Pension Tax Planning 2016

Time to Act

From 6 April 2016 high earners will see their tax relief for pension contributions restricted. Action needs to be taken now to maximise pension contributions.

What is happening?

Tax breaks for pension contributions are about to be hit, and between now and 6 April there is an opportunity to make tax-effective contributions to pension schemes before the rules change.

From 6 April 2016, the £40,000 annual pension contribution allowance will be restricted for those with an income over £150,000 (including any add-back of pension contributions made by the employer).The rate of reduction in the annual allowance will be by £1 for every £2 that income exceeds £150,000, up to a maximum reduction of £30,000. This will leave a minimum annual allowance of just £10,000 for those earning more than £210,000. Further restrictions could be on the way with a rumoured flat rate of tax relief on pension contributions to be introduced from a date to be announced.

What to pay?

The amount that can be paid into a pension between now and April is a "refreshed" maximum of £40,000, even where a contribution of up to £40,000 had already been made between 6 April 2015 and 9 July 2016. Add to that, a one-off opportunity for high earners to maximise any unused relief from the previous three years and a hefty payment could be made before next April. For some high earners who have not yet made use of their annual allowance, this could mean they could pay up to £180,000 before 6 April, resulting in around £80,000 of tax relief.

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Caution

It is important to note that pension contributions cannot exceed earnings for the period (unless paid by the employer). Another factor to bear in mind is that from 6 April 2016 the Lifetime Allowance for pension contributions is also being hit. It will be reduced from £1.25m to £1m, subject to transitional protection for pension pots already worth more than £1m. This could affect how much is paid into the pension pot now and in the future.

It also needs to be born in mind that whilst the tax saving is an incentive, a large pension contribution is a sizeable investment. A sense of commerciality needs to be maintained – particularly the effect on cash flow.

What to do now

Despite all these changes however, pensions do remain an important part of tax-efficient financial and retirement planning, with proper advice being sought on the choices available.

If you wish to take advantage of this short window of opportunity between now and April, please contact one of the below who will be able to offer advice.

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