How much can I put into my pension?

A Simple Guide to the Tapered Annual Allowance

t. 01179 902 602
e. hello@frazerjames.co.uk
w. www.frazerjames.co.uk

frazerjames
financial advice, reinvented.

For years, high earners in the corporate world have been able to stick their heads in the sand, knowing their large pension benefits will 'provide' later down the line.
But with the tapered annual allowance, that's now coming to an end.

The relatively recent introduction of the Tapered Annual Allowance rules has resulted in several high earning employees 'opting-out' of their pensions for fear of hefty tax bills.

What is the Tapered Annual Allowance?

The annual allowance is a limit on the amount that can be contributed to your pension each year, while still receiving tax relief. It's based on your earnings for the year and is capped at £40,000.

From April 2016, employees earning between £150,000 and £210,000 per year have been subject to a new pension tax rule called the **Tapered Annual Allowance (TPAA)**.

The TPAA gradually reduces how much you can put into your pension (whilst gaining tax relief), starting at £40,000 and 'tapering' down to just £10,000.

That changed in April 2020...

The recent government changes have resulted in only people with **total remuneration over £240,000 per year** being affected by the taper.

Employees earning over £240k have a gradually reducing allowance and once earners hit £300k (or above), they can only put in £4k per year (or face a tax charge).

Is your earnings package over £200k..?

You might be thinking "hold up, didn't you just say '£240,000'?" - yes, I did. However, that doesn't tell the full story...

Even if someone is earning less than £240,000, they could still be affected.

This is due to the **'taper test'**, which measures 2 things:

1. "**Threshold Income**" = income (salary, dividends, other income) excluding pension contributions
2. "**Adjusted Income**" = income (as above) but including pension contributions

So put simply, the Tapered Annual Allowance rules have the potential to impact an employee with a ***threshold income above £200,000 per year and/or an adjusted income above £240,000 per year***.

What if your allowance is reduced and you overpay into your pension?

This would classify as an '*excess contribution*' above the Annual Allowance and would result in an income tax charge based on the excess amount at the employee's marginal rate of income tax, currently 45% for top-rate taxpayers.

Are you affected..?

Higher earners need to be aware of the tapered annual allowance.

If your income is above £200,000, you need to be careful!

It is becoming increasingly common for employers to restrict the maximum pensions contributions to the 'minimum Tapered Annual Allowance' which was £10,000 per year and is going even lower to £4,000 as of 6th April 2020. And remember, that includes employee and employer contributions.

What are the alternatives..?

- ✓ **Carry Forward** – Unused Annual Allowance from previous tax years (up to 3 years) can be used to make further contributions into your pension without the prospect of tax charges.
- ✓ **ISAs** – while ISAs don't quite have the same tax benefits as pensions, they do provide a tax-free pot for your money to grow.
- ✓ **Venture Capital Trusts** – these are HMRC-approved investment vehicles that have several highly attractive tax benefits. They aren't for everyone though, as they invest in smaller UK companies that carry higher risks.

We hope this guide helps you to put a plan in place.
If you would like to speak to an adviser about your tax planning, you can call us on **01179 902 602.**

We also offer a **Free Tapered Annual Allowance Consultation**

Frazer James Financial Advisers:

t. 01179 902 602
e. hello@frazerjames.co.uk
w. www.frazerjames.co.uk
a. Frazer James, Square Works, Berkeley Square,
Clifton, Bristol, BS8 1HB