

## **Late Finance Bill Amendment on Higher Rate Tax Relief**

The government made a minor concession on higher rate tax relief for pension contributions in the face of intense lobbying.

In the current tax year and in 2010/11, the original rules would have allowed people with relevant incomes of £150,000 or more to benefit from higher rate tax relief on pension contributions (from all sources) of up to £20,000. This limit could be exceeded if regular (quarterly or more frequent) contributions to pension arrangements that were in force before 22 April 2009 were over £20,000.

The rule seemed to discriminate against people, such as the self-employed and business owners, who tend to make less frequent contributions – typically once a year. The new rule allows a minor concession. The change will only be of benefit to you compared with the previous rules if:

1. Your income after normal deductions (other than the personal allowance and personally made pension contributions in excess of £20,000) is £150,000 or more in the current tax year, 2008/09 or 2007/08; and
2. One-off, annual or irregular contributions totalling over £20,000 are made during 2009/10 or 2010/11 to your pension arrangements; and
3. In 2006/07, 2007/08 and 2008/09 your one-off, annual and irregular contributions to money purchase pension arrangements (such as personal pensions and some additional voluntary contribution schemes) averaged more than £20,000.

If all these conditions are fulfilled, then instead of the special annual allowance being £20,000, your special annual allowance will be the calculated three-year average, subject to a maximum of £30,000.

At best, the change may mean that an extra £10,000 contribution could escape the special annual allowance charge, implying a maximum tax saving over the original proposals of £2,000 in 2009/10.