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Some good news on pensions at last!

In April 2009 the then Labour government introduced restrictions to higher tax relief on pension contributions for high earners. Individuals with income over £150,000 per annum were to have their higher rate tax relief on pension contributions restricted from April 2011. At the same time complex 'anti-forestalling' rules were introduced with immediate effect to stop individuals accelerating their pension contributions ahead of April 2011 in order to maximise relief.

It became apparent very quickly that these rules would be complicated and thankfully the new Coalition Government announced in June that they would undertake a review of these rules with a view to simplifying the system for pension tax relief.

The Treasury has now proposed that from April 2011:

- + The complex rules put in place by the previous government will be withdrawn.
- + A new annual allowance of £50,000 per annum will apply to everyone irrespective of their earnings.
- + Individuals will receive tax relief at their highest tax rate (i.e. 20%, 40% or 50%) on all contributions within the annual allowance.
- + Unused annual allowances can be carried forward for up to three tax years with effect from 2008/09 onwards.
- + An 'annual allowance charge' will apply to completely remove tax relief on pension contributions in excess of the annual allowance.
- + Specific provisions will be introduced to apply the rules to defined benefit (final salary) schemes.

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Example:

An individual pays total gross pension contributions of £100,000 for the 2011/12 tax year. This is more than the £50,000 annual allowance. However, in the three previous tax years pension saving was £20,000 gross per annum, i.e. £30,000 below the annual allowance in each tax year. As a result £90,000 of unused annual allowances can be carried forward.

This means that £140,000 of gross pension contributions could be paid without an annual allowance charge arising. As only £100,000 has been paid then tax relief will be available in full.

Employer contributions

Both employee and employer contributions will be taken into account in determining whether the annual allowance has been exceeded. If the employer makes contributions in excess of the available annual allowance then a tax charge will be due by the employee on the value of the contribution at their marginal tax rate.

Anti forestalling rules remain until 6 April 2011

In the meantime, anti-forestalling rules continue to apply until 6 April 2011.

These can affect any individual whose income exceeds £130,000 in the current or previous two tax years and whose total pension contributions (including employer contributions) are more than £20,000 per tax year, unless they are regular contributions which are 'protected'.

Changes to lifetime allowance from 2012

It was also announced that from April 2012 the 'lifetime allowance' for tax relievable pension saving will be reduced from £1.8 million to £1.5 million.

Summary

From April 2011 individuals will now be able to claim relief at their highest tax rate on contributions of up to £50,000 per annum, or up to a theoretical maximum of £200,000 in a single tax year if they have unused allowances brought forward. However as always there are transitional rules and other restrictions and professional advice should be sought to help maximise tax relief on pension saving.



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