

## BUDGET UPDATE

### The death knell for funding pensions?

**Wednesday's budget was bleaker than expected. The economy, even on the Treasury's rather optimistic figures, is forecast to shrink by 3½% in 2009. The Government needs to borrow some £175bn to cover its expenditure this year, and public sector debt is set to peak at a whopping 79% of UK GDP in 2014/15. Given this backdrop, it is unsurprising that taxes are rising, though these may not yield the hoped for revenues if wealth creators become demotivated and/or move abroad. For this group, the implications of Mr Darling's personal tax changes are dire.**

Among many measures the Chancellor is proposing, two immediately stand out for those earning over £150,000. Firstly, a new 50% rate of tax is to be introduced on 6 April 2010. The impact of this is increased by the loss of the personal allowance. Secondly, from 6 April 2011, income tax relief on pension contributions will be reduced (though there is a consultation period regarding its implementation). For many, however, it is clear that high rate tax relief on pensions has been virtually abolished already. From now, for those (i) paying pension contributions less frequently than quarterly, (ii) whose contributions total greater than £20,000 and (iii) whose income in the current or either of the previous two tax years was more than £150,000, relief will be restricted to the basic rate of income tax. The increase in the ISA allowance from £7,200 to £10,200 (from 6 October 2009 for those over 50, and from 6 April 2010 for all other investors) is scant compensation.

Prior to this budget, Saunderson House has advocated, where appropriate, that pension contributions attracting high rate tax relief should be made expediently (from which advice many clients are now benefiting). The removal of high rate tax relief renders it almost certain that, for most savers, voluntary money purchase pensions are now to be avoided due to (i) the lower levels of tax relief being insufficient compensation for the loss of liquidity and (ii) this Government creating too much uncertainty regarding pensions. For example, is "tax-free cash" next on the chopping block? Where appropriate, it may be worth considering drawing pension benefits sooner rather than later, which can have several advantages, even if there is no immediate requirement for cash. We will be analysing the full budget detail, monitoring the consultation process over the coming months, and contacting clients with advice where applicable. Individual advice should most certainly be sought before taking action.

**If you would like advice on any of the matters in this bulletin, please contact Nick Fletcher, Chief Executive, at [nick.fletcher@saunderson-house.co.uk](mailto:nick.fletcher@saunderson-house.co.uk) or on 020 7315 6504 (direct), who will either help you personally or guide you to an appropriate adviser.**