



Professional Adviser Use Only

The information contained in this document is based on our understanding of HM Revenue & Customs (HMRC) rules & practice. It is provided as a summary only. Readers should refer to HMRC's Pensions Taxation manual and other suitable sources for full details. Whilst every effort has been made to ensure accuracy, no responsibility can be taken for actions taken, or refrained from being taken, as a result of this information.

Budget Update – March 2020

We summarise below, the key points, in relation to the taxation of pensions, from the Government's Budget delivered on 12th March 2020.

Lifetime Allowance

The government confirmed that following uprating in line with the consumer price index, the amount of the pension lifetime allowance for tax year 2020 to 2021 is £1,073,100.

Tapered annual allowance

What's changing?

At Budget 2020, the government announced increases to the threshold income and adjusted income limits that you use to work out your tapered annual allowance.

From 6 April 2020 and subsequent years, the adjusted income limit will rise to £240,000 (increased from £150,000) and the threshold income limit will rise to £200,000 (increased from £110,000).

The Chancellor also reduced the minimum reduced annual allowance that you can have under the tapering rules from £10,000 to £4,000.

What is the annual allowance?

The annual allowance is the most you can save in your pension schemes each year with the benefit of tax relief.

For 2020 to 2021 the annual allowance is £40,000 but if you have a high income, your pensions annual allowance may be lower than £40,000.

This tapering of the annual allowance is applied depending on your income within the tax year and applies to all pension savings that you make or that are made on your behalf.

Will the tapered annual allowance apply to me?

To see if the taper applies to you, you'll need to work out your:

- net income in that tax year
- pension savings in that tax year
- threshold income in that tax year
- adjusted income in that tax year

From 6 April 2020, you'll have a reduced ('tapered') annual allowance if both your:

- [threshold income](#) is over £200,000 (this was previously £110,000)
- [adjusted income](#) is over £240,000 (this was previously £150,000)

You will not be subject to the tapered annual allowance if your threshold income for that year is £200,000 or less, no matter what your adjusted income is.

What effect does the tapered annual allowance have on my savings?

If you're subject to the tapered annual allowance, for every £2 your adjusted income goes over £240,000, your annual allowance for that year reduces by £1.

From 6 April 2020 the minimum that this can reduce to is a tapered annual allowance of £4,000.

Example 1

For 2020 to 2021 an individual with an adjusted income of £300,000 will exceed the adjusted income limit by £60,000. The individual's annual allowance would be reduced by half of this, so by £30,000 leaving them with a tapered annual allowance of £10,000 (the standard annual allowance of £40,000 less the £30,000 reduction under the tapering rules).

Example 2

For 2020 to 2021 another individual earns £330,000. Their income exceeds the adjusted income limit by £90,000. Their annual allowance should be reduced by £45,000 (the standard annual allowance of £40,000 less the £45,000 reduction under the tapering rules).

However the minimum that the annual allowance can reduce to under the tapered annual allowance rules is £4,000. So, this individual will have a tapered annual allowance of £4,000.

Do not forget though, that you can also carry forward any unused annual allowance from the previous 3 tax years and use this. Your available annual allowance is your reduced (or tapered) annual allowance plus any unused allowance from the previous 3 tax years.

What should I do if I have made pension savings over my available annual allowance

If your pension savings made in the tax year are more than your available annual allowance, you should include the excess amount on your Self Assessment return.

This amount is added to your taxable income and you will pay Income Tax on it, at the tax rate that applies to you.