



2009 Budget announcement New tax on pensions for high earners

The headlines

In the 2009 UK budget, delivered on 22 April, the Chancellor announced some changes to the tax relief available on pension savings. While the regulations detailing these changes are still draft, you may be affected if your total income from all sources (not just your Unilever earnings) is £150,000 or more per year. If you think you may be affected, please read this leaflet carefully.

The changes proposed in the Budget include:

- a proposal to abolish higher-rate tax relief on all pension contributions from 6 April 2011; and
- a new tax charge – which took effect from 22 April 2009 – designed to catch people who might otherwise have taken advantage of the existing higher-rate tax relief by increasing their pensions savings now, before the new tax regime comes in.

This leaflet provides information on the new tax charge which took effect from 22 April 2009 and will remain in place, we understand, until 6 April 2011. We have included some examples in the appendix which may be helpful.

Who the new tax charge will affect

The new tax charge being proposed will affect you if **all three** of the following apply:

- You have income of £150,000 or more in the current tax year or in either (or both) of the previous two tax years;
- Your total pension savings in the tax year are more than £20,000; and
- You increase your pension savings in the tax year.

The term 'pension savings' refers to all of your pension savings that receive UK tax relief and includes:

- The value of any 'defined benefit' pension you are building up in the tax year (for example your benefits in the Unilever UK Pension Fund Final salary or Career average plans);
- Any contributions to 'defined contribution' pension schemes (also known as 'money purchase' schemes), both in and outside of Unilever (for example the Investing plan, other Unilever Additional Voluntary Contribution (AVC) arrangements, or a personal pension scheme). This includes both your own and Unilever's contributions to these schemes.

Savings in non-UK pension schemes that benefit from UK tax relief are also included in this definition.

The new tax charge will **not** apply to you if your total annual income is less than £150,000 in the current tax year and both of the previous two tax years.

The new tax charge will **not** apply to you even if your total annual income was £150,000 or more if you continue as normal with your existing **regular** pension savings (including any employer contributions) and do not increase your pension savings on or after 22 April 2009.

The new tax charge will **not** apply to you if your total annual income was £150,000 or more and you increase your pension savings provided your overall annual pension savings are £20,000 or less.

As with the tax allowances already in place, these should affect a relatively small number of members of the Unilever UK Pension Fund (the "UUKPF"). However, please bear in mind:

- The £150,000 applies to income from all sources – not just those from Unilever. So, for example, if you have money coming in from investments, those returns will count on top of your Unilever pay.
- The £20,000 pension saving level includes Unilever contributions to any defined contribution arrangements – so it will include any fixed term voluntary contributions you make through the Unilever Contribution Arrangement and, if you are in the Career average plan and have earnings above the higher level, the Unilever 12.5% contribution.
- The £20,000 level also includes the benefits you build up over the tax year in a defined benefit plan like the Final salary plan (you can see how this is worked out on page 5 of your plan guide).

What you need to do

It is your responsibility to take suitable action if you believe these restrictions will affect you. You should consider delaying any changes you may have planned to make to your pension arrangements and take advice on what the new tax regime might mean for you.

In relation to the benefits you are building up in the UUKPF, you need to consider this new tax charge if:

- 1) You think you will be affected by the new tax charge; and
- 2) You are considering increasing your level of voluntary contributions to the Investing plan or another AVC arrangement, or starting to pay new voluntary contributions; or
- 3) You are a member of the Career average plan and you are considering changing the way you receive the Company contribution on your earnings above the higher level.

No-one involved in running the UUKPF - which includes Unilever, the trustees and the Pensions Team – is allowed to give you advice about your financial planning or decisions. If you are uncertain about anything to do with your pension, you should seek independent financial advice. IFA promotion can help you find an adviser in your area – you can carry out a search on their website, www.unbiased.co.uk.

More details on the new tax charge

If you have total income of £150,000 or more a year, a new 20% tax charge will apply to any increase to your pensions savings above a total of £20,000 in this tax year.

The tax charge will potentially apply if your total annual pension contributions and benefits built up in 2009/10 exceed £20,000. All contributions, including any fixed term voluntary contributions to the Investing plan made through the Unilever Contribution Arrangement, and any other AVCs count toward the £20,000 limit.

Generally speaking, this means you will be affected if:

- Your pension contributions to 'defined contribution' plans (for example, the Investing plan, other AVC arrangements, or to a personal pension) increase to more than your 'normal' contribution rate. This does not include your contributions to defined benefit plans, like the Final salary plan or the Career average plan.
- There are improvements to the way you build up benefits in defined benefit plans, like the Final salary plan or the Career average plan.
- You set up a new personal pension (although there are some exemptions).

You can make increases which will not be caught as long as your total pensions savings are £20,000 or less in the tax year 2009/10.

There are some exemptions which may help in specific circumstances. This includes the following, which are 'protected pension inputs' (ie they would not be subject to the tax charge, however they will count towards your £20,000 total pensions savings allowance for the tax year):

- Changes to regular voluntary contribution payments or new regular voluntary contributions (starting in this tax year) for which applications were received before 12 noon on 22 April 2009;
- One off voluntary contributions made before 22 April 2009.

