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FINANCE BILL 2009 – LIMITED RELAXATION OF TRANSITIONAL PROVISIONS

1 INTRODUCTION

On 22 April 2009, Alistair Darling surprised the pensions industry by announcing that, from 2011, the country's highest earners will no longer benefit from tax relief on all pension contributions at their marginal rate. The Government's proposal is to restrict the tax relief available for individuals with an annual income of £150,000 or more. Relief will taper away so that it is worth just 20% for those earning over £180,000 (equivalent to basic rate tax).

Transitional measures were also announced which, from noon on Budget day, prevent affected individuals from making significant additional contributions in the interim.[1] However, recognising that the transitional measures are fraught with complexity and have the potential to scupper many existing arrangements, the Government has this week responded to industry concerns by making limited amendments to a couple of the more draconian aspects of the Finance Bill 2009 (the Bill).

2 KEY POINTS

- While the transitional ("anti-forestalling") provisions remain, the special annual allowance is increased to £30,000 in certain limited circumstances.
- The Bill is expected to receive Royal Assent before the Parliamentary summer recess on 21 July 2009.

[1] For more detail on the transitional measures, please see our Alert "Budget 2009: Building Britain's future" dated 23 April 2009

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3 THE TRANSITIONAL MEASURES - A QUICK RECAP

From 22 April 2009, the transitional measures affect individuals:

- who have an income of £150,000 or more;
- who change the pattern of their normal, regular, ongoing pension savings; and
- whose overall annual pension savings exceed £20,000.

In defined benefit schemes, any increases in pension benefits which arise under the existing scheme rules prior to 22 April are protected. Similarly, in defined contribution (DC) arrangements, the protected savings include contributions to a scheme which are paid "quarterly or more frequently". In both cases, pension savings exceeding these "protected inputs" will be subject to a tax charge which effectively restricts the available relief to the basic rate of 20%.

However, because of the requirement for quarterly or more frequent contributions to DC arrangements, the transitional measures had the potential to catch many pension contributors, such as the self-employed or executives, who may only pay six monthly (or even annual) contributions.

4 LIMITED RELAXATIONS

During the Finance Bill debate in the Commons this week, a Treasury amendment was agreed which offers greater protection for those who have paid "infrequent money purchase contributions" in excess of £20,000. For such savers, tax relief will be available on the lesser of annual pension savings of £30,000, and the average of an individual's contributions over the tax years 2006 - 2009.

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The remaining debates on the Bill are scheduled for 20 July 2009, and it is due to receive Royal Assent and become law before Parliament breaks for its summer recess the following day.

We will keep you updated if and when any further changes are announced.

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