

Changes to your pension annual allowance

Will you benefit or not?

Major changes to the way you could potentially be taxed on your pension contributions have been introduced from 6th April 2020.

Previously, individuals with income exceeding £150,000 had their pension annual allowance restricted, with their allowance being reduced the higher their taxable income for the year was. The minimum pension annual allowance was £10,000, and this would be the case if you earned more than £210,000 in a given tax year.

However, for the 2020/21 tax year, boundaries and limits are being adjusted and there is a good chance these changes could be beneficial to you and your tax position.

What's new for 2020/21?

Taxpayers with annual adjusted income greater than **£240,000** will have their annual allowance for 2020/21 tax year restricted, to as low as £4,000.00.

The restriction applies to individuals with an adjusted income of over **£240,000** (increased from £150,000)

and a threshold income of over **£200,000** (increased from £110,000). The annual allowance is reduced by £1 for every £2 of income above £240,000. The maximum reduction is £36,000. Anyone with income in excess of **£312,000** will have a tapered annual allowance of £4,000. High income individuals caught by the re-

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

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

2020/21 Carried Forward - Unused Allowances

In 2020/21 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:

2019/20 ¹	£40,000.00
2018/19 ¹	£40,000.00
2017/18 ¹	£40,000.00
TOTAL	£120,000.00

However, your total private pension contributions should not exceed your annual earnings as this could result in no tax relief.

For example, if you earn £100,000 a year, any pension contributions over £100,000 will not be eligible for tax relief, so you should only contribute a maximum of £100,000 for the 2020/21 Tax Year, in order for your contributions to be tax efficient as well.

¹Subject to Tapering of Annual Allowance

Owner Managed Business

If your threshold income is below £200,000, your personal annual allowance is not tapered/reduced by your employer's pension contributions.

Therefore, your company could potentially make an employer pension contributions on behalf of employees' or directors' totaling £40,000 for the year. The company will benefit from corporation tax relief.

These contributions are subject to available profits and rules.

Excess Pension Charge

If your total annual pension contributions for the 2020/21 tax year exceed your pension annual allowance and any unused brought forward pension allowances, the excess pension contribution will be taxable at your marginal rate of tax (i.e. 20%, 40% or 45%).

Pay Tax Through Your Pot

You may be able to pay the tax due on your excess pension contributions for the 2020/21 tax year via your pension pot if you notify your pension provider before 30 September 2021.

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 is repayable to HMRC.

What This Means for You

This is a positive change for those who earn between **£150,000** and **£300,000**, as you will have a larger pension allowance than in 2019/20. If you earn more than £300,000, however, you will lose up to £6,000 more of your pension allowance compared to 2019/20.

Reduction of Your Allowance

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

Adjusted Income (£)	Annual Allowance for 2019/20 (£)	Annual Allowance for 2020/21 (£)
150,000	40,000	40,000
195,000	17,500	40,000
240,000	10,000	40,000
275,000	10,000	22,500
300,000	10,000	10,000
≥312,000	10,000	4,000

Example of Threshold Income and Adjusted Income

Simon has the following income in 2020/21:

Salary	£233,000
Employee's Pension Contributions	£10,000
Employer's Pension Contributions	£25,000
Dividends	£20,000
Interest	£5,000

Threshold Income is **£258,000**, because the employee's and employer's pension contributions are excluded.

Adjusted Income is **£293,000**, with all of the income and benefits being included in this definition. As this value is above £240,000, there will be tapering of the annual allowance.

The reduction in annual allowance will be:

- i. $(£293,000 - £240,000) = £53,000$
- ii. $£53,000 \div 2 = £26,500$
- iii. $£40,000 - £26,500 = \mathbf{£13,500}$



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