MGP (Employee Benefits) Limited
16 The Courtyard, Common Lane,
Culcheth, Warrington WA3 4HA
Tel: 01925 765821
Fax: 01925 764871
Web: www.mgpeb.co.uk
Email: enquiries@mgpeb.co.uk

FACTSHEET

Pension tax relief

New tapered annual allowance for high earners

The pension tax relief system is about to be reinvented. The Government announced in the Summer 2015 Budget their intention to cut pensions tax relief for high earners by introducing a tapered annual allowance from April 2016 for individuals with income (including the value of any pension contributions) of over £150,000, and who have an income (excluding pension contributions) in excess of £110,000.

The rate of reduction in the standard annual allowance of £40,000 is by £1 for every £2 that the adjusted income exceeds £150,000, up to a maximum reduction of £30,000.

REPLACING COMPLEX RULES

Although this measure may not directly apply to you, in advance of its implementation a change is to be made to align 'pension input periods' with the tax year, replacing the complex rules which have applied until now. This change could affect many individuals, and therefore transitional rules will operate during tax year 2015/16 to protect savers who might otherwise be affected by the alignment of their pension input periods. The impact of these transitional changes is that it may provide a one-off additional opportunity during tax year 2015/16 to maximise pensions saving tax relief.

EXCESS TAX CHARGE

Individuals who make pension contributions into more than one scheme need to take particular care not to exceed the annual allowance of £40,000, otherwise there is an excess tax charge. This annual maximum applies whether the pension savings are made by the individual or an employer such as the individual's own owner-managed company. Pension contributions for each scheme are measured by a pension input period. A pension input period, although usually of 12 months' duration, did not have to align with the tax year.

However, all pension input periods ending within the tax year should be considered to assess whether the annual allowance has been exceeded. As different schemes can have different pension input periods, careful planning may be required.

QUALIFYING PENSION CONTRIBUTIONS

The main aim of the transitional rules is to ensure that savers are not adversely affected during the alignment process because of the timing of their original pension input periods. As a result, individuals may be able to have qualifying pension contributions of up to £80,000 rather than £40,000 in tax year 2015/16. The precise position for each individual will be dependent on the type of pension scheme, the pension input periods of each scheme and the timing of contributions.

PENSION INPUT PERIODS

All pension input periods open on 8 July 2015 closed on that date. The period 6 April 2015 to 8 July 2015 is to be known as the 'pre-alignment tax year'. There will then be a second pension input period running from 9 July 2015 to 5 April 2016. This will be known as the 'post-alignment tax year'. All subsequent pension input periods will be concurrent with the tax year from 2016/17 onwards.

All individuals will have an annual allowance of £80,000 for the pre-alignment tax year. Where this amount has not been used in the pre-alignment tax year, it will be carried forward to the post-alignment tax year, subject to a maximum of £40,000. In addition, any unused annual allowance from the previous three years can be added to these amounts if required. ■

HAVE YOU MADE SURE THAT ANY OPPORTUNITIES WILL BE FULLY MAXIMISED?

Each individual's position will vary depending upon their current pension arrangements and circumstances, but a review during tax year 2015/16 will ensure that any opportunities are maximised before April 2016, and consideration is made as to whether the tapered annual allowance rules could apply from April 2016. If you would like to discuss your retirement plans, please contact us – we look forward to hearing from you.