

## Tax relief on pensions at up to 60% - buy now while stocks last?



Contributions for higher earners, many of whom receive 45% tax relief, are set to fall to £10,000 per annum gross (£5,500 net) from next April.

We had hoped to see some news on how pensions tax-relief would look in the new, post consultation regime by now; it seems the Chancellor will give us the relevant detail in the March budget.

We do know contributions for additional rate tax payers (45%) will, in most circumstances, fall to as low as £10,000. This gives a limited window of opportunity for many.

At the current time, those contributing to most personal arrangements will receive tax-relief at their highest rates of tax. Very broadly speaking these are:

<b>Income Band</b>	<b>Effective rate of income tax</b>	<b>Tax saved on all relief granted</b>
£0-£10,600		0% 20%
£10,600-£42,385		20% 20%

			%
£42,385-£100,000	40%	40	%
£100,000-£121,200	40%	60	%
		BUT loss of personal allowance	%
£121,200-£150,000	40%	40	%
£150,000+	45%	45	%

The principle simplification is that different rules apply for those over 75, and the above requires **earned** income to allow the contribution. Nevertheless the higher rates are appealing for those who can afford to save towards retirement planning.

## How much can I pay in? – Carry Forward

For 2015/16 the annual allowance is £80,000, but due to complex transitional rules, only £40,000 of the £80,000 can be paid on or after 9th July 2015 – an example will follow below.

For 2012/13 and 2013/14 the allowance was £50,000. For 2014/15 the allowance was £40,000. This means, in some cases, up to £220,000 can be paid in the current tax-year. If we consider Sam, you can see how this might work.

Tax year	Sam's contributions	Carry forward
2012/13	£25,000	£25,000
2013/14	£20,000	£30,000
2014/15	£5,000	£35,000
	<b>Carry Forward total</b>	<b>£70,000</b>
2015/16 (before or on 8/7/15)	£30,000	N/A
2015/16 (after or on 9/7/15)	£10,000	N/A
	<b>Allowance left in 2015/16 year</b>	<b>£30,000</b>
	<b>Total permissible, including Carry Forward</b>	<b>£100,000</b>

If Sam had paid £50,000, for example, on or before 8th July 2015, but in the 2015/16 allowance he would only have £20,000 left as the £80,000 limit becomes significant.

There are some further 'traps', for example those who have flexibly accessed their pension will likely only have £10,000 allowance – and no Carry Forward. Also, whilst all contributions made going forward will be assessed in the year they are paid against the annual allowance, historic contributions may be assessed a year in arrears due to 'Pension Input Periods' – this is something we can explain if you get in contact.

## Summary

The information provided by pension providers is not always clear, and the tax penalties for over-contributing can be harsh, ruining the benefit of a pension contribution for most people. As intimated above some individuals may find their circumstances may complicate things further. Nevertheless the rates of tax relief for higher earners may be limited, particularly for those earning over £150,000 where we **know** the annual allowance will fall from 6th April 2016. We encourage you to get in touch if you feel the above affects you.