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How much can I invest in my pension?

A Guide to the Tapered Annual Allowance



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fit to retire

The tapered annual allowance, introduced in April 2016, has created a tax burden for high-earners, limiting the amount they can contribute into a pension with full tax relief. Here is a summary of the details.

Tapered Annual Allowance explained

- The amount that can be contributed to your pension each year, whilst receiving full tax relief, is your annual allowance. It is based on your earnings for the year and is **capped at £60,000**.
- The annual allowance is tapered (reduced) if both your 'adjusted income' (AI) and 'threshold income' (TI) are exceeded in a tax year.
- From 6 April 2023, the **AI** and **TI** limits are **£260,000** and **£200,000** respectively.
- If both are exceeded, the annual allowance **reduces by £1 for every £2 of AI over £260,000** until it reaches the **minimum amount of £10,000** (i.e. when AI is more than £360,000).

Example:

In 2023/24 Susan has adjusted income of £270,000 and threshold income of £210,000. Her annual allowance for this year will therefore be reduced by £5,000 ($(£10,000/2)$) to £55,000.

Adjusted v Threshold

Total income from all sources chargeable to UK tax (ignoring deductions for pension contributions)

Less: exceptional deductions

Plus: employer pension contributions

Total income from all sources chargeable to UK tax (ignoring deductions for pension contributions)

Less: pension contributions and exceptional deductions

Plus: salary sacrifice started after 8 July 2015

What Can I do if I am affected?

There are some things you can do to maximise your tax efficiency as a high-earner, but these will need to be considered in tandem with your overall individual circumstances, investments and attitude to risk.

- **Carry Forward** – Unused Annual Allowance from previous tax years (up to 3 years) can be used to make further contributions into your pension without tax charges.
- **ISAs** – ISAs don't attract income tax relief when contributing, but do provide investment growth free from all savings, dividend and capital gains tax.
- **Venture Capital Trusts, EIS & SEIS** – Some HMRC-approved investment vehicles have highly attractive tax benefits, especially attractive to higher rate taxpayers (subject to suitability for your attitude to risk).

"Price is what you pay, value is what you get."

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