

# Restricting tax relief on pension contributions for high-income individuals – comparisons between the anti-forestalling rules and the proposed changes from April 2011

## Background

At Budget 2009, the Government announced its intention to bring in new rules for pensions tax relief to apply from 6 April 2011. At the same time, the Government introduced new rules (known as anti-forestalling rules) that apply from 22 April 2009. These anti-forestalling rules are intended to prevent people making substantial additional pension contributions, taking advantage of the full tax relief available, before the changes in 2011 come into force.

At the Pre-Budget Report 2009, a consultation document 'Implementing the restriction of pensions tax relief' was published which set out how the restriction of higher rate tax relief will be implemented in 2011.

Also at the Pre-Budget Report the existing anti-forestalling income threshold was reduced from £150,000 to £130,000 with effect from 9 December 2009, although the income definition was unchanged.

This note highlights some of the differences between the anti-forestalling rules that have been in force since 22 April 2009 and the proposed restriction of tax relief due to come in from 6 April 2011.

## Anti-forestalling

From 22 April 2009, individuals are subject to the anti-forestalling rules if their 'relevant income' is £150,000 or more. From 9 December 2009, this was extended to include individuals with a 'relevant income' of £130,000 or more. However, the definition of 'relevant income' for the purposes of the anti-forestalling rules has not otherwise changed.

For the purposes of anti-forestalling the definition of 'relevant income' is as follows:

- the individual's total taxable income for the year – step 1
- plus any pension contributions they make under net pay (and corresponding relief) – step 2
- less any qualifying losses – step 3
- less their total relievable pension contributions up to a maximum of £20,000 – step 4

- plus any salary sacrifice made to provide pension benefits to the individual during the year agreed since 22 April 2009, or for those with 'relevant income' of below £150,000, any salary sacrifice agreed since 9 December 2009 – step 5
- less the amount of any grossed up gift aid donations – step 6

There is also a 'look back' test. Those with relevant incomes below the threshold in the tax year will also need to check whether or not their 'relevant income' was also below the threshold in both the previous two tax years. If it was on or above the threshold then they will be subject to the anti-forestalling rules for the tax year.

An example of calculating 'relevant income' can be found at [RPSM15101100](#).

### Other facts about the anti-forestalling rules

Affected individuals have a special annual allowance. This is based on one of the following amounts:

- £20,000 – where no irregular contributions have been paid to (a) money purchase arrangement(s)
- an amount of more than £20,000 but less than £30,000 – where irregular money purchase contributions have been paid and this is the average amount of these contributions over the 3 tax years before 2009/10
- £30,000 – where irregular contributions have been paid to (a) money purchase arrangement(s) and the 3 yearly average of those contributions is £30,000 or more

The section of RPSM starting at [RPSM15102000](#) explains how you calculate an individual's special annual allowance.

Regular ongoing contributions (pension input amounts) are protected.

All contributions above the special annual allowance that are not protected are subject to the special annual allowance charge to restrict relief to basic rate. All contributions less than the special annual allowance or that are protected inputs will receive tax relief at the individual's marginal rate.

There is no taper.

The special annual allowance legislation is in Schedule 35, Finance Act 2009.

### 2011 Changes

Individuals will be affected by the restriction of tax relief on pension contributions from 6 April 2011 if their 'gross income' is £150,000 and over and their 'relevant income' is £130,000 and over.

For the purposes of the 2011 changes the definition of 'relevant income' is as follows:

- the individual's total taxable income for the year
- plus any pension contributions they make under net pay (and corresponding relief) and any amount paid under payroll giving

- less any qualifying reliefs, but excluding any gifts of qualifying investments to charities
- plus any salary sacrifice made to provide pension benefits to the individual during the year agreed since 22 April 2009.

For the purposes of the 2011 changes the definition of 'gross income' is as follows

- the individual's total taxable income for the year
- plus any amount under payroll giving and any pension contributions they make under net pay (and corresponding relief)
- less any qualifying reliefs, but excluding any gifts of qualifying investments to charities
- plus the total pension savings amount of the individual (including employer contributions), excluding any relievable contributions made by or on behalf of the individual.

### Other facts about the 2011 changes

There is no special annual allowance.

There are no protected contributions.

Tax relief on pension contributions will be restricted for those with 'gross incomes' of £150,000 and over. From that level, the value of pensions tax relief will be tapered down until, for those on 'gross incomes' of £180,000 and over it is 20 per cent, making it worth the same as for a basic-rate taxpayer.

#### Where can I find out more?

Visit our website at

[www.hmrc.gov.uk/pensionschemes](http://www.hmrc.gov.uk/pensionschemes)

for the most up to date information on pensions schemes including all the required forms and completion notes.

[www.hmrc.gov.uk/manuals/rpsmmanual/index.htm](http://www.hmrc.gov.uk/manuals/rpsmmanual/index.htm)

provides specific guidance on all aspects of the pensions tax rules including the special annual allowance

Phone our Helpline on **0845 600 2622**

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