The PENSIONS Advisory Service

Spotlight

End of Tax Year Planning

This factsheet outlines issues to be considered for retirement planning before the end of the tax year.

The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or independent financial advice.

How much can I pay into my pension?

Normally between you and your employer you can pay a maximum of £40,000 into your pension in a tax year (but note that as an employee you can only receive tax relief up to the amount of your earnings). This £40,000 limit is called **the annual allowance**.

You and your employer can use any unused annual allowance from the last three tax years but only if you had a UK registered pension in those years. The concept of using previous annual allowance is called **carry forward**. Please see below the annual allowances by tax year/payment input period:

6 April 2017 to 5 April 2018 £40,000
6 April 2016 to 5 April 2017 £40,000
6 April 2015 to 5 April 2016 Transitional year – You could have paid up to £80,000 but only if you paid at least £40,000 in the period 6 April 2015 to 8 July 2015
6 April 2014 to 5 April 2015 £40,000
6 April 2013 to 5 April 2014 £50,000*

When it comes to your personal contributions into a pension, if you are under the age of 75, you normally receive tax relief only up to your earnings in the tax year. This does not include savings income or pension income. Any personal contributions above your earnings may result in tax relief being clawed back. Your employer may also make contributions and these are not limited by your earnings. However, any contributions above the annual allowance will result in a tax charge if there is no option for carry forward.

***You will lose the right to carry forward any unused annual allowance from this year as of 6 April 2017.**

What if I don't have any UK earnings?

Even if you do not have any UK relevant earnings, if you are less than 75 years old and UK tax resident then you can contribute a maximum of £3,600 gross p.a. or in other words £2,880 net p.a. plus £720 of tax relief from the government.
If you are living abroad, under 75 and have no UK relevant earnings you will be able to contribute the same £3,600 p.a. for the first 5 full tax years that you are outside of the UK.
You can also pay into someone else's pension for them, such as a partner, child or grandchild, if they don't have earnings and are under 75, on the same basis.

What if I have already starting taking some of my pension?

If you have any defined contribution pensions, also known as money purchase pensions, and you are 55 years or older you may have already started to access your pension. If this is the case this may have affected how much you and your employer can pay into a pension on your behalf. People who take their pension flexibly from defined contribution pensions have a restricted annual allowance called the money purchase annual allowance (MPAA). **From 6th April 2017 the MPAA is reducing from £10,000 gross p.a. to £4,000 gross p.a.** This reduced limit will also apply to people who triggered the MPAA before 6 April 2017. The MPAA continues to apply in all future tax years.
You **will trigger** the MPAA:

- If you go into Flexi Access Drawdown* and take more than the tax free cash.
- If you take any money as an Uncrystallised Funds Pension Lump Sum (UFPLS).
- If you cash in a pension in full and it is not a small pot (or a trivial lump sum from a defined benefit scheme).
- If you are in Capped Drawdown and you take more than your defined limits
  *this includes short term and fixed term annuities

You **won't trigger** the MPAA:

- If you cash in your pension as a small pot of £10,000 or less
- If you take a scheme pension from a defined benefit pension
- If you purchase a lifetime annuity (except for flexible annuities)
- If you take only tax free cash from your Flexi Access Drawdown plan
- If you keep to your limits of your Capped Drawdown plan

If you have triggered the MPAA already and you are currently paying into a pension scheme you may wish to consider using any unused MPAA from this year before the change on 6th April 2017 as you cannot carry this forward to the next tax year.
Any contributions above the MPAA will result in a tax charge at your marginal rate of income tax.

Do the same rules apply to my defined benefits pension?

You and your employer are subject to the same allowances if you have a defined benefit pension but the way your annual contributions is worked out is not based on what you pay from your salary but how much pension is built up over the tax year (your pension scheme can tell you this).
The amount of benefit accrual in the tax year is the difference between your entitlement to pension at the end of the previous tax year and your entitlement at the end of the current tax year multiplied by 16.For example a benefit increase of £1,000 pa would count as £16,000 towards your Annual Allowance. You can deduct any increases for inflation over the year when working out the net value.
If you have a MPAA, you will still be able to accrue £40,000 p.a. into your defined benefit scheme but this will be restricted to £30,000 p.a. if you are contributing £10,000 p.a. into a defined contribution pension as well. From 6th April 2017, you will able to accrue £36,000 p.a. if you are using your MPAA of £4,000 p.a. elsewhere.
The Tapered Annual Allowance also affects defined benefits pension scheme members.

What if I am a high earner?

As of 6 April 2016, the annual allowance for high earners was reduced. This reduction is called **the tapered annual allowance (TAA)** and reduces the annual allowance by £1 for every £2 above earnings of gross (pre-pension contribution earnings) of **£150,000 p.a.** This covers all earnings including savings and pension income as well as the value of your employer's pension contributions. Your annual allowance can only be reduced to £10,000 p.a. when you reach the £210,000 p.a. threshold or above.

You will still be able to carry forward unused annual allowance from previous tax years and if your income subsequently drops to below the thresholds you will be restored to the normal annual allowance. If you have earnings of **£110,000 p.a**. (post-pension contributions) you will not be affected by the TAA.

