



**CHARTERED ACCOUNTANTS**

**TAX CONSULTANTS**

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## Annual Pension Allowance: What Do I Need to Know?

Individuals with income exceeding **£150,000** had their pension annual allowance restricted from 6 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 or your employer to potentially pay more than your annual allowance, as unused annual allowances for the preceding three tax years can still be utilised via the carry forward rules.

**Use any carry forward allowance before the end of the 2017/18 Tax Year and still benefit from the Government's tax relief!**

### Who Will be Affected?

Individuals with annual taxable income greater than £150,000 will have their annual allowance for 2017/18 year restricted.

The restriction is applied using a tapered reduction of the 2017/18 annual allowance for individuals with an adjusted income of over £150,000 and a threshold income of over £110,000. There is a reduction in the annual allowance of £1 for every £2 of income above £150,000.

The maximum reduction possible is £30,000, hence anyone with income in excess of £210,000 will have a minimum 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.

### Examples:

**John has the following income in 2017/18**

£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 and 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 and Adjusted 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 net pay arrangement.

Your adjusted income is your threshold income plus total employee's and employer's pension contributions.

### 2017/18 Carry Forward

In 2017/18 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:

2016/17 <sup>1</sup>	£40,000
2015/16	£40,000
2014/15	£40,000

**TOTAL £120,000**

<sup>1</sup>Subject to Tapering of Annual Allowance.

These can be used in 2017/18 tax year, however your total pension contributions should not exceed your annual earnings as this could result in tax charges.

**ACT NOW BEFORE IT IS TOO LATE! TAKE APPROPRIATE ADVICE!**

### Owner Managed Businesses

If your threshold income is below £110,000, your personal annual allowance is not affected by your employer's pension contributions. Therefore, your company can make employer pension contributions<sup>2</sup> on behalf

of employee's or director's to benefit from both a corporation tax relief and utilisation of the individuals annual allowances. <sup>2</sup>These contributions are subject to available profits & rules.

### What We Think?

The tapering of annual pension allowances for those earning more than £150,000 will severely restrict the amount of pension tax relief available to individuals.

The retention of the carry forward allowances from the previous three tax years should be utilised by all those who have not yet. **They should act now, before it is too late!**

**USE IT OR LOSE IT!**  
Calculate your unused carried forward allowances and ensure envisioned contributions are made by 5<sup>th</sup> April 2018 for 2017/18

### 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.*

