

Budget 2010



**HM Revenue
& Customs**

BN33

24 March 2010

IMPLEMENTING THE RESTRICTION OF PENSIONS TAX RELIEF

Who is likely to be affected?

1. Employees who save in a registered pension scheme, with total annual income of £130,000 or over before deduction or relief for pension contributions and charitable donations and whose income (before deduction or relief for pension contributions and charitable donations) together with the value of any employer pension contributions is £150,000 or over.
2. Other individuals, with total income before deduction or relief for pension contributions and charitable donations, of £150,000 or over.
3. Employers of individuals affected by this measure.
4. Scheme administrators of registered pension schemes and advisers with clients that are affected by this measure.

General description of the measure

5. Legislation will be introduced in Finance Bill 2010 to recover tax relief above the basic rate on pension contributions made by or on behalf of individuals with high income. For people with annual income of £150,000 or over but below £180,000, tax relief on pension contributions (including the value of employer contributions for those in employment) will reduce gradually from the individual's marginal rate to basic rate as income increases. Where income is £180,000 or over, the measure restricts tax relief on pension contributions to basic rate.

Operative date

6. The restriction of pensions tax relief will have effect on and after 6 April 2011.

Current law and proposed revisions

7. An individual receives relief at their marginal income tax rate on their pension savings. Although there are no limits to how much can be saved in registered pension schemes, the maximum pension savings on which tax relief is available in any one year is limited to 100 per cent of a person's earnings and by the annual allowance. The annual allowance for the 2010-11 tax year is £255,000. Tax relief is recovered in respect of any pension savings over that allowance by the application of the annual allowance tax charge to the excess.
8. A special annual allowance applies for 2009-10 and 2010-11 for individuals with income of £130,000 or over. Tax relief above basic rate is recovered from pension savings above an individual's special annual allowance by the application of the special annual allowance charge. An individual's special annual allowance is the higher of their regular pension savings and £20,000 (or in certain circumstances, where contributions have been less regular than quarterly, £30,000).
9. The Government announced at Budget 2009 its intention to restrict tax relief on pensions savings with effect from 6 April 2011 for high income individuals.
10. These rules will affect individuals with income of £150,000 or over. For the purposes of this measure, income is calculated before deduction or relief for pension contributions and charitable donations, and for those in employment, includes the value of any pension benefit funded (or eventually funded) by their employer.
11. A taper will apply for those on incomes between £150,000 and £180,000, gradually reducing tax relief on pension contributions until it is restricted to the basic rate. This restriction will apply to the individual's contributions and to any pension benefit funded (or eventually funded) by their employer. The rate of tax relief on pension contributions will be determined by where individuals lie on the taper.
12. The restriction of tax relief on pension contributions will be delivered through Self Assessment, with a new high income excess relief charge payable by those affected. This recovery charge is designed to restrict pensions tax relief to the appropriate rate.

Further advice

13. A consultation document, *Implementing the restriction of pensions tax relief*, including a consultation stage Impact Assessment, on the implementation of the restriction of pensions tax relief was published at the 2009 Pre-Budget Report. A final Impact Assessment and a summary of consultation responses have been published today on the HM Treasury website.
14. If you have any questions about this change, please contact Paul Cottis on 0115 974 2420 (email: pensions.policy@hmrc.gsi.gov.uk). If you have any

questions about how the pensions tax rules operate in practice, please contact the Pension Schemes Service Helpline on 0845 600 2622.

15. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk