BOURNER BULLOCK
Chartered Accountants

Pension Allowance Changes

There were changes announced to the pension regime in both of the 2015 Budgets and it is advised that you speak to your pension adviser to see how you are affected.

Lifetime allowance reduction – protecting pension savings:

The Government has announced that the Lifetime Allowance is being reduced from £1.25million to £1million from 6 April 2016 and will then increase by CPI from 2018/19 onwards. It is recommended that you check with your pension provider to see if you will be affected by the change in the future as there will be a 55% charge (on savings and contributions which exceed the Lifetime Allowance). You are given the chance to protect your Lifetime Allowance. From April 2016 there will be two protection regimes available: Individual Protection 2016 (IP2016) and Fixed Protection 2016 (FP2016). There will be no application deadline for these protections. You can also still apply for the Individual Protection 2014 to protect any pension savings built up before 6 April 2014 (subject to an overall maximum of £1.5 million).

You should not make any further pension contributions once the election has been made and this includes opting out of auto-enrolment as well.

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Tapering the Annual Allowance

The annual allowance is normally £40,000 (2015-16). However, from 6 April 2016 the Government will introduce a taper to the annual allowance for those with adjusted annual incomes, including their own and employer's pension contributions, over £150,000. Under the changes, for every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000.

It is important to note that it is not earnings HMRC look at but "adjusted income" which is broadly:

- The individual's income from all sources before tax (ignoring any deductions for pension contributions), plus
- The value of any employer pension contributions.

Contact us and speak to a Partner for more information

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This means that there will be a lot more people impacted than you may first have thought.

This would suggest that anyone who runs their business and who has the cash to do so should fund pensions to the max including any carry forward, in the current tax year.

To ensure this operates as the Government intends, pension input periods will be aligned with the tax year, although transitional rules are in place to prevent retrospective taxation.

Alignment of Pension Input Periods

All pension input periods open on 8 July 2015 are closed on that date, with the next pension input period running from 9 July 2015 to 5 April 2016. All subsequent pension input periods will be concurrent with the tax year from 2016-17 onwards.

These changes to pension input periods were announced in the Summer Budget 2015 and came into force with immediate effect. For the sake of fairness during the alignment process, savers may be able to receive an additional annual allowance entitlement.

Consequently, savers may be able to receive tax relief on up to £80,000 of pension contributions for 2015-16 with a maximum of £40,000 being available for the period 9 July 2015 to 5 April 2016. In addition an individual may have unused brought forward amounts (see case study below).

Carrying Forward Unused Allowances

Where pension savings in any of the last three years' pension input periods were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. Therefore in 2015-16, unused allowance may be brought forward from 2012-13, 2013-14 and 2014-15. The annual allowance was set at £50,000 in both 2012-13 and 2013-14, and was reduced to £40,000 for 2014-15 onwards.

Case Study:

Andy is a self-employed electrician. In the three years prior to 2015-16 Andy has made contributions of £25,000, £25,000 and £30,000 to his pension scheme. As he has not used all of the £40,000 (2013/14 and prior years £50,000) annual allowance in earlier years, he has £60,000 (2012-13 £25,000, 2013-14 £25,000, 2014/15 £10,000) unused annual allowance that he can carry forward to 2015/16.

Together with his current year annual allowance of up to £80,000 (dependent upon the transitional rules), this means that Andy may be able to make a contribution of up to £140,000 in 2015/16 without incurring an extra tax charge.

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ICAEW CHARTERED ACCOUNTANTS

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