High earners currently get tax relief at 40% on their contributions. The new tax charge will be applied to any 'excess' contributions or benefits to effectively reverse the tax relief, and bring it back down to the basic rate of tax relief, 20%.

For 2010/11 the tax charge will probably increase to 30% as the highest tax rate will increase to 50%.

What counts toward the £150,000 threshold?

Broadly speaking, income for self-assessment purposes is counted, so investment income as well as earnings from employment is included. Unlike self assessment, however, pension contributions are added on, as well as employer contributions through arrangements like the Unilever Contribution Arrangement (in some circumstances). This is a very brief summary, however, and the draft guidance from HM Revenue & Customs runs to 6 pages on just this issue.

How the new tax charge will work

The new tax charge will work along the same lines as the fairly complex rules for the current 'annual allowance' on pension contributions of £245,000. That is, there are specific rules for how you measure what the increase is in your contribution or benefits over a year.

You will have to declare your 'increased' pensions savings in your tax return, and the tax charge will be levied through the annual self-assessment process.

The new tax charge will not change the current annual allowance of £245,000 for pension contributions in general.

Arrangements will allow pension schemes to refund certain contributions made by mistake where individuals did not realise they would be caught by the new restrictions. However these refunds cannot be made until the 2010/11 tax year.

Further information:

This leaflet is based on draft legislation and on guidance from HM Revenue and Customs. Until the final legislation is laid down, the details may be subject to change.

HM Revenue and Customs have produced some notes on the changes. These can be found at: www.hmrc.gov.uk/budget2009/tax-relief-pen-cont.htm

If you are uncertain about anything to do with your pension, we strongly recommend that you seek independent financial advice. IFA promotion can help you find an adviser in your area – you can carry out a search on their website, www.unbiased.co.uk.

Appendix – examples

A is a member of the UUKPF Final salary plan on 22 April 2009. She builds up a pension of $1/60^{\text{th}}$ of her pensionable salary (above the government's lower earnings limit) for each year of service. At 6 April 2010 her pensionable salary after 5 years of service is £210,000 and by 5 April 2011 it has risen to £230,000. The rate at which she builds up her pension in the scheme does not change. This is therefore a 'protected pension input'.

If A's only pensions savings are in the Final salary plan, the value of this is calculated by working out the difference in the capital value of her pension savings between the start of the period and the end of the period.

The calculation is as follows:

Opening Value: $((1/60 \times £210,000) - (1/80 \times 4940)) \times 5$ (years of service) $\times 10$ (factor to give capital value) = £171,912.50

Closing Value: $((1/60 \times £230,000) - (1/80 \times 4940)) \times 6$ (years of service) $\times 10$ (factor to give capital value) = £226,295.00

(In this calculation we have assumed that the government's lower earnings limit does not change.)

Her protected pension input is therefore £226,295 - £171,912.50 = £54,382.50. Although this is more than £20,000 she will not be liable to a special annual allowance charge as she does not have any non-protected pension input.

B is a member of the UUKPF Final salary plan which will provide a pension of $1/60^{\text{th}}$ of her pensionable salary (above the government's lower earnings limit) for each year of service. At 6 April 2010 her pensionable salary after 5 years of service is £210,000 and by 5 April 2011 it has risen to £230,000.

B therefore has a pension input amount for 2010/11 of £54,382.50 (calculated in the same way as in example 'A'). As the rate at which she accrues her pension in the scheme has not changed this is a protected pension input. This exceeds the special annual allowance of £20,000.

B also makes a one-off payment in October 2010 of £60,000 to a personal pension scheme. Because her normal pension savings in her final salary scheme exceed £20,000, her special annual allowance is nil, so all of this additional contribution is a non-protected pension input and will be taxed. She will therefore be liable to tax on the full £60,000.

C is a member of the UUKPF Final salary plan. At 6 April 2009 his Unilever pensionable salary after 5 years of service is £100,000 a year, however his total annual income is £150,000 (including bonus, car allowance, and non-Unilever earnings). We have assumed for this example that his earnings remain unchanged in 2010.

In the 2009/10 tax year the Final salary plan will provide **C** with a pension of $1/60^{\text{th}}$ of his pensionable salary (above the government's lower earnings limit). He is also paying regular additional voluntary contributions to the Investing plan of £3,000 a year. **C**'s pension input is therefore calculated as follows:

Opening Value: $((1/60 \times 100,000) - (1/80 \times 4,940)) \times 5$ (years of service) $\times 10$ (factor to give capital value) = 80,245.83

Closing Value: $((1/60 \times 100,000) - (1/80 \times 4,940)) \times 6$ (years of service) $\times 10$ (factor to give capital value) = 96,295.00 plus 3,000 (AVC contribution) = 99,295.00

2009/10 Annual pension input amount = 99,295.00 - 80,245.83 = £19,049.17. **C** has made no new pension savings therefore he is not liable to a special annual allowance charge.

C decides to make a one off additional voluntary contribution to the Investing plan of £4,000 in October 2010. As this is new pension saving it is not protected. It brings his total annual pension input amount to £19,049.17 + £4,000 = £23,049.17 for the year. This is in excess of £20,000, so he will be liable for a tax charge on £3,049.17.