Big pension changes! How will you be affected?

The Budget proposals announced on 8th July 2015 and Finance Bill 2015 included provisions for reducing the annual allowance for those with taxable incomes of over **£150,000**.

The government's objective is to control the cost of pension tax relief and help make sure pensions tax relief is fair and affordable.

What are the changes?

From 6 April 2016, individuals who have taxable income for a tax year of greater than £150,000 will have their annual allowance for that tax year restricted. It will be reduced, so that for every £2 of income they have over £150,000, their annual allowance is reduced by £1. Any resulting reduced annual allowance is rounded down to the nearest whole pound.

The maximum reduction will be £30,000, so anyone with income of £210,000 or more will have an annual allowance of **ONLY** £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.

This measure will restrict pensions tax relief by introducing a tapered reduction in the amount of the annual pension allowance for individuals with an adjusted income of over £150,000 and a threshold income of over £110,000.

What is threshold 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 the relief at source system.

What is adjusted income?

Your adjustment income will be net taxable income plus the value of any pension savings for the year, but less the amount of certain lump sum death benefits paid to the individual during the tax year.

What are the Anti-avoidance rules in place?

Individuals may make pension contributions to reduce their adjusted or threshold income. To avoid individuals from entering into a salary exchange or a flexible remuneration arrange-ment after 9 July 2015, anti-avoidance rules have been put in place.

Examples

1. Roma has the following income in 2016/17

£100,000	Salary
£10,000	Employee pension contribution to a pre-July 2015 salary sacrifice arrangement
£10,000	Dividends
£5,000	Interest
£10,000	Company car
£25,000	Employer pension contribution

Threshold income is **£125,000**, because the pre-July 2015 employee pension contribution and the employer 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.

2. Jay has the following income in 2016/17

£6,000	Salary
£70,000	Dividends
£150,000	Employer pension contribution

Adjusted income is **£226,000**, but **threshold income** is **£76,000** because the employer pension contribution is not included.

Jay therefore retains the full annual allowance of £40,000 in the tax year 2016/17.

If the anti-avoidance rules apply then the income used to calculate the reduction to the annual allowance for that tax year is the one before any adjustments were made.

High income individuals caught by the taper may 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.

DON'T GET IT WRONG!

Make sure there are no excess contributions by letting your employer know your pension allowance. Take advice to calculate it correctly!

Previous unused pension contribution annual allowances

The current rules do allow you to bring forward any unused pension allowances from the previous 3 tax years. Hence, there is a possibility to bring forward the following:

2014/15	£40,000
2013/14	£50,000
2012/13	£50,000
TOTAL	**£140,000**

This can be used in 2015/16 however your total contributions should not exceed your annual earnings as this could result in tax charges.

There are rule changes that allow you to contribute up to £80,000 in the 2015/16 tax year due to aligning pension input periods.

This will also affect the carry forward of unused allowances due to special pension input period rules.

USE IT OR LOSE IT!

Maximize contributions before 5th April 2016! Leaving it late will cost you!

What we think?

The tapering of the annual for those earning more than £150,000 will restrict the amount of pension relief that those individuals can potentially benefit from. However, we feel that you should not forget about the carry forward available for the unused annual allowances for the previous three years which can help if you want to make excess contributions.

There is also talk of the chancellor announcing a flat rate pension relief in the spring budget on 16 March 2016. The relief proposed would possibly be between 25% to 33% on contributions. This proposal will affect the higher and additional rate tax payers who get relief at 40% and 45% on any contributions they make. Therefore if you fall within these tax brackets you may need to act quickly to make your contributions earlier if these possible budget changes are effective from 16 March 2016.

ACT NOW BEFORE IT IS TOO LATE!

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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