

High earners and tapered Annual Allowance: what you need to know

New tapered Annual Allowance – what are the main changes?



2015/16

Annual Allowance for pension savings is £40,000.

Carry forward unused allowance from previous 3 tax years to offset any excess in current year.



2016/17

Tapered Annual Allowance for high earners.

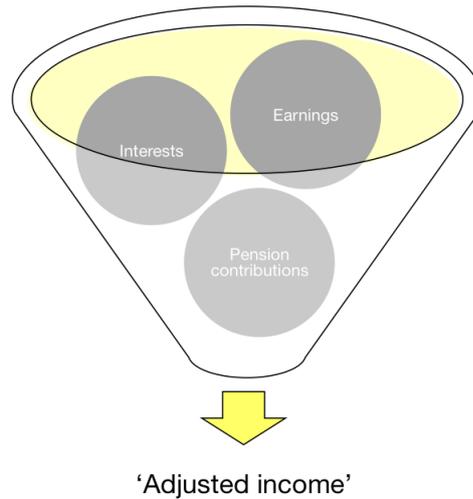
Individuals with an 'adjusted income' above £150,000 will see their annual allowance reduced by £1 for every £2 of excess income*.

Carry forward will be based on unused tapered annual allowance.

*individuals earning above £210,000 will see their annual allowance reduced to £10,000

'Adjusted income' – how is it calculated?

'Adjusted income' includes the value of any pension contributions made during the tax year, both by the employer and the individual, except when contributions have been taxed at source and are already included. This is an anti-avoidance measure to prevent individuals from entering in a salary sacrifice agreement or from increasing pension contributions.



It is important to note that where net income – broadly the individual's total earned and unearned income for the tax year – is not more than £110,000 before adding back pension contributions (**threshold income**), the annual allowance is not tapered. This is to ensure lower paid individuals are not affected as a result of a one-off spike in 'adjusted income', i.e. due to a large pension contribution.

Next steps

The most obvious choice is to maximise contributions before 6 April 2016 and make use of the 'increased' annual allowance for 2015/16 – between £40,000 and £80,000 – depending on their level of contribution before the Summer Budget announcement¹.

If your adjusted income is greater than £210,000, high level of pension funding will no longer be possible and you may want to consider alternative strategies once the annual allowance has been used, such as tax-efficient ISAs.

Notes:

¹To prevent retrospective taxation, individuals have an £80,000 annual allowance for 2015 to 2016, but subject to a £40,000 allowance for savings from 9 July 2015 to 5 April 2016. To achieve this, the 2015 to 2016 tax year is split into two notional periods, 6 April 2015 to 8 July 2015, the 'pre-alignment tax year' and 9 July 2015 to 5 April 2016, the 'post-alignment tax year'. All individuals have an annual allowance of £80,000 for the 'pre-alignment tax year'. Where this amount has not been used in the 'pre-alignment tax year', it is carried forward to the post-alignment tax year, subject to a maximum of £40,000. In addition, any unused annual allowance from the previous 3 years can be added to these amounts in the normal way.

