

Maximising pension relief

It is vital that your pension contributions are reviewed now as the Budget on 11 March may see a tightening on tax reliefs which could cost you up to 40% in pension tax relief.

What is the current position?

At present, it is possible to obtain tax relief on contributions made to a registered pension scheme. The amount of contributions you can make is restricted to the higher of:

- 100% of your earnings (with relief subject to the annual allowance), and
- £3,600 if you don't have any earnings

The annual allowance is tested against the total contributions that are made in the tax year to all the pension schemes you participate in, whether these have been made by you personally or your employer.

The annual allowance is currently £40,000. However, generally this is tapered at a rate of £1 for every £2 if your "adjusted income" is over £150,000, subject to a minimum allowance of £10,000. The adjusted income calculation can be complex and you should seek advice to calculate this. Due to the tapered annual allowance individuals with earnings of £210,000 or more are restricted to maximum pension contributions of £10,000.

Where the annual allowance limit is reached in a tax year, it is possible to utilise any unused allowances from the three previous tax years, starting with the earliest year first. Any unused allowances beyond the three preceding tax years are wasted. By utilising unused annual allowances brought forward many individuals will be in a position where they can make substantial one-off contributions on which tax relief is due. Unused allowances from 2016/17 will be wasted if they are not utilised by 5 April 2020.



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What are the tax advantages?

If you are a higher or additional rate taxpayer relief at 40% or 45% may be available on pension contributions made. In limited circumstances where income exceeds £100,000 relief may be due at up to 60%.

What's on the horizon?

The budget on 11 March 2020 may introduce changes to the existing pension relief rules. One potential change is the restriction of pension relief to 20%. Changes may apply immediately following the Budget or take effect sometime later.

What should I do next?

If you have unused allowances from earlier years, particularly for the 2016/17 tax year, you should consider utilising these. Additional contributions should be made before 5 April 2020, or possibly 11 March 2020 as a precaution for any Budget changes. The tax rules on pension contributions are complex and unexpected tax charges can arise - you should seek advice prior to making any contributions.

Tax should be considered as part of your overall investment strategy; it is important that you also obtain professional financial planning advice before proceeding.

If you require advice on optimising your tax position, please do not hesitate to contact us.