



Public Factsheet – Annual Allowance Taper – July 2015 Budget

The Government is restricting the Annual Allowance for pension savers with incomes over £150,000. The change will have effect from April 2016. This factsheet will help you understand if this change might affect you.

1. The Annual Allowance and the changes from April 2016

The Annual Allowance is the maximum amount of tax-relieved pension savings that you can make in one year. Currently it is £40,000.

From April 2016 if you have an 'adjusted income' of over £150,000 for a tax year, you will have your Annual Allowance reduced for that tax year by £1 for every £2 of income you receive over £150,000. If your adjusted income is £210,000 or over, your Annual Allowance will be reduced to a £10,000, but no lower.

2. How to tell if you are affected

If you have an 'adjusted income' of over £150,000 you may be affected by this measure.

'Adjusted income' is your net income plus the value of any pension savings. These are defined as follows:

- Net income is the normal calculation of your income for tax purposes, i.e. all your taxable income, less the reliefs that you are entitled to, including relief on charitable contributions. Taxable income includes all your taxable earnings from employment, plus all taxable income from other sources including for example rental income.
- Pension savings includes the value of both your pension contributions and any made by your employer. To find out the value of your pension contributions, you may need to request a pension saving statement from any schemes you are a member of.

To provide greater clarity on who is affected, the restriction will be subject to a threshold of £110,000. If you have a net income of less than £110,000 you will not be affected by the taper.

Any unused Annual Allowance you have from the three previous tax years will be able to be carried forward, as under the existing rules.

3. What to do if you think you may be affected

If you think you are affected, you will need to report your income and savings through the existing self-assessment process for reporting an Annual Allowance charge.

If you expect your adjusted income will be over £150,000 for the tax year 2016-17 and beyond, you may wish to review your pension arrangements in light of your personalised Annual Allowance.

If you exceed your Annual Allowance, you will be subject to an Annual Allowance charge at your marginal rate of tax.

4. Transitional Arrangements and the alignment of Pension Input Periods.

For some individuals, their pension year for tax purposes (known as a Pension Input Period) is different from the tax year. In order to make it easier for you to work out your pension savings over a tax year, Pension Input Periods will be aligned with the tax year. This means that only pension saving made in the tax year 2016-17 needs to be added to net income to work out the adjusted income for that year.

Transitional rules in force from Budget day will mean that any pension savings you have already made in 2015-16 before the Budget will not be retrospectively taxed through an Annual Allowance charge. After Budget, prior to April 2016, pension saving can still be made of up to £40,000 less any contributions already made before Budget.

Next Steps

If you think you will be affected by this measure you may wish to contact your scheme and employer in order to review your pension arrangements. You may also wish to consider seeking advice from an advisor or accountant.