

Do you know how to maximise tax relief on your pension contributions?

utilise your unused brought forward pension allowances

You can benefit from tax relief when contributing to your pension plan, up to as much as you earn annually, or up to your Annual Allowance – whichever is lowest. This allowance remains at £40,000 for the 2021/22 tax year.

From 2020/21 tax year, individuals with income exceeding £240,000 have their pension annual allowance restricted to as little as £4,000 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.

If you haven't used all your allowance for the preceding three tax years, it might be possible to pay more into your pension plan by carrying forward the unused annual allowances to make the most of the tax relief on offer, though bear in mind the amount is still capped at 100% of your relevant earnings.

Who will be affected?

Taxpayers with annual adjusted income greater than £240,000 will have their annual allowance for 2021/22 tax year restricted.

The restriction is applied using a tapered reduction of the 2021/22 annual allowance for individuals with an adjusted income of over £240,000 and a threshold income of over £200,000. The annual allowance is reduced by £1 for every £2 of adjusted income exceeding £240,000.

The maximum reduction is £36,000 and as such, the minimum pension annual allowance remains at £4,000 for 2021/22 tax year. This would be the case if your adjusted income is £312,000 or greater in 2021/22 tax year.

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

What does this mean for you? - Excess Pension Charge

The tapering of the annual pension allowance for those earning more than £240,000 will severely restrict the amount of pension tax relief that those individuals can benefit from. The retention of the carry forward allowance can ease the effect of these restrictions for those who have not used up their annual allowance.

If your total annual pension contributions for the 2021/22 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%).

2021/22 Carried Forward

In 2021/22 you will be able to bring forward any **unused** pension allowances from the previous three tax years. You have to be a **member of a registered pension scheme** for those years in order to bring forward the unused pension allowance. Hence, there is a possibility to bring forward the following:

2020/21*	£40,000.00
2019/20*	£40,000.00
2018/19*	£40,000.00
TOTAL	£120,000.00

* Subject to Tapering of Annual Allowance

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

For example, if your employment income is £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 2021/22 Tax Year, in order for your contributions to be tax efficient as well.

Example:

Michael has the following income in 2021/22:

Salary	£220,000
Employee's Pension Contributions	£10,000
Employer's Pension Contributions	£25,000
Dividends	£2,000
Interest	£5,000

Threshold Income is **£227,000**, because the employee's and employer's pension contributions are excluded.

Adjusted Income is **£262,000**, 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. $(£262,000 - £240,000) = £22,000$
- ii. $£22,000 \div 2 = £11,000$
- iii. $£40,000 - £11,000 = £19,000$

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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 (£)	Reduction in Annual Allowance (£)	Annual Allowance for (£)
240,000	0	40,000
255,000	7,500	32,500
270,000	15,000	25,000
285,000	22,500	17,500
300,000	30,000	10,000
≥312,000	36,000	4,000

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 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.

USE IT OR LOSE IT!

Calculate your unused carried forward allowances correctly to ensure maximum tax efficient 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 is repayable to HMRC.

Lifetime Pension Allowance

The Lifetime Allowance is the total amount of pension benefits you can build up during your lifetime across all pension schemes before an additional tax charge applies. For 2021/22 this has been set at £1,073,100. In the March 2021 Budget, it was announced that it will remain at this level until 2026.

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