If you are likely to be affected by the TAA, you should ask your employer if there is an alternative benefit to being a member of a pension scheme. Bear in mind that, even with a tax charge, your employer's pension scheme may still be a valuable benefit. Alternatively, you may wish to consider other investments with tax incentives. You should consult a financial adviser if you wish to discuss alternatives.

How much am I allowed to have in a pension?

In the 2016/17 tax year you are allowed to have up to a total of £1 Million in UK registered pensions. This is called **the lifetime allowance.**

For the 2017/18 tax year this is set to stay the same but there may be an increase in the following tax year to take into account inflation.

You may have a form of lifetime allowance protection from HMRC to allow you to have more than this in your pensions and if you do you will have a certificate with all the details. We have another spotlight on the lifetime allowance that gives more information on any previous forms of lifetime allowance protection you may hold.

The deadline for applying for Individual Protection 2014 is 5th April 2017. If you had pension benefits worth more than £1.25 million on 5th April 2014 you may wish to consider applying for this protection online before the deadline, through your government gateway account.

Currently Individual Protection 2016 and Fixed Protection 2016 are also available and have no deadlines set (please see section below).

The lifetime allowance is tested each time certain actions happen in relation to your pensions. These actions are called **benefit crystallisation events (BCE)** and are typically triggered when you start to draw an income from your pension, and also when you reach age 75.

The value of a BCE is normally the amount paid out or moved to provide retirement income. For defined benefit pensions, the value is normally treated as 20 times the initial amount of pension plus any tax-free cash.

If you are unsure whether or not your current pension savings will exceed the lifetime allowance, you should speak to your pension provider, scheme administrator or seek financial advice.

How can protect myself against the lifetime allowance?

From 6 April 2017 you will be only be able to apply for either or both of the following protections:

- **Fixed protection 2016 (FP2016)** is available for those that do not already have a previous version of fixed, enhanced or primary protection and do not contribute into or accrue benefits after 5th April 2016. The lifetime allowance will be £1.25 Million or the lifetime allowance at the time, whichever is higher.
  Those planning to apply for FP2016 cannot contribute or accrue further benefits from 6 April 2016 onwards.
- **Individual protection 2016 (IP2016)** is available for those that have a 'total relevant amount' of their pensions valued in excess of £1 Million as at the 5th April 2016 and do not already have primary protection or Individual Protection 2014. You can continue to contribute and accrue benefits.

The total relevant amount is the sum of amounts A to D below all valued as at 5 April 2016:

A. The amount of pensions in payment before 6 April 2006 (A-Day)
B. The amount of benefits crystallised between 6 April 2006 and 5 April 2016
C. The amount of uncrystallised UK registered pension savings
D. The amount of uncrystallised relieved non-UK pension savings

The calculation can be complicated so we have set out some straightforward examples in our lifetime allowance Spotlight. Individual protection 2014 (IP2014) is still available to apply for until 6 April 2017 when pension funds were valued in excess of £1.25 million as at 5 April 2014. The lifetime allowance remains at this value, subject to a maximum of £1.5 million. Payments into the funds can continue.

Be aware that any pension savings above the lifetime allowance are subject to the lifetime allowance charge. This charge will continue to be:

- 55% if the excess is taken as a lump sum
- 25% if the excess is taken as income, for example as a scheme pension, an annuity or drawdown. Income tax at your marginal rate will also be payable.

How do I apply?

There are more details on the gov.uk website on how to apply for all forms of protection against the lifetime allowance: https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

If you cannot use the online process then please contact HMRC's dedicated helpline:

Telephone: 0300 123 1079
Outside UK: 44 (0) 300 123 1079

If you do not have a self-assessment account already, the best way to register is to create a personal tax account using Verify, it then gives a choice of operators to choose between.

Verify will allow you to use either a UK photo-card driving licence (full or provisional), UK passport, International driving licence, International Passport, International ID card.

If you have a smart phone you may wish to choose the Post Office route where you can install an app on your device.
If people do not have any of these documents, Experian may still be able to verify them using their mobile phone.

Where can I learn more about the issues in this spotlight?

Please find some useful links to further information below:

Annual Allowance

HMRC have an annual allowance calculator tool to help you work out your annual allowance this tax year: https://www.tax.service.gov.uk/paac

TPAS has a tax relief calculator to help you work out the amount of tax relief you are due on each pension contribution: https://www.pensionsadvisoryservice.org.uk/my-pension/online-tools?moreInfo=5

Please also see our spotlight on the annual allowance:
http://www.pensionsadvisoryservice.org.uk/content/spotlights-files/uploads/Annual_Allowance_SPOT004_V1.8.pdf

Lifetime Allowance

http://www.pensionsadvisoryservice.org.uk/content/spotlights-files/uploads/Lifetime_Allowance_SPOT021_V2.3.pdf

Independent Financial Advice

http://www.pensionsadvisoryservice.org.uk/content/publications-files/uploads/Financial_Advice_SPOT009_V1.3.pdf

Saving into a pension

https://www.pensionsadvisoryservice.org.uk/content/spotlights-files/uploads/Saving_into_a_pension_Spot24_v1.2.pdf

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

Contacting us

Pensions Helpline **(Monday- Friday 9:00am- 5:00pm)**	**0300 123 1047**
Online enquiry form	www.pensionsadvisoryservice.org.uk/online-enquiry
Web chat live	www.pensionsadvisoryservice.org.uk
Write to us	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB

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