

## How high earners can maximise pension contributions and tax efficiency

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We have seen it for a few years now: Government taking the decision to limit pension contributions for higher earners. In 2018/19, the lifetime pension allowance limit was £1.03m, when it was £1.8m in 2011/12. It's the same situation with the annual pension allowance - back in 2010/11, you could contribute £255,000 into your pension each year without incurring an annual allowance charge. Now, it's only £40,000.

### What is the annual allowance?

The maximum amount we can all contribute to a pension plan (on which we can receive tax relief) is 100% of our earnings or £3,600, whichever is greater. This is then capped by the annual allowance which, for the 2018/19 tax year, is £40,000. It does however become more complicated for higher earners and we are advising many on how to be tax efficient.

### What is the tapered annual allowance?

The Government announced that from April 2016, a reduced annual allowance may apply to all pension contributions, depending on the level of taxable income within the tax year. This reduction was introduced using a tapering of the annual allowance for those with income of over £150,000. This tapering hits a minimum annual allowance of £10,000 for income exceeding £210,000. The calculation of 'adjusted' income is outside the scope of this article but it is worth checking with us if your total gross income from all sources, plus all pension contributions exceeds £150,000 in the current tax year.

Income	2015-16	2016-17	2017-18	2018-19
£150,000	£40,000	£40,000	£40,000	£40,000
£210,000	£40,000	£10,000	£10,000	£10,000

### What can I do now?

Assuming that you've had a pension in place since 2015/16, you can make a pension contribution of up to £160,000 before 5<sup>th</sup> April 2019.

High earners can carry forward any unused annual allowances from the previous three tax years, starting with the current tax year. This means that larger contributions can be made which will attract income tax relief of up to 45%. This means that for every 65p, HMRC will contribute 45p in tax relief.

If you don't use your unused annual allowance from 2015/16 by 5 April 2019, then it will be lost.

### How do I get started?

The best thing to do is to speak to an expert. Here at Alan Boswell Group, we have a team of financial planning specialists who can review your financial situation and advise on how to make the most of your pension contributions. If you'd like to find out how we can help, call us on 01603 6967967.

Please note - the information provided is based on our current understanding of the relevant legislation and regulations, and may be subject to alteration as a result of changes in legislation or practice.