



# Pensions

## What Can I Pay In?



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When the legislation changed in 2006 it was to simplify pensions, however since then layers of complication have been added. You can put in what you want and take out what you want, but there are severe tax penalties if you overstep the allowances and ages at which you can do things.

## TAX INCENTIVES

We are incentivised to save through tax relief on contributions, both for an individual on their own contributions and for an employer on their contributions. For the individual, you can save as much as you like into any number and type of registered pension schemes and get tax relief on **contributions of up to 100% of your earnings** (salary and other earned income) each year, provided you paid the contribution before age 75. If you earn less than £3,600 you'll still get tax relief on contributions up to that amount as long as you're paying into a personal pension or any other scheme that uses the relief at source method for giving tax relief. The Annual Allowance also limits tax relief.

Income and gains for the money in the pension are generally exempt from tax.

## EMPLOYER'S ENTITLEMENT TO TAX RELIEF

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm043000>

Tax relief on employer contributions to a registered pension scheme is given by allowing contributions to be deducted as an expense in computing the profits of a trade, profession or investment business, and so reducing the amount of an employer's taxable profit.

In the case of a trade or profession, employer contributions will be deductible as an expense provided that they are incurred wholly and exclusively for the purposes of the employer's trade or profession (Part 2 of the Income Tax (Trading and Other Income Act) 2005 or Part 3 of the Corporation Tax Act 2009). Where the employer is a company with investment business the employer contributions will be deductible as an expense of management (Chapter 2 of Part 16 of the Corporation Tax Act 2009).

## ARE YOU A SHAREHOLDING DIRECTOR OR CONNECTED PERSON?

Talk to your accountant. Is the contribution 'wholly and exclusively for the purposes of the employer's trade or profession'?

Broadly, the employer's contribution will be wholly and exclusively for the purposes of the trade if the contribution paid in respect of a controlling director or a connected employee is in line with a contribution that would have been made for an unconnected employee in a similar situation.

## ANNUAL ALLOWANCE

You (an individual) pay tax on the amount of your pension savings for a tax year that is above the annual allowance plus any unused annual allowance you can carry forward. The annual allowance is the maximum amount of pension saving an individual can have each year that benefits from tax relief. This includes pension savings that members make plus any made by someone else on behalf of the member - for example, their employer. There is no limit on the amount an individual can save in a pension scheme, but there is a limit on the amount that can get tax relief each year. If a member's pension saving is more than the annual allowance they will pay a tax charge on the amount over the annual allowance. This tax charge is called the annual allowance charge.

**The annual allowance is now £40,000 but may be reduced by:-**

- Taking flexible benefits from a money purchase arrangement
- The tapered annual allowance rules



### **TAPERED ANNUAL ALLOWANCE**

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100>

From 6 April 2016, individuals with income for a tax year above £150,000 have their annual allowance for that tax year reduced on a tapered basis (a 'reduced annual allowance').

The annual allowance is reduced by £1 for every £2 of income above £150,000, subject to a minimum reduced annual allowance of £10,000.

Where the reduction would otherwise take an individual's tapered annual allowance below £10,000 for the tax year, their reduced annual allowance for that year is set at £10,000.



### **CARRY FORWARD**

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm055100>

The three year carry forward rule allows an individual to make occasional large amounts of pension savings without having to pay the annual allowance charge.

### **CONTRIBUTIONS MADE IN-SPECIE**

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm042100>

In-specie contributions are not allowed. The legislation only permits monetary contributions. However, it is possible for an employer to agree to pay a monetary contribution and then to settle this debt by way of a transfer of an asset or assets. This would also be subject to the pension scheme rules allowing such a transfer.

### **TRUSTED FINANCIAL PLANNING**

If you need help then get in touch and we can discuss the best way to meet your needs.

[www.thmarchfinancialplanning.co.uk/](http://www.thmarchfinancialplanning.co.uk/)

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