

# stick or twist?

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**Adrian Walker** assesses the impact of the Budget on retirement planning and highlights some of the key choices facing specific clients.



The vast majority of this year's Budget announcements went unheralded as the Chancellor largely confirmed his 2009 Pre-Budget statements of December last year. No new announcements on income tax or capital gains tax and the freezing of the inheritance tax threshold at £325,000 for four years didn't exactly create much of a splash.

One of the main focuses from a financial planning perspective continues to be on individuals with high incomes and how the announcements will continue to affect them in the 2010/11 tax year and beyond.

The Budget included the Government's assessment of how tax relief will be restricted for individuals on high incomes from the 2011/12 tax year. It contains very little by way of surprise given that the Government gave a very heavy steer as to its preferred approach in the consultation document issued with the Pre-Budget Report in December of last year.

## planning considerations

These changes (assuming they survive the General Election and are included in the 2010 Finance Act) will have to be taken into account when advising relevant clients this year, as the interim anti-forestalling measures continue to apply for high earning

clients. There are key differences to the way that the tax treatment will apply from 2011/12 to the rules that apply now (see the panel opposite).

There are some positive planning messages for financial advisers with clients who may be impacted by not only the future proposals but also the interim anti-forestalling measures originally introduced in last year's Budget. They are broadly as follows:

### Regain the personal allowance where possible

For clients whose taxable income will exceed £100,000 this tax year where their personal allowance of £6,475 will reduce by £1 for every £2, the use of personal contributions to registered pension schemes to bring the taxable income below the £100,000 and regain the personal allowance is an option. This will provide very efficient marginal rates of tax relief on that funding.

A client with taxable income of £120,000 could pay a contribution of £20,000 to a registered pension scheme and receive tax relief on that payment well in excess of 40% due to the effect of regaining the personal allowance. This, for example, could be someone caught by the current anti-forestalling provisions but who still has the special annual allowance available to them.

### Review the position for additional funding in 2010/11 or 2011/12

The removal of the three-year rolling relevant income threshold in 2011/12 could provide significant opportunity for future pension funding which may not exist in the current tax year. Some of your clients will be restricted in terms of the fully relievable funding that can be made in the current tax year because of a year of high relevant income that has previously occurred and which is unlikely to be repeated.

An example of this might be an individual who has been made redundant where the taxable redundancy payment (above £30,000) when added to the remainder of income in a tax year has subjected the client to the restrictions of the anti-forestalling provisions. The client may never have had that level of earnings before or be likely to have in the future. For such clients the priority has to be to use up the protected allowances they may have this year and then continue to take advantage of normal funding opportunities from the following year.

The picture is different for an employed individual whose earnings are at, or slightly above, the relevant income threshold this year where this level of income is likely to continue in the future and up to now has not



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## Key elements of the changes from 2011/12

- To be subject to any possible tax relief restriction clients will have to receive gross taxable income of at least £130,000 (which will include any pensions salary sacrifice made after 21 April 2009), to which the value of any employer contributions will be added. If the aggregated value exceeds £150,000 then restricted tax relief will begin to apply. If the aggregate exceeds £180,000 then tax relief will be restricted to the basic rate.
- Income for this purpose will be before the payment of any personal contributions to registered pension schemes or gift aid payments.
- The test will be on an annual basis, ie there is no three-year rolling period as currently applies within the anti-forestalling provisions.
- There will be no level of contribution that would not be subject to possible tax restrictions for an individual caught by these rules. The concept of a special annual allowance, protected pension inputs or infrequent money purchase contribution threshold where no tax charge applies to that funding will disappear at the end of the 2010/11 tax year.
- The value placed on future benefit accrual within a defined benefit scheme to determine the value to be placed on the employer contribution will use age related factors yet to be determined that reflect length of service and term to retirement. The factors will not be the same as the 10:1 factor that applies when calculating how much of an Annual Allowance has been used up by a scheme accrual in a tax year and for most individuals will be higher.
- A level of taper relief for those individuals whose income falls between £150,000 and £180,000 in a tax year will be applied to funding made in that tax year.

Fuller details of these changes are available at [www.skandia.co.uk/fasite/budget](http://www.skandia.co.uk/fasite/budget)

been caught by the anti-forestalling provisions. They may want to look at ways in which relevant income can be reduced below the threshold in the 2010/11 tax year to provide higher, fully relievable entitlements this tax year that may not apply under the income definition for 2011/12 and beyond. In particular, the use of the £20,000 relievable personal funding limit and gift aid

payments may be attractive. The latter is capable of being carried back to the previous tax year to unfetter relevant income from that year.

For clients whose potential income in 2011/12 may be in the £150,000- £180,000 band there is a need to review the possible tax implications of higher funding next tax

year but on a tapered relief scale, compared with a fully relievable special annual allowance or protected pension input this tax year. Any excess restricted to basic-rate relief will need to be considered as this tax year unwinds.

### summary

The scenarios outlined are some of the key elements of pensions planning following the Budget announcements. While we may all have one eye on the outcome of the approaching General Election, it is unlikely that much of what has been announced will be changed immediately. There is an opportunity to identify those clients and professional connections where immediate reviews will be beneficial and deliver valuable advice. ●

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