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Client Briefing Note

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Budget Changes to Pensions

As you will no doubt be aware, there were several changes in the budget this year affecting individuals earning £150,000 or more.

I am writing to you to highlight the measures introduced from 22 April 2009 which limit tax relief on pension contributions and in particular the 'anti-forestalling' measures which have been introduced in advance of the general restriction on relief for individuals earning over £150,000 per annum, which is effective from 6th April 2011.

The 'anti forestalling' measures are intended to stop people on high earnings paying unusually large contributions to take advantage of the greater relief in advance of the change. These measures cover periods from 22 April 2009 to 5 April 2011 and limit the amount of tax relief available on contributions if the individual:

- has earnings of over £150,000 or more in the tax year in question, or either of the previous two tax years and
- increases any regular, quarterly or monthly, pension contributions over and above those that were made prior to 22 April 2009 and
- whose annual pension contributions exceed £20,000 (known as the special annual allowance)

If an individual satisfies the above criteria they will only be able to claim higher rate tax relief on personal contributions up to £20,000, or on the regular contributions in place prior to 22 April 2009, if higher. Contributions above this will only attract basic rate relief.

The special annual allowance of £20,000 applies to the total of personal and employer contributions even though higher rate tax relief is only claimable on personal contributions.

As there is potential for you to fall within these rules we would recommend that you consider the appropriate level of pension contributions, in your circumstances. If you have made contributions since 6 April 2009, or intend to do so, these should be reviewed to ensure they are not excessive in light of the new rules. Alternatively you may wish to maximise the contributions payable prior to 6th April 2011, to ensure the maximum amount of higher rate tax relief is obtained. We would be pleased to undertake these calculations on your behalf, upon hearing from you.

This letter is intended to highlight current issues regarding tax relief on pensions, rather than cover wider pension related budget proposals. As the budget has not yet passed through the Finance Act and become law, there is scope for the proposals to change further.

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