Earning £150,000 or more? You could be sleepwalking into pension annual allowance tax charges, penalties and an inability to pay them from your fund.

The tapered annual allowance is one of the most absurdly complex pieces of pensions legislation I can recall.

Conceptually it is meant to reduce the tax relief available to higher earners irrespective of whether they are in a final salary (defined benefit, DB) scheme or a money purchase (DC) arrangement.

Like many recent pieces of tax legislation it is made more complex by a “tapering” of the pensions annual allowance: £40,000 at its maximum, potentially falling as low as those for £10,000.

However, I think one of the most insidious problems is that the tapered annual allowance, and any tax charge that relates to this is usually entirely self-assessed, and a number of pension savers will be unaware any issue exists. Unaware, that is, until HMRC ask them for back tax, penalties, interest and they find that they must pay the tax personally.

Those most at risk are those with “income” in excess of £150,000 (and for complex reasons “income” is from all sources, and often includes employer pension contributions) but it can affect those with lower levels of earnings.

For those aware they have a contribution limit issue, they can either reduce their contributions to avoid the tax charge, or they can often at least ask for the pension scheme to pay the charge. The tax charge will normally be at marginal rate, so for most people at this level of earnings 45%. However the pension scheme does not **need** to offer this payment option and if the facility is permitted the scheme would normally need to be instructed no later than the July following the tax charge being incurred.

For DB schemes the impact on the member’s pension benefits will differ across schemes, so may not always be the best option depending on the individual’s ability to pay personally.

One final complication is that as the rules were introduced in April 2016, and were not retrospective, individuals may have unknowingly “carried forward” unused allowances from years where the allowances were much higher due to not being tapered. From April 2019 all the higher, non-tapered allowances will have dropped off. This leads to a “cliff-edge”, with many people moving to plenty of headroom, and no tax charge, to no headroom at all and very significant charges, of which they may be quite unaware.

Knowledge of these rules is poor amongst people I speak to, including other professionals such as accountants, and whilst many individuals might expect their employers to make them aware of any potential issue caused by their employee benefits this is not always the case. Some

schemes have taken a ‘sledgehammer to crack a nut’ approach of opting anyone earning over a certain threshold (say £100,000) out of paying in more than £10,000 but this, for many people, will be they are under-using their allowances (not optimal, but arguably less disastrous than having the tax and penalties detailed above).

We specialised in this planning and are able to help you understand your annual allowances, unused carry forward, as well as both the impact on your lifetime limits, and how you might work with these rules to achieve your ultimate retirement goals through a robust financial plan. As always, please do get in touch.