



BUSINESS & PERSONAL TAX SUPPORT

Making the Most of Your Pension Contributions

Building a pension pot 2022/23



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Read this update if you want to review your pension provisions and plan your pension contributions for the 2022/23 tax year.

Is there a limit on the tax relief you can claim?

Yes -- tax relief is only available on contributions to registered pension schemes up to certain limits.

Individuals can make contributions to the higher of £3,600 and 100% of their earnings, if they have sufficient annual allowance available to shelter the contributions.

Contributions can be made by (or on behalf of) non-taxpayers up to £3,600 a year. Net of basic rate relief at 20%, this will cost £2,880.

How much is the annual allowance?

The annual allowance is set at £40,000 for 2022/23. However, a taper applies which reduces your annual allowance if you have:

- adjusted net income of £240,000 or more (broadly income including pension contributions); and
- threshold income of £200,000 or more (broadly income excluding pension contributions).

Where both apply, the annual allowance is reduced by £2 for every £1 by which adjusted net income exceeds £240,000 until the minimum level of the annual allowance is reached. This is set at £4,000 for 2022/23.

The impact of the taper means that if your adjusted net income is £312,000 or more and your threshold income is at least £200,000, you will only receive the minimum annual allowance of £4,000 for 2022/23.

A reduced annual allowance – the money purchase annual allowance (MPAA) -- also applies if you have flexibly accessed a money purchase pension pot having reached the age of 55. This is also set at £4,000 for 2022/23.

What about employer contributions?

Contributions made by your employer count towards the annual allowance. They are also considered when working out adjusted net income for the purposes of determining whether the annual allowance taper applies.

What about unused allowances from earlier years?

Where the annual allowance is not fully utilised in a tax year, the unused portion can be carried forward for up to three years.

This means that when working out the total tax relieved pension contributions that you can make in 2022/23, you need to consider not only the available annual allowance for the current tax year, but also any unused allowances brought forward from:

- 2021/22
- 2020/21; and
- 2019/20.

Allowances brought forward from a previous year can only be used once the current year's annual allowance has been used up.

Once this has been done, brought forward allowances from an earlier year are used before those of a later year.

Any allowances brought forward from 2019/20 will be lost if they are not used by 5 April 2023. However, contributions cannot exceed 100% of your earnings (or £3,600 if higher).

Limit on lifetime pension savings

The lifetime allowance places a cap on the value of tax-relieved pension savings. The lifetime allowance is set at £1,073,100 for 2022/23, unchanged from 2021/22. At the time of the 2021 Budget, the Chancellor announced that it would remain at this level for tax years up to and including 2025/26.

If you think that your pension savings may be approaching this level, it is important that you review them before making any further

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contributions. Where pension savings exceed the lifetime allowance, tax relief on the excess contributions is recovered at the rate of 25% if the excess is taken as a pension and at a rate of 55% if it is taken as a lump sum.

Why make additional pension contributions?

Making pension contributions is tax efficient as relief is given at your marginal rate of tax. This means that a contribution of £100 will only cost you £60 if you are a higher rate taxpayer, and £55 if you are an additional rate taxpayer.

If you have some or all the 2019/20 annual allowance available, making extra contributions more than the 2022/23 allowance to mop it up will prevent it from being lost.

Making pension contributions can also be useful if you want to reduce your income, for example to preserve all or part of your personal allowance for 2022/23; or to move into a lower tax bracket. The personal allowance, set at £12,570 for 2022/23, is reduced by £2 for every £1 by which adjusted net income (in this instance, income before personal allowances and less trading losses, charitable donations, and pension contributions) exceeds £100,000. For 2022/23, this means that the personal allowance is lost once adjusted net income reaches £125,140.

Due to this taper, the marginal rate of tax between £100,000 and £125,140 is 60%.

Where making additional pension contributions is an option, this can be valuable, whether to prevent losing any of the personal allowance, or to preserve some of it or more of it.

And finally, using these generous tax breaks to create a fund for your retirement is a worthwhile endeavour.

We can help

For example, you may be unsure:

- How much to pay each month to fund a reasonable pension?
- How do you claim tax relief on contributions made?
- Is it better to pay personally or for your employer to pay contributions?

Please call if you need more information regarding any of the issues raised in this update.

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