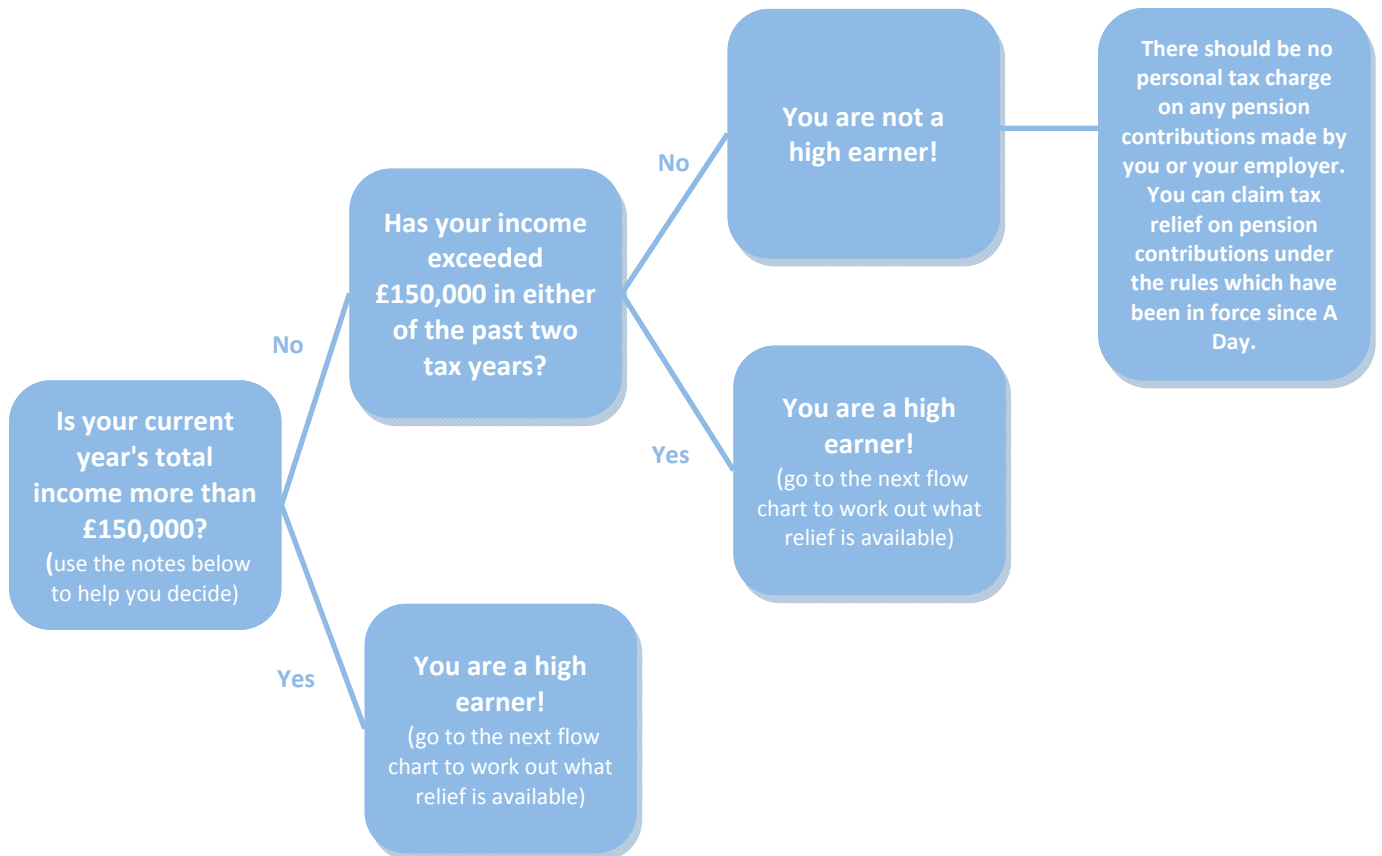
If you would like to further how the new pension regime may affect you, please call Kate Naylor on 0113 297 6825 or email k.naylor@sagars.co.uk



Working out your income

There are a number of tests that can be applied to work out if your income was in excess of the £150k limit in any given year. We have included some flow charts and additional guidance in this publication and we're happy for you to contact us if you need any further help.

Are you a “high earner” for pension relief purposes?



