Pensions Annual Allowances: The Law of Unintended Consequences

6th April 2006 saw the introduction of “Pension Simplification” regulations. If anything these rules have increased the complications around pensions, and by my reckoning we have seen six changes in the seven years subsequent to simplification being introduced.

On 6th April 2014 both the Lifetime Allowance and Annual Allowance, which define the most tax efficient contributions and pension savings that can be made, will decrease. However under certain circumstances individuals should act **now** to avoid facing unexpected charges.

By way of an example, I have recently advised a client who has contributed on a monthly basis to a pension scheme for many years. His first contribution after “pension simplification” was received on 28th April, his normal pay date. This anniversary is significant as each subsequent year he has had a Pension Input Period, on which subsequent contributions have been assessed, that runs from 28th April to 27th April in the following year. This **does not affect his assessment for the purposes of tax relief**, but any contribution he makes now will actually **fall into the pension input period year which finishes on 27th April 2014**. This is significant as in this year the input period will reduce from £50,000 to £40,000 and despite being counter intuitive, this means contributions that he makes now could potentially pay a tax charge in the year 2014/15, which could be assessed for the purposes of self assessment as late as 31st January 2016!

Any contributions he makes in excess of the annual allowance, will be assessed to a recovery tax charge as high as his marginal charge (45%). Therefore it is important that we can avoid this where possible and in conjunction with his employer we have now negotiated a revised remuneration strategy which means that he will not pay as much as historically has been paid into his pension scheme, and in return will receive other, taxable benefits, but that are more flexible that the company’s pension scheme.

If you are in any doubt if these rules apply to you you should seek personal advice and Alistair Cunningham specialises in giving advice to those who have more complex pension needs, particularly those accruing benefits in excess of the annual allowance (currently £50,000) or those that have exceeded the current lifetime allowance of £1.5 million (reducing to £1.25 million in the tax year 2014/15).