Capitax Financial Ltd

Will you have to pay tax on your pension contributions?

Utilise your unused brought forward pension allowances

2019/20 will be the first year whereby all unused pension allowances from prior three tax years would have been subject to tapering. Hence, it is crucial to remain wary of potential excess contributions.

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 to make sure pension tax relief is fair and affordable.

Unused pension allowance carry forward rules allow you or your employer to potentially contribute 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 2019/20 tax year restricted.

The restriction is applied using a tapered reduction of the 2019/20 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.

Anyone with income in excess of £210,000 will have a tapered 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.

Pension contribution above their (tapered) allowance will be added to income for the relevant tax year and taxed at the marginal rate of tax.

2019/20 Carry Forward

In 2019/20 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:

2018/19[1]	£40,000
2017/18[1]	£40,000
2016/17[1]	£40,000
TOTAL	**£120,000**

[1]Subject to Tapering of Annual Allowance

These can be used in 2019/20 tax year, however your total private pension contributions should not exceed your annual earnings as this could result in no tax relief.

Owner Managed Businesses

If your threshold income is below £110,000, your personal annual allowance is not tapered/reduced by your employer's pension contributions. Therefore, your company can make employer pension contributions on behalf of employees' or directors' to benefit from both a corporation tax relief and utilisation of the individual's pension annual allowances. These contributions are subject to available profits and rules.

Threshold 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 schemes.

Adjusted Income Definition

Adjusted income is your threshold income plus employee's & employer's total contributions.

Restricted Tax Relief

If you're making personal private pension contributions, you will receive tax relief on these contributions. The amount of tax relief available is limited to the higher of your UK relevant earning or £3,600.00 per tax year. If excess tax relief has been automatically claimed by your pension, this may be repayable to HMRC.

PREPARE FOR TOMORROW, TODAY. MAKE SURE THERE ARE NO EXCESS PENSION CONTRIBUTION.

Excess Pension Charge

If your total annual pension contributions for the 2019/20 tax year exceed your pension annual allowance and unused brought forward pension allowances, the excess pension contribution will be taxable at your marginal rate of tax.

Annual Lifetime Allowance

If your total pension pot value exceeds £1.055m in 2019/20 and you draw benefits as pension income or as a lump sum, you may potentially face a tax charge of 25% or 55% respectively.

What We Think?

The tapering of annual pension allowances for those earning more than £150,000 will severely restrict the amount of pension contributions that one can make. The retention of the carry forward allowances from the previous three tax years should be utilised by all who have not yet.

Example of Threshold Income and Adjusted Income:

Jason has the following income in 2019/20

£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 £10,000/2 = £5,000, leaving an annual allowance of £35,000.

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)

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