Watson French
INDEPENDENT FINANCIAL PLANNING
& INVESTMENT MANAGEMENT

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Some reminders

Pension Annual Allowance

The annual allowance is a limit for tax relief purposes to the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that you can build up in defined benefit pension scheme each year.
Currently capped at £40,000. For personal pension contributions it's £40,000 or 100% of relevant earnings whichever is lower.

The annual allowance is capped at £4,000 for individuals who have withdrawn more than 25% of the value of their pension fund.
For those in a defined benefit pension the annual increase in the pension benefit is calculated to define how much of the annual allowance has been used.
Tapered Annual Allowance:

The tapered annual allowance came into force with effect 6th April 2016 for high earners.

For every £2 of income above £150,000 per annum, £1 of annual allowance is lost. The maximum reduction is £30,000 so anyone earning over £210,000 will have their annual allowance capped at £10,000.

Adjusted Income versus Threshold Income - Definitions of adjusted income and threshold income are vital to understanding whether or not the tapered annual allowance will apply.

Both definitions include all taxable income - so this isn't restricted to earnings.
Investment income of all types and benefits in kind, such as medical insurance premiums paid by the employer, will also be included.

The difference is that adjusted income includes all pension contributions (including any employer pension contributions), whereas threshold income excludes pension contributions.

Exceeding the annual allowance

Tax relief is not available on any pension contributions that exceed the annual allowance. Pension contributions are the total of all pension contributions paid by the individual, the employer and any third party.

Excess contributions are subject to an annual allowance charge at the individual's marginal rate of tax.

Carry Forward

Carry forward allows any unused annual allowance from pension input periods ending in the three previous tax years to be *carried forward* and added to the annual allowance for the current pension input period. The proviso is that the individual must have been a member of a registered pension arrangement for the carry forward years.

Lifetime Allowance

The *lifetime allowance* is the total amount that can be taken from all pension plans without facing a tax charge. It's currently set at £1,030,000.

A lifetime allowance tax charge will be incurred if the total pension entitlements exceed the lifetime limit when a Benefit Crystallisation Event (BCE) occurs.

The tax charge is 55% if the excess is taken as a lump sum and 25% if taken as income.

A test is carried out each time benefits are taken from a registered pension scheme, to make sure the tax charge is applied if the lifetime allowance is exceeded. The occasions when this test is carried out are called benefit crystallisation events.

A Benefit Crystallisation Event can occur before age 75 and at age 75.

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HMRC has defined 13 Benefit Crystallisation Events. Generally speaking a Benefit Crystallisation Event will occur when benefits are withdrawn from a pension arrangement, on death and on reaching age 75.

Where an individual has been a member of only one registered pension scheme and all benefits are paid at the same time on or after 6 April 2006 (either on death or retirement), the comparison against the lifetime allowance is reasonably straightforward.

However, where an individual takes benefits in stages on or after 6 April 2006, from one or more registered pension schemes, the comparison against the individual's lifetime allowance gets more complicated.

Each BCE will use up some of the individuals' lifetime allowance, leaving less against which any remaining benefits can be tested.

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