Pensions tax information for high earners

1) Headline changes and executive summary

Possible restricted pensions tax relief from 2011

In the Emergency Budget on 22 June 2010, the Chancellor announced a review of the changes to pensions taxation set out by the previous Government in the Finance Act 2010, to take effect from April 2011.
The new Government has stated that it will continue with plans to restrict pensions tax relief for certain, generally higher paid, individuals, and still wishes to raise revenue from these restrictions. However, it feels that the previous Government's approach could have "unwelcome consequences for pension saving" and is therefore looking to replace that approach with an alternative – as yet undecided. We believe the Government intends this alternative to take effect from April 2011, but there is little detail currently available. However the changes are likely to affect those with higher incomes.

Immediate restriction to tax relief on "new" pensions savings

As a reminder, the rules already introduced following the 2009 Budget to limit tax advantages for high earners before any 2011 changes take effect are still in place. These changes will affect you if your income is £130,000 or more and are considering:

- starting, or increasing your level of, extra contributions or AVCs; or
- changing the way you receive the Unilever 12.5% contribution on your earnings above the higher level which will lead to higher contributions to the Investing plan (this will only apply to members of the Career average plan earning more than the higher level of pensionable earnings).

For more details see section (3) on page 3 below: 'Interim tax on pensions for high earners before introduction of 2011 tax changes'.

We are sending you this leaflet as your current pensionable pay shows that you may fall into the bracket of individuals that may be affected by these changes. While your pensionable pay itself may not be £130,000 or more, your total pay including other items in your reward package may mean that you may be affected by these changes.

Unilever is keeping the 2011 changes under review. If you think you may be affected, please read this leaflet carefully. If you are in any doubt of what to do, you should seek independent financial advice. See section 4 (Further information) for details of where to find more information and where to find an Independent Financial Adviser in your area.

2) The Emergency Budget proposals

In the Emergency Budget, the Government stated that it intends to repeal the pensions taxation regime legislated for in the Finance Act 2010, and affecting high earners with incomes of £130,000 or more. This regime was due to come into effect from April 2011. Instead, the Government announced that it is looking to adopt a much simplified pensions regime which will (potentially) apply to all earners. This simplified regime will, however, still aim to raise a similar

amount of revenue from these pensions tax relief restrictions, as was planned from the restrictions announced in the Finance Act 2010.

The expectation is that the new regime will greatly limit the level of tax efficient pensions savings that an individual can make in any one tax year. It is possible that this will be achieved by implementing a lower level of “Annual Allowance” (the yearly amount of tax-approved benefits you can build up before you must pay a special tax charge on them). The Government’s initial analysis shows that a revised Annual Allowance in the region of £30,000 to £45,000 may still raise the tax revenue needed by these pensions tax relief restrictions.
The end result is likely to be that staying in current pension arrangements for members earning more than a certain level of income (and this level is still to be defined) will not be as attractive from a tax perspective, as it was previously.

Further details of this approach have yet to be announced, however, and the Government has stated that any alternative approaches will be subject to consultation with employers, pension schemes, other experts and relevant interested parties.

You should bear in mind that making changes to your current level of pension savings may have adverse tax consequences from April 2011. This is of particular importance if you are planning to start, or increase your level of Fixed term voluntary contributions. Fixed term voluntary contributions are paid through the Unilever Contribution Arrangement, which allows you to make National Insurance as well as tax savings on these contributions. These contributions are paid by the Company on your behalf to the Investing plan (to allow the NI savings to be made) and are therefore treated as employer contributions. Once you agree to having Fixed term voluntary contributions made on your behalf, you are committed to those contributions for at least 12 months. You will therefore not be able to cease them until 1 October 2011 (or later depending on when you start paying them) and you may be taxed on these contributions from April 2011.

Unilever is reviewing the changes and the impact they will have on pension savings in the UK Fund. It is possible that alternative forms of employer sponsored saving/pension saving may be offered to affected individuals as an alternative to remaining in the current Unilever pension arrangements.

For more information on the Emergency Budget announcement please refer to the 2010 Budget section of the HM Revenue and Customs website:
http://www.hmrc.gov.uk/budget2010/index.htm.

If you have any questions on this, please contact the Expert Administration Team on 01372 945688 or via email at: expertadminteam@unilever.com, although please bear in mind that limited further information is available on these proposals at this stage.

Remember that no-one involved in running the Fund can give you individual financial advice. Please consider taking independent financial advice if you need help with any decisions about your finances. This website, run by IFA promotion, can help you find an independent financial adviser in your area: www.unbiased.co.uk.

