

## TECHNICAL BRIEFING NOTE

### What is the pension 'special annual allowance'?

The pension **special annual allowance** is a tax allowance that limits tax breaks on pension funding for high income individuals with relevant income of £130,000 a year or more. This special annual allowance, which runs in tandem with the usual pension annual allowance, was introduced as a temporary measure lasting until 5 April 2011 (after which new annual allowance rules apply). The rules regarding the special annual allowance are often referred to as the **anti-forestalling** rules.

When initially introduced on 22 April 2009, the special annual allowance only applied to individuals with relevant income of £150,000 or more. This was extended, from 9 December 2009, to include individuals with relevant income of £130,000 or more.

High income individuals have a special annual allowance of the **highest** of:

1. A basic allowance of **£20,000**; or
2. An enhanced allowance of up to **£30,000**. (This can apply where money purchase pension contributions have been paid by, or on behalf of, the individual less often than quarterly (such as single contributions). It is based on the **lower** of (a) the average of these infrequent contributions in the three tax years 2006/07, 2007/08 and 2008/09 and (b) £30,000); or
3. Their protected pension input amount. This is broadly based on their normal amount of regular pension provision before 9 December 2009 (or 22 April 2009 for those with relevant income of £150,000 or more in the tax years 2007/08, 2008/09, 2009/10) but can include other pension provision in some circumstances.

This special annual allowance applies to all pension provision for affected individuals, whether made personally **or by an employer or third party**.

If the value of pension provision made for a high income individual in either the tax year 2009/10 or 2010/11 is more than their special annual allowance this may generate a special annual allowance tax charge on the individual.

- Pension provision made before 22 April 2009 or 9 December 2009 (whichever is applicable) counts towards an individual's special annual allowance, however, it does not generate a special annual allowance tax charge.

- Pension provision made on or after 22 April 2009 or 9 December 2009 (whichever is applicable) will generate a special annual allowance tax charge if the individual's special annual allowance is exceeded.

The value of an individual's pension provision for a tax year is the total of any money purchase contributions made plus 10 times the increase in any defined benefits. Unlike the usual annual allowance test, the value tested against an individual's special annual allowance is always b, regardless of the pension input period for the pension arrangement concerned.

### **Who is a 'high income individual' under the special annual allowance rules?**

Someone is a **high income individual** for the purposes of the special annual allowance rules if they have relevant income of £130,000 or more for:

- Any tax year in which pension provision is made for them; or
- Either of the previous two tax years.

The inclusion of income in the previous two tax years stops an individual from getting round the rules by reducing their income for a couple of tax years.

When initially introduced on 22 April 2009, the special annual allowance only applied to individuals with relevant income of £150,000 or more. However, this was extended, from 9 December 2009, to include individuals with relevant income of £130,000 or more.

### **What counts as 'relevant income' under the special annual allowance rules?**

The special annual allowance rules limit tax breaks on pension funding for high income individuals with relevant income of £130,000 a year or more.

**Relevant income** means the individual's total income chargeable to income tax for the tax year, before any personal allowances or other reliefs, subject to certain adjustments.

Total income includes the individual's:

- Employment income;
- Income from self employment or partnerships;
- Pension income (from the state, personal or occupational pension schemes);
- Savings interest;
- Dividends;
- Chargeable gains from life assurance contracts or bonds (without top slicing relief);
- Rental income; and
- Income from trusts.

Where an individual enters into a salary or bonus sacrifice agreement after 21 April 2009 in return for employer pension contributions or additional pension rights, the sacrificed amount is normally added back into the calculation of their relevant income. However, if adding in amounts sacrificed under agreements made between 22 April 2009 and 8 December 2009 would result in a relevant income for tax year 2009/10 of less than £150,000 the sacrificed

amount can be ignored in the relevant income calculation.

Certain amounts are deducted from an individual's total income figure to establish their relevant income for the tax year:

- Relievable pension contributions up to £20,000 made by the individual, or a third party on their behalf, in the tax year (but not employer pension contributions on behalf of the individual);
- Any donations made (or treated as made) during the tax year that qualify for Gift Aid;
- Relief for trading, and certain other, losses (such as property, employment or share loss relief).

This means that an individual with a basic salary of more than £130,000 can have relevant income below this threshold once the allowable deductions have been taken into account.

#### **Example - calculation of relevant income**

Tatiana Guinness' salary has more than doubled to £100,000 this year following a promotion. Added to her £40,000 bonus and £12,000 investment income, this gives total income of £152,000 in the tax year.

On the face of it, this appears to bring Tatiana within the scope of the special annual allowance rules for high income individuals. This concerns Tatiana, as she and her employer will make matching pension contributions of £2,000 a month each (£48,000 in total) in the tax year.

However, the first £20,000 of Tatiana's yearly pension contributions is deducted from her total income to calculate her relevant income - bringing her relevant income figure down to £132,000. If Tatiana makes her usual yearly Gift Aid donation of £5,000, this will also be deducted from her relevant income giving a final figure for the tax year of £127,000.

As Tatiana's relevant income is below the crucial £130,000 threshold that would trigger high income individual status, she is not affected by the special annual allowance rules - even although the value of her total pension provision for the tax year is well above £20,000.

**HFS Milbourne Financial Services Limited are Authorised and Regulated by the Financial Services Authority and provide advice and guidance on the setting up and running of Group Pension Schemes and other Employee Benefit arrangements.  
Registered in England No: 2061008**

**Tel: 01483 468888**

**Email: [info@hfsmilbourne.co.uk](mailto:info@hfsmilbourne.co.uk)**

**Web: [www.hfsmilbourne.co.uk](http://www.hfsmilbourne.co.uk)**