



## Darling, I've got a headache ...

**M**r Darling, you have given us all a headache since your budget on 22 April this year. Advisers from all parts of the advice spectrum (even accountants) are asking. "Whatever happened to 'pensions simplification?'"

Mr Darling stood up and delivered a budget on 22 April this year, and we are still working out the full ramifications for our clients – this year, next year and the years following.

The current government has set out how it intends to deal with tax relievable pension contributions for high earners over the next two years (and their intentions beyond 2011). For clients who fall within the scope of these changes it is important to understand how they apply to them.

### What do we need to look out for when carrying out that all-important fact-find with clients?

- High income status (those with relevant income above £150,000 for the purposes of testing for the special annual allowance) effectively applies for three tax years.

- You should check the income tax returns for your high income clients for each tax year from 2007/08 and any individual with a charge to income tax above £150,000 should be looked at carefully. The application of the rules describing 'relevant income' for the purposes of the special annual allowance charge can be complex and should be read carefully.

- Only regular savings payable at least quarterly before 22 April 2009 fall within the definition of protected pension input amounts.
- Half-yearly and annual contributions, recurring SPs or ad-hoc APs can be used to calculate any entitlement

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### The key facts as detailed in the Finance Act 2009, given royal assent on 21 July :

What	Relevant income limits	When
20% tax charge on pension contributions (except protected pension input amounts), in excess of the £20,000 special annual allowance for regular contributions or £30,000 for APs or SPs	£150,000+	22 April 2009
Possible 30% tax charge on pension contributions (except protected pension input amounts), in excess of any special annual allowance limit.	£150,000+	06 April 2010
Reduction in personal allowance	£100,000+	06 April 2010
50% income tax charge	£150,000+	06 April 2010
Higher rate tax relief on pension contributions restricted	£150,000+	06 April 2011

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to higher-rate tax relievable pension savings up to £30,000.

- Take care in advising high income clients to make new or additional payments above £20,000 for regular contributions or £30,000 for SPs. These could attract the special annual allowance charge.
- Take care in advising high income clients to switch pension providers. This could result in any protected pension input amounts being lost.

## What are the opportunities from these changes?

- Use personal pension payments of up to £20,000 to reduce relevant income below £150,000. Payments up to this amount will reduce the relevant income that must be taken into account when assessing whether the client is a high income individual.
- Salary sacrifice non-pension benefits. Salary sacrificed for non-pension benefits will reduce the income taken into account in working out relevant income above £150,000.

- High income clients maximise payments up to the £20,000 special annual allowance, particularly in 2010/11 when the applicable rate of tax is planned to be 50%.
- Do advise high income clients to continue with existing regular payments. Protected pension input amounts will not be subject to the special annual allowance charge for the next two years 09/10 and 10/11.

There is no instant headache remedy. However we do have a comprehensive summary of the key changes that will help guide you through the legislation.

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