3) Interim tax on pensions for high earners before introduction of 2011 tax changes

The headlines

In the 2009 UK budget, delivered on 22 April, the Chancellor announced some changes to the tax relief available on pension savings. Further changes were announced in the pre Budget report on 9 December 2009. You may be affected if your total income from all sources (not just your Unilever earnings) is £130,000 or more per year (reduced from £150,000 a year in the pre Budget report). If you think you may be affected, please read this carefully. This tax is 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 2011 pensions tax regime comes in. Throughout this section, we refer to this tax as the "interim tax". Please note however that HM Revenue and Customs (HMRC) refers to this tax as the 'Special Annual Allowance Tax Charge'.

The remainder of this leaflet provides information on the interim tax charge which took effect from 22 April 2009 and will remain in place, we understand, until 5 April 2011. We have included some examples in the appendix which may be helpful.

Who the new tax charge will affect

The interim tax charge will affect you if **all three** of the following apply:

- You have income of £130,000 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[1]; 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 (if any) 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 interim tax charge will **not** apply to you if your total annual income is less than £130,000 in the current tax year and both of the previous two tax years.

[1] This £20,000 maximum can, in limited circumstances, be increased up to a maximum of £30,000 if irregular large contributions have been made to a money purchase arrangement in any of the 3 tax years ending 5 April 2010. References to the £20,000 limit in this letter should be read accordingly.

The interim tax charge will **not** apply to you even if your total annual income was £130,000 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 (or on or after 9 December 2009 if your total annual income was £130,000 or over, but below £150,000[2]).

The interim tax charge will **not** apply to you if your total annual income was £130,000 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 £130,000 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 or Career average plans (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 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 interim tax charge if:

1) You think you will be affected by the interim 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.

[2] In the current tax year or either of the previous 2 tax years. References to £130,000 in this letter should be read accordingly.

More details on the interim tax charge

If you have total income of £130,000 or more in the current tax year to 5 April 2011 (or either of the 2 previous tax years), an interim 20% tax charge will apply to any increase to your pensions savings above a total of £20,000 in this tax year.
The interim tax charge will potentially apply if your total annual pension contributions and benefits built up in 2010/11 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 2010/11.

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 interim 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 for which applications were received before 12 noon on 22 April 2009 (or 9 December 2009 if your total annual income was £130,000 or more, but less than £150,000);
- One off voluntary contributions made before 22 April 2009 (or 9 December 2009 if your total annual income was £130,000 or more, but less than £150,000).

Note: If this applies, one off contributions agreed with your employer before 9 December 2009 but not paid until on or after that date can be protected if your total annual income is £130,000 or more, but less than £150,000.

High earners currently get tax relief at 40% on their contributions. The interim 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 interim tax charge has increased to up to 30% as the highest tax rate has increased to 50%.

What counts toward the £130,000 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, your 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 interim tax charge will work

The interim tax charge will work along the same lines as the fairly complex rules for the current 'annual allowance' on pension “inputs” of £255,000 (2010/11 tax year). 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 interim tax charge will be levied through the annual self-assessment process.

The interim tax charge will not change the current annual allowance of £255,000 for pension “inputs” 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.

4) Further information:

This leaflet is based on the Finance Act 2009, the Finance Act 2010, on guidance from HM Revenue and Customs and on a technical note relating to the application of these changes to incomes of £130,000 or more.

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
www.hmrc.gov.uk/budget2010/bn33.html (Implementing the restriction of pensions tax relief).

Further information on the March 2010 Budget can be found at:
www.hmrc.gov.uk/budget2010/march/index.htm

Information on the pre Budget report on December 2009 can be found at:
www.hmrc.gov.uk/pbr2009/index.htm

Some changes were made to the details of the legislation (particularly in respect of what pension savings are protected) in quarter one 2010.

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.

Appendix – examples[3]

A is a member of the UUKPF Final salary plan on 22 April 2009. She builds up a pension of 1/60th 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 x £210,000) – (1/80 x 4940)) x 5 (years of service) x 10 (factor to give capital value) = £171,912.50
Closing Value: ((1/60 x £230,000) – (1/80 x 4940)) x 6 (years of service) x 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 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 1/60th 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.

[3] Broadly similar principles apply from 9 December 2009 for those with total income of £130,000 or more, but less than £150,000 in the current tax year or the 2 previous tax years. However, their position is more complex for the period from 6 April 2009 to 8 December, 2009.

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 £130,000 (including bonus, car allowance, and non-Unilever earnings). We have assumed for this example that his earnings remain unchanged in 2010.

In the 2010/11 tax year the Final salary plan will provide **C** with a pension of 1/60th 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 x100,000) - (1/80 x 4,940)) x 5 (years of service) x10 (factor to give capital value) = 80,245.83

Closing Value: ((1/60x100,000) - (1/80 x 4,940)) x 6 (years of service) x 10 (factor to give capital value) = 96,295.00 plus 3,000 (AVC contribution) = 99,295.00

2010/11 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 tax year ending 5 April 2011. This is in excess of £20,000, so he will be liable for a tax charge on £3,049.17.