

## PENSION CONTRIBUTIONS AND THE TAPERED ANNUAL ALLOWANCE FOR HIGH EARNERS 2017/18

The Annual Allowance is the total gross value of pension contributions that you, your employer and other third parties can make each year. This includes value built up in Defined Benefit schemes (also called Final Salary schemes). The Annual Allowance for the 2017/18 tax year is £40,000. The tax charge if you do over-contribute aims to claw back any tax relief added by HMRC to your pension contribution.

### Higher earners

From 6 April 2016, your Annual Allowance will be reduced if:

- Your 'threshold income' is above £110,000
- AND your 'adjusted income' is above £150,000.

To calculate your personal Annual Allowance we have provided a number of steps, as below. Please speak to us AS SOON AS POSSIBLE if you need help with the calculations. Many clients will have to gather an array of data towards the end of the tax year in order to maximise pension contributions and tax relief, and some will miss out if they leave it too late.

This is particularly important if you contribute before you know your exact income figure for the year, e.g. if you have a discretionary bonus payment in February, March or early April 2017. HMRC's rules don't allow pension schemes to return any contributions which turn out to exceed your Annual Allowance.

#### Threshold income

Begin with your income from all sources for the tax year which attracts income tax (including dividends and rental income).

Then add the value of any earnings you gave up in exchange for pension contributions using salary sacrifice (or any similar arrangement) after 8 July 2015.

Then subtract the gross amount of personal pension contributions you paid from your net income

And finally subtract any taxable lump sum death benefits you received from someone else's pension on or after 6th April 2017.

#### Adjusted income

Begin with your income for the year which attracts income tax calculated in the same way as for threshold income.

Then add any employee pension contributions which your employer deducted from your gross pay ('net pay arrangement'), and any contributions made by your employer, including any paid as a result of salary sacrifice.

Then subtract any taxable lump sum death benefits you received from someone else's pension on or after 6th April 2017.

**Tel:** 01483 661180

**Pallant Independent Ltd** 84 North Street, Guildford, Surrey. GU1 4AU

**[www.pallantindependent.com](http://www.pallantindependent.com)**

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PO19 1UP.



Anti-avoidance measures exist to prevent people from manipulating their income to avoid the reduced annual allowance.

**If you are a high-income individual for a tax year, your annual allowance will reduce by £1 for every £2 of adjusted income above £150,000 up to £210,000. If your adjusted income is over £210,000, your annual allowance will be £10,000.**

Example:

In the 2017/18 tax year Sam has a salary of £100,000 and receives £30,000 of dividends. He pays £15,000 gross of personal contributions to a SIPP which operates the relief at source method. His employer also pays a contribution of £25,000.

His **threshold** income is: Salary + Dividends – Personal pension contributions = **£115,000**

His **adjusted** income is: Salary + Dividends + Employer pension contributions = **£155,000**

Therefore Sam is a high-income individual for the 2017/18 tax year.

The standard annual allowance is reduced by £1 for every £2 of adjusted income over £150,000:

£155,000 (adjusted income) - £150,000 = £5,000 'excess income'

£5,000 ÷ 2 = £2,500 reduction

£40,000 (standard annual allowance) - £2,500 = £37,500 tapered annual allowance

#### Carry forward

You can still carry forward unused Allowance from the previous three tax years, if you were a member of a pension scheme during that time. Your future unused Allowance will be based on your tapered Allowance for the year. For example, if your tapered Allowance in 2017/18 is £20,000 and you contribute £15,000, you can carry forward £5,000 of allowance to a future tax year.

#### The Money Purchase Annual Allowance (MPAA)

Where you have taken 'Flexi-Access' pension benefits you may have triggered the MPAA. Your pension provider will have told you if this is the case. This limits your Allowance to £10,000 irrespective of income. If you think this may apply, or do not know, please discuss with us.

#### Notes and references

The tax treatment and tax benefits outlined in this document are based on our understanding of tax law as at October 2017. The tax treatment depends on your individual circumstances and may be subject to change in the future. Your final tax position is your own responsibility, and we cannot accept any liability for errors you make in your self-assessment tax returns.

<https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance>

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