



Pension Annual Allowance Restricted: Should I do something?

Individuals with income exceeding **£150,000** had their pension annual allowance restricted from April 2016, as a result of the government's objective to control the cost of pension tax relief and help make sure pension tax relief is fair and affordable.

However, pension carry forward allows you to potentially pay more than your annual allowance, as unused annual allowance for the preceding three tax years can still be used via the carry forward rules. Use any carry forward allowance before the end of the 2016/17 Tax Year and still benefit from the Government's tax relief!

Who will be affected?

From 6 April 2016, individuals with annual taxable income greater than £150,000 will have their annual allowance for that tax year restricted. It will be reduced, so that for every £2 of income they have over £150,000, their annual pension allowance is reduced by £1. Any resulting reduced annual allowance is rounded down to the nearest whole pound.

The maximum reduction will be £30,000, so anyone with income of £210,000 or more will have an annual allowance of £10,000. High income individuals caught

by the restriction may therefore have to reduce the contributions paid by them and/or their employers or **suffer an annual allowance charge**.

Any excess pension contribution above their (reduced) allowance will be added to income for the relevant tax year and taxed at their highest rate of tax.

This measure will restrict pension tax relief by introducing a tapered reduction in the amount of the annual allowance for individuals with an adjusted income of over £150,000 and a threshold income over £110,000 in place.

Example:

1. Philip has the following income in 2016/17

£100,000	Salary
£10,000	Employee's pension contribution
£10,000	Dividends
£5,000	Interest
£10,000	Company car
£25,000	Employer's pension contribution

Threshold income is **£125,000**, because the employee's pension contribution and the employer's pension contribution are excluded.

Adjusted income is **£160,000**, with all of the income and benefits being included in this definition. Tapered annual allowance will apply.

The tapered annual allowance reduction will be $\frac{£10,000}{2} = £5,000$, leaving an annual allowance of £35,000.

BE CAREFUL!

Make sure there are no excess contributions by letting your employer know your pension allowance. Take advice to **CALCULATE IT CORRECTLY!**

Threshold income

Threshold income will normally be your net taxable income for the year, less the amount of certain lump sum death benefits paid to you during that tax year and less gross pension contributions paid under the relief at source system.

Adjusted income

Your adjusted income will be net taxable income plus the value of any pension savings for the year, but less the amount of certain lump sum death benefits paid to the individual during the tax year.

This will also affect the carry forward of unused allowances due to special pension input period rules.

2016/17 Carry Forward

In 2016/17 you will be able to bring forward any unused pension allowances from the previous three tax years. Hence, there is a possibility to bring forward the following:

2015/16	£40,000
2014/15	£40,000
2013/14	£50,000
TOTAL	£130,000

This can be used in 2016/17 tax year, however your total pension contributions should not exceed your annual earnings as this could result in tax charges.

What we think?

The tapering of the annual pension allowance for those earning more than £150,000 will severely restrict the amount of pension tax relief that those individuals can potentially benefit from. The retention of the carry forward allowance should ease the effect of these new restrictions for those who have not used up all of their annual allowances for previous tax years and they should act now, before it is too late!

USE IT OR LOSE IT!

Calculate your unused carried forward allowances correctly to ensure maximum tax efficient contribution.



How the reduction in annual allowance will work?

Here are some examples showing how the reduction in annual allowance will work once the adjusted income has been calculated:

Adjusted Income	Reduction in annual allowance	Annual Allowance
£140,000	£0	£40,000
£150,000	£0	£40,000
£160,000	£5,000	£35,000 (tapered)
£170,000	£10,000	£30,000 (tapered)
£180,000	£15,000	£25,000 (tapered)
£190,000	£20,000	£20,000 (tapered)
£200,000	£25,000	£15,000 (tapered)
£210,000	£30,000	£10,000 (tapered)
£220,000	£30,000	£10,000 (tapered)

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Further advice should be obtained before any action is taken.

**ACT NOW BEFORE
IT IS TOO LATE!**

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