

Article topic: Tax Planning

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Tax shock in store for high income earners



Thousands of taxpayers could be caught out by anti-forestalling rules next year and see tax relief on their pensions slashed, warns Senior Tax Consultant, Rachael Verinder.

Last year's Budget dealt a big blow to high earners and their pension contributions particularly from 5 April 2011; however, following the extension of anti-forestalling rules to include taxpayers earning £130,000 or more from 9 December 2009, thousands more unsuspecting taxpayers could be in for a nasty shock in their 2009/10 Tax Return.

The story so far...

The new pension rules, which come into effect from 5 April 2011, will see the higher rate tax relief on some pension contributions reduced on a tapering scale until those earning over £180,000 are only receiving the basic relief.

In addition to this, in the pre-budget report HMRC extended these powers so that taxpayers earning £130,000 or more must then add their employer's pension contribution to their salary to see if their earnings are deemed to be above the £150,000 limit and thus caught by the new provisions.

In order to prevent high earners taking advantage of the higher rates of tax relief before the new rules were implemented, HMRC introduced anti-forestalling provisions. Originally these meant that those with total income of £150,000 or more in either the current (2009/10) or two previous tax years (2007/08 or 2008/09) will find their irregular pension contributions facing restriction to a special annual allowance of £30,000.

However, HMRC didn't stop there...in an effort to avoid the new rules, high earners were agreeing salary sacrifices in favour of their employer making a contribution into their pension instead. This resulted in HMRC extending its anti-forestalling rules further in the Pre-Budget Report, so that anyone earning £130,000 or more is actually now caught by the new provisions.

How does this affect you?

The good news is that if your total income is under £130,000 in 09/10 you will not be affected by the anti-forestalling measures under the rules currently in play; however, there is a danger that those earning over £130,000 will be inadvertently caught out unless they take action now.

So what's next?

Further details on the changes and whether we can expect any more may come to light in this year's Budget, which is rumoured to be in March, but we are awaiting confirmation of the date.

In the meantime, despite appearances that the government is limiting the powers of high earners to invest in pensions to their detriment, if you are caught by the new provisions, there are still a number of options available to you. These options may not be available after the Budget, which gives little time to review your affairs but it is still possible.

For advice on the anti-forestalling measures and how they affect you, please contact us:

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