



BUSINESS & PERSONAL TAX SUPPORT

Making the most of your pension contributions

Building a pension pot 2023-24



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Read this update if you want to review your pension provisions and plan your pension contributions for the 2023/24 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 £60,000 for 2023/24. However, a taper applies which reduces your annual allowance if you have:

- adjusted net income of £260,000 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 £260,000 until the minimum level of the annual allowance is reached. This is set at £10,000 for 2023/24.

The impact of the taper means that if your adjusted net income is £360,000 or more and your threshold income is at least £200,000, you will only receive the minimum annual allowance of £10,000 for 2023/24.

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 £10,000 for 2023/24.

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 2023/24, you need to consider not only the available annual allowance for the current tax year, but also any unused allowances brought forward from:

- 2022/23;
- 2021/22; and
- 2020/21.

The annual allowance was set at £40,000 in 2022/23, 2021/22 and 2020/21. If you have not made any contributions in any of these years, you can potentially make contributions of £180,000 in 2023/24.

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 2020/21 will be lost if they are not used by 5 April 2024. However, contributions cannot exceed 100% of your earnings (or £3,600 if higher).

No limit on lifetime pension savings

The lifetime allowance placed a cap on the value of tax-relieved pension savings. Where the value of the pension pot exceeded the lifetime allowance at the time that a pension was taken, the excess was taxed by means of a lifetime

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allowance charge. The excess was taxed at 55% when taken as a lump sum and at 25% when taken as a pension. The lifetime allowance charges are removed from 6 April 2023 and from that date no charges will apply where pension savings exceed the lifetime allowance. Legislation is to be introduced to remove the lifetime allowance completely. The lifetime allowance has been set at £1,073,100 since 2021/22.

A cap has been introduced on the sum that can be taken tax-free – set at £268,275 where this is less than 25% of the value of the pension fund.

If your pension savings had reached this level and you have been unable to make further contributions for a number of years, you may wish to consider whether to start making contributions again.

If you have not used your annual allowance for 2020/21 and later years, you may be able to make contributions of up to £180,000 for 2023/24 if your earnings are at least at this level. Remember, the annual allowance is reduced where income exceeds the taper thresholds.

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 2020/21 annual allowance available, making extra contributions more than the 2023/24 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 2023/24; or to move into a lower tax bracket. The personal allowance, set at £12,570 for 2023/24, 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 2023/24, 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.

From 6 April 2023, the additional rate threshold is reduced to £125,140. Where income exceeds this, making pension contributions is particularly tax-efficient as tax relief is given at the additional rate of 45%.

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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