

Exploring Pensions

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SIGNIFICANT TAX SAVING OPPORTUNITIES FOR HIGH EARNERS THROUGH PENSION CONTRIBUTIONS

The final Budget of the Labour regime introduced new limits for those with income over £150,000, to which further legislation was introduced in December 2009 to widen restrictions to those with income over £130,000. The full force of the legislation starts with effect from April 2011. However, complex anti-forestalling measures have been introduced to prevent high earners making significant pension contributions in the interim.

Opportunity

There is still significant scope for large pension contributions to be made by or on behalf of those with relevant income between £130,000 and £150,000. With the introduction of the new 50% tax band and the reduction of nil band earnings for those earning over £150,000, pension contributions for these individuals could achieve as much as 60% tax relief. In addition, contributions made by employers on behalf of employees will achieve full corporation tax relief, subject to the usual 'wholly and exclusively' test.

Planning

With careful planning of contributions for those in defined contribution schemes, some clients can be kept under the £130,000 'ceiling', allowing for significant company contributions. Others will need to ensure that their existing provision is maximised and any opportunities to make contributions with full tax relief are taken.

Additional consideration will need to be given to those in final salary schemes, as a contribution will be deemed to be made each year, calculated with reference to the accrual of pension as well as the member's age, sex and proximity to retirement. These calculations could lead to high earners facing significant tax bills, even though they have made no actual contributions to the schemes. Where the tax charge exceeds £15,000, it is likely that the scheme will be allowed to pay the tax charge rather than the member. However, clients could still be liable for a significant tax bill! This creates an urgent need to reassess whether such clients are still better off remaining in such schemes, or considering a transfer to defined contribution schemes.

*Article by Thornton Wells
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