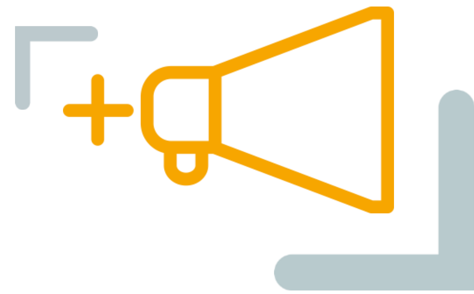


Changes to the tapered Annual Allowance

Budget Factsheet - 11 March 2020

Action required in the next 25 days

With effect from 6 April 2020 the way in which the tapered Annual Allowance operates is changing. This could be significant for many high earners. Employers, trustees and individuals may have some urgent actions to take in the next 25 days.

How does the tapered Annual Allowance work?

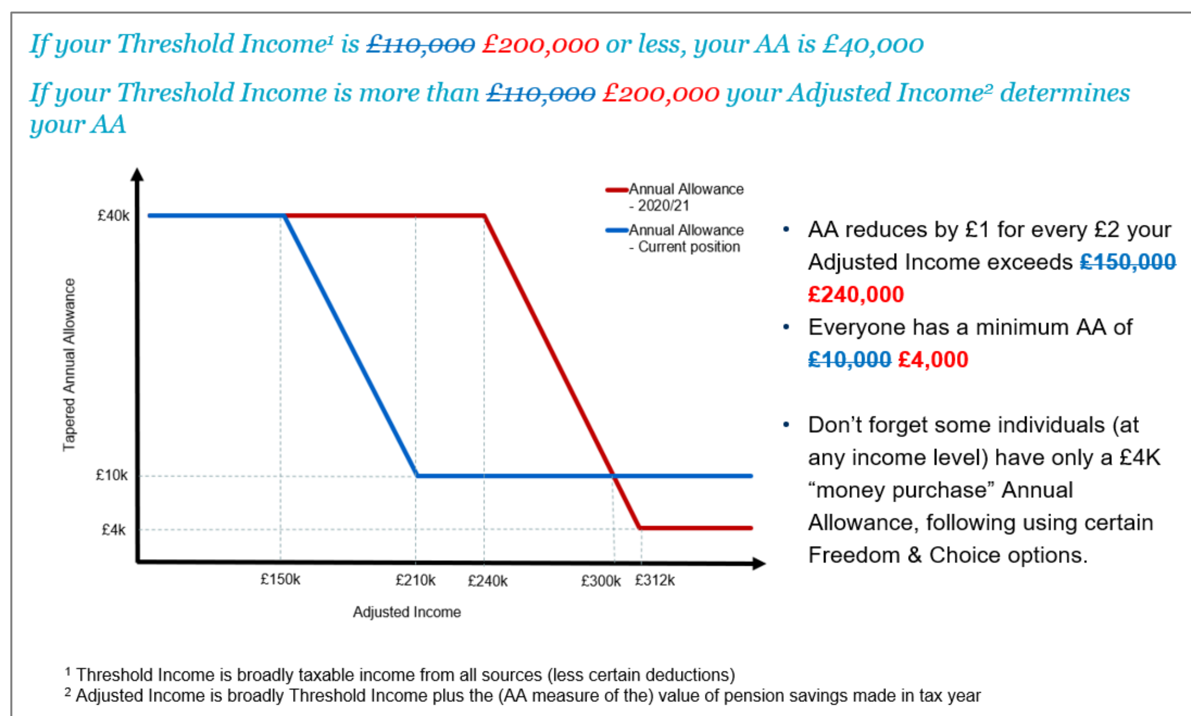
The Annual Allowance (AA) on pension savings is £40,000 for most people but can currently reduce to £10,000 for those with a high income. Whether this "taper" in the Annual Allowance applies to an individual depends on their Threshold Income for the tax year. How low their Annual Allowance reduces to depends on their Adjusted Income for the tax year. Threshold Income includes both employment and personal income. Adjusted Income also includes the AA measure of the value of pension savings made by or for the individual.

