



# BOURNER BULLOCK

Chartered Accountants

## Pension Planning For Tax Mitigation 2010/11

*Governments have for many years encouraged saving for retirement by giving generous tax breaks for individuals making their own provisions for retirement. The present government has introduced new rules which come into effect on 6 April 2011.*

6 April 2010 brought changes for higher earners with the introduction of the 50% tax rate for individuals with annual income over £150,000 and the phased withdrawal of the personal allowance for annual taxable incomes over £100,000 to the extent that it is completely lost for annual income over £112,950. The effective tax rate at which dividend income is taxed, currently 32.5%, is also being increased to 42.5% for annual incomes over £150,000.

The 2011 budget is scheduled for 23 March 2011 and with no November pre-budget report to go on we have no indications of what is to be expected, however, planning through pensions remains one of the most tax efficient ways to plan for retirement. We urge our clients to discuss these matters with us. If you do not have an existing IFA, we can introduce you to Lothbury Wealth Management Ltd, an Independent firm of Financial Advisers (IFA), with whom we work closely.

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### PENSION PLANNING

Investing for retirement can be done in a tax efficient way as the contributions reduce taxable income, so potentially saving you tax at the new higher rate of tax, if applicable. However, unless you already have policies in place for regular contributions, the Finance Act 2009 and 2010 introduced anti-avoidance measures to restrict the relief you could get against the 50% tax rate. These rules were repealed by the new government with a new regime commencing on 6 April 2011.

**For the remaining period to 5 April 2011** for individuals earning below £130,000 the only limit to contributions is that subject to the maximum of relevant income with an annual cap of £245,000 and a lifetime allowance of £1.8 million (reduced to £1.5 million from 6 April 2012). For individuals earning £130,000 or more, the higher rate tax relief is limited to contributions of £20,000 (gross), or in certain circumstances £30,000, and any contributions over this limit are restricted to the basic rate of tax. Still, a contribution to a pension scheme at 80% of the cost is worth considering.

An initial £20,000 contribution to an approved pension scheme would have an initial cost to you of £16,000 as it can be made net of basic rate tax relief at source. The other 20% relief, to take you up to 40%, is claimed through your tax return. Consequently, subject to the above limits, a £20,000 contribution can be made at a net cost of £12,000, or £10,000 for a 50% tax payer.

If you already have policies in place, or the old type retirement annuity policies taken out before July 1998, to which you make regular annual contributions, then the above limit of £20,000 for individuals earning above £130,000 will not apply as you can continue making these regular, annual, contributions and receive tax relief at your top marginal rates.

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**Contact us and speak to a Partner for more information on these issues**



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### PENSION PLANNING CONTINUED...

For a contribution to qualify for tax relief in the current tax year it must be paid by 5 April 2011. **After 6 April 2011** there will only be a single annual allowance limit of £50,000 up to which premiums will qualify for tax relief.

Restriction for higher earners has been removed and unlimited contributions for those retiring in the current year has also been removed, both being replaced by the single annual allowance limit of £50,000. Care must also be taken to ensure that you do not exceed the limits in any one pension input period. The lifetime allowance has been reduced to £1.5m from April 2012.

If the annual allowance is not used fully then any unused amount may be carried forward for up to three years, allowing for additional contributions over the £50,000 limit in later years. It is possible to look back to 2008/09 and, where contributions below £50,000 have been paid, unused allowance can be brought forward allowing for increased contributions over the £50,000 limit in 2011/12 which would all qualify for relief at the marginal rate of tax.

### EXAMPLES

- Brenda has profits of £200k so she will not only lose the use of her personal allowances but will also pay tax at 50% on income over £150k in 2010/11. A £20,000 maximum contribution will reduce her tax bill by £10,000. She will pay a pension contribution of £16,000 net of 20% tax relief and receive a £6,000 tax credit through her Tax Return or Tax Coding.
- Bernard a director and a higher rate tax payer, was expecting to pay £20,000 of dividends in 2010/11 taking him into the 50% band and which will incur a higher rate tax liability in January 2012 of £7,222. By contributing £20,000 gross to a pension plan, tax savings of £6,222 can be achieved along with £4,000 by paying £16,000 to the pension company.

## A STING IN THE TAIL – DEFINED BENEFIT (DB) OCCUPATIONAL SCHEMES

With effect from 6 April 2011, the value increase in benefits in a DB scheme will be converted using a factor of 16 (rather than the current factor of 10). This can be disastrous for some individuals where any excess in accrual will result in a tax charge against the individual. As an extreme example, an employee and a member with a 60<sup>th</sup> final salary scheme who has 28 years service and is awarded an increase in salary from £90,000 to £120,000 will attract a total tax charge of nearly £89,000 - considerably more than the pay increase.

*All employers with employees in such schemes should review accruals for all members of a defined benefit scheme as soon as possible and definitely before the end of March 2011. If you do not have a current adviser then Lothbury Wealth Management Limited would be happy to look at this aspect on your behalf.*

### ...AND FINALLY

If you would like us to review your affairs and any of the above is of interest to you, please get in touch with your usual contact at Bournier Bullock as soon as possible.

If you do not have your own IFA, we can arrange a meeting with Lothbury Wealth Management Ltd, with whom we work closely, to take this further.

This factsheet is one of a series produced for general reference purposes for clients and contacts of Bournier Bullock Chartered Accountants, on the basis that no responsibility is accepted for any action taken, or refrained from being taken, based on this fact sheet. The matters set out are necessarily of a general nature and professional advice should be taken before applying the information outlined to specific situations.



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