



CHARTERED ACCOUNTANTS

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Annual Pension Allowance & Final Opportunity for Unrestricted Allowances Carried Forward

THINK ABOUT TOMORROW, TODAY.

2018/19 is the final opportunity to maximise any unused unrestricted allowances carried forward from 2015/16 or these will be lost.

Individuals with income exceeding **£150,000** had their pension annual allowance restricted from 6 April 2016 (2016/17), 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.

Who Will be Affected?

Taxpayers with annual taxable income greater than £150,000 will have their annual allowance for 2018/19 tax year restricted.

The restriction is applied using a tapered reduction of the 2018/19 annual allowance for individuals with an adjusted income of over £150,000 and a threshold income of over £110,000. The annual allowance is reduced by £1 for every £2 of income above £150,000. The maximum reduction is £30,000, hence a minimum allowance of £10,000.

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

2018/19 Carry Forward

In 2018/19 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:

2017/18 ¹	£40,000
2016/17 ¹	£40,000
2015/16 (No Tapering)	£40,000
TOTAL	£120,000

¹Subject to Tapering of Annual Allowance

These can be used in 2018/19 tax year, however your total pension contributions should not exceed your annual earnings as this could result in tax charges.

2015/16 Allowance Changes

In 2015/16 there were changes in legislation, allowing two £40,000 pension allowances (pre and post 8 July 2015). However, only the unused allowance amount of the £40,000 for the period 8 July 2015 to 5 April 2016 can be carried forward for 2018/19.

2015/16 unrestricted carried forward allowances not utilised by 5 April 2019 will be lost!

Threshold Income & Adjusted Income Definition

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.

Example of threshold and adjusted income:

Brian has the following income in 2018/19

£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 $\text{£}10,000/2 = \text{£}5,000$, leaving an annual allowance of $\text{£}35,000$.

Prevent Additional Tax Charges

Ensure there are no excess contributions by letting your employer know your pension allowance.

Take advice to calculate it correctly!

Owner Managed Businesses

If your threshold income is below $\text{£}110,000$, your personal annual allowance is not affected by your employer's pension contributions. Thus, your company can make employer pension contributions² on behalf of employee's or director's to benefit from both a corporation tax relief and utilisation of the individuals pension annual allowances.

²These contributions are subject to available profits & rules.

What We Think?

The tapering of annual pension allowances for those earning more than $\text{£}150,000$ 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 who have not yet.

You should act now, before it is too late! It is the final year to use the 2015/16 unrestricted carried forward allowance.

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 (£)
≤ 150,000	0	40,000
155,000	2,500	37,500 (tapered)
165,000	7,500	32,500 (tapered)
180,000	15,000	25,000 (tapered)
200,000	25,000	15,000 (tapered)
≥ 210,000	30,000	10,000 (tapered)

NOW OR NEVER!

Calculate your unused carried forward allowances and ensure envisioned contributions are made by 5th April 2019 for 2018/19.

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Further advice should be obtained before any action is taken.