What is changing?

From 6 April:

- Those on incomes of £200,000 or less do not even have to think about the taper – They have the full £40,000 Annual Allowance. Also, most of those still in the "taper zone" will have a better Annual Allowance than before – This is all good news.
- For the highest earners (those with income plus pension savings in the tax year more than £300,000), the tapered Annual Allowance will be lower than £10,000 and probably as low as £4,000 – This is bad news.

This is illustrated in the chart below.



[1] Threshold Income is broadly taxable income from all sources (less certain deductions)
[2] Adjusted Income is broadly Threshold Income plus the (AA measure of the) value of pension savings made in tax year

There are therefore some urgent points to consider …

LCP INSIGHT CLARITY ADVICE

Who needs to take urgent action?

Urgent action is required by employers, trustees and individuals if pension savings are being made from 6 April by or for those with an Adjusted Income of more than £300,000 (but as employers will not know an individual's Adjusted Income their focus might be on all those employees expected to earn more than say £250,000, just in case other income and pension savings takes them into the danger zone). It is common in such cases for pension savings to have been restricted to £10,000. Continuing at this level could trigger a tax charge of £2,700 per person. Employers need to urgently review the structure of any pension provision for these individuals. Examples of actions required include:

- Reducing the cap on DC pension savings from £10,000 to £4,000 (potentially with a corresponding increase in any cash allowance in lieu of pension contributions).
- Changing the cap on the HMRC value DB pension accrual in scheme rules from £10,000 to £4,000 (potentially with a corresponding increase in any cash allowance in lieu of pension contributions).

For DC arrangements *with contributions being paid regularly, it might be possible to implement a proper consultation/options process and sort this out in the first few months of the tax year before anyone has had more than £4,000 of DC savings paid in.*

For some DB arrangements *with "cap and carry" if no action* is *taken there is a risk that the accrued pension might jump by "£10,000 of HMRC value" overnight on 5 April 2020. In such cases the employer might need to agree changes both with the individuals concerned and the trustees within the next 25 days to avoid an unintended tax charge on the members.*

Employers will need to consider, agree and communicate their response to the change in the Annual Allowance urgently.

What about other high earners?

A lot of other high earners may be able to make larger pension savings from 6 April 2020. Employers will therefore also need to review options and the structure of pension provision for these individuals too.

Want to find out more?

If you would like further information, please contact your usual LCP adviser or one of the people below

Karen Goldschmidt
Partner
+44 (0)20 7432 6621
karen.goldschmidt
@lcp.uk.com

Alasdair Mayes
Partner
+44 (0)1962 872725
alasdair.mayes
@lcp.uk.com

Jonathan Balkwill
Partner
+44 (0)20 7432 3092
jonathan.balkwill
@lcp.uk.com

Peter Clarke
Principal
+44 (0)1962 872703
peter.clarke
@lcp.uk.com

www.lcp.uk.com

Important information

This Factsheet has been prepared by Lane Clark & Peacock LLP to provide a high level summary of the changes to the Annual Allowance announced on the Budget on 11 March 2020. It is not, nor intended to be, a comprehensive guide to the topics discussed. This Factsheet should not be relied upon as advice, nor taken as an authoritative statement of the law. Lane Clark & Peacock LLP can take no responsibility nor accept any liability for your use of material in this document and no decision should be taken as a result of this document.

All rights to this document are reserved to Lane Clark & Peacock LLP ("LCP"). This document may be reproduced in whole or in part, provided prominent acknowledgement of the source is given. We accept no liability to anyone to whom this document has been provided (with or without our consent). Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmore Street, London W1U 1DQ, the firm's principal place of business and registered office. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. The firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are licensed by the Institute and Faculty of Actuaries. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. © Lane Clark & Peacock LLP 2020.