Two simple steps (and a note of caution) to help you work out your income

Step one

Add together all forms of your income, including but not limited to the following:

- Salary
- Self employment earnings
- Partnership profits
- Rental income
- Trust income
- Dividend income
- Interest received
- Post 22 April 2009 salary sacrifice arrangements*

Step two

Deduct the following (again, not an exhaustive list):

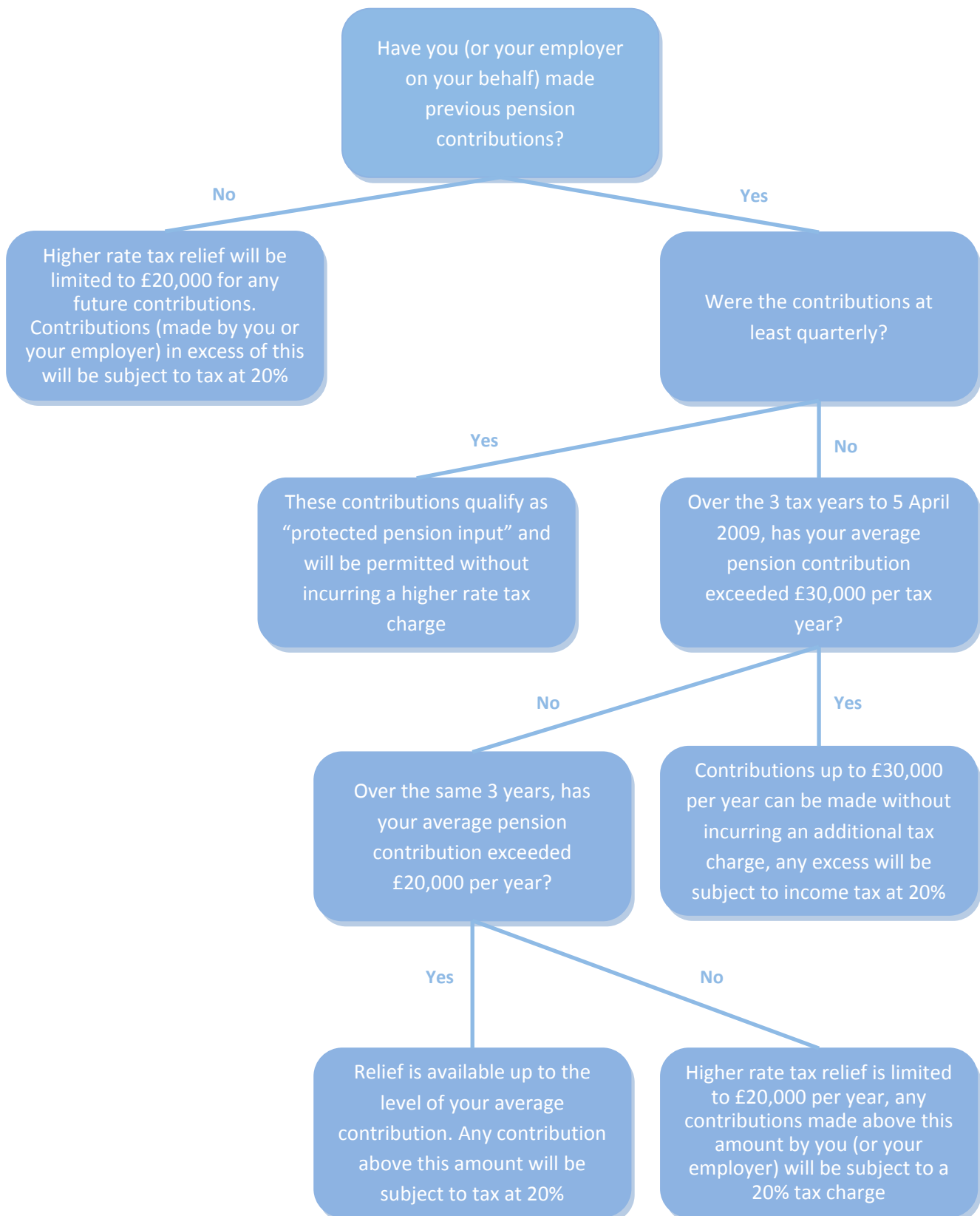
- Any relevant individual **personal** pension contributions up to a maximum of £20,000 (do not include any company contributions!)
- Gift aid payments
- Losses

* A note of caution

We are concerned that a pension contribution made by an owner managed business (OMB) could be deemed to be a post 22 April 2009 salary sacrifice. We have put this to Counsel who have indicated that we are right to be concerned.

There are articles that suggest OMBs escape the new rules, as they have more flexible arrangements and would not be caught out by salary sacrifice. However, anyone wishing to make contributions in excess of the levels eligible for relief should be aware that the charge COULD apply.

I am a “high earner” - what relief is available?



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