

## Tax Relief On Pension Payments Restricted

Higher earners received an additional blow in this year's Budget as the Chancellor imposed an increased tax burden on their pension contributions on top of the new 50% rate on their income. In particular, the long-established link between an investor's marginal rate of income tax and the amount of income tax relief received on pension contributions was broken.

From April 2011 for those earning over £150,000, the tax relief on pension contributions will fall at a tiered rate until, at an income of £180,000 or more, they will only receive 20% tax relief. It is not just salary included in the earnings calculation, but income from savings, investments or rental income. The Government has added it has no plans to increase the £150,000 limit in line with inflation, so the move may affect many more people in the years to come.

Although these changes are not due to come into effect for another two years, in order to prevent higher earners pushing up their pension contributions in the short term, the Government has restricted higher-rate tax relief for contributions up to a ceiling of £20,000 per year with immediate effect unless they are part of a normal pattern of contributions.

This means regular savings that had been set up prior to 22 April 2009 attract higher rate relief even if they exceed £20,000 per year. It is also interesting to note that the definition of "normal contributions" excludes regular annual payments. Hopefully this will change by the time the proposals become law.

The pensions regime was substantially overhauled just three years ago with the 'A-Day' changes coming into effect in April 2006. This aimed to simplify pensions and usher in a new, long-term regime that would enable people to plan. As such, the new changes have caused some frustration in the pensions industry.

Proper planning will help to mitigate all these new tax burdens and boost overall income in retirement – for example, through the increased ISA allowance and capital gains tax planning. Other investments such as Venture Capital Trusts (VCTs) that offer tax relief at a rate of 30%, but hitherto have been relatively risky, may well develop to become more attractive to individuals who have become used to making large pension payments.

Other Budget measures are also likely to affect the pension arrangements of higher earners. Pension contributions made by employers for those earning over £150,000 will now be taxed as a benefit in kind at 20%. Although the full effect will not be felt for three years, this may change the pattern of employee remuneration for high earners.