Grayside Financial Services
1st Floor, 55 High Street,
Epsom, Surrey KT19 8DH
Tel: 01372 726 162 Fax: 01372 724 988
Email: enquiries@grayside.co.uk

GRAYSIDE
FINANCIAL SERVICES

Looking to build a bigger pension?

Don't miss the deadline to give your pension savings a boost

As another extraordinary financial year comes to a close, it's more important than ever to make good use of your annual pension allowances. Giving your pension savings a boost and assessing where you stand will give you peace of mind that you are on track to enjoying the retirement you are planning for.

The 2021/22 tax year ends on 5 April. Staying on top of your retirement plans is important all year round but with the tax year ending on 5 April, just a few weeks away, it's a good time to consider if you've made the most of this year's pension tax benefits. If you haven't, there's still time for any payments or changes to be processed.

TAX RELIEF

Pension tax relief is an extra amount that's added to your pension contributions. So it effectively means it'll cost you less to save more into your pension plan. Although most people receive tax relief on their pension contributions, depending on how your pension scheme works (if you're part of a salary sacrifice or salary exchange scheme, for example) you might receive tax benefits in a different way. So you should either speak to us or check with your employer if you're not sure.

The amount of tax relief you receive on your own contributions usually depends on the rate of income tax you pay. For most of the UK, this means basic rate taxpayers (who pay 20% income tax) receive tax relief at the same rate. If you're a higher rate taxpayer you receive 40% tax relief on contributions that are matched by income taxed at that rate, and the same for additional rate taxpayers at 45%, but you'll need to claim back anything over 20% from the government unless you pay using salary sacrifice or are a member of an occupational scheme operating the 'net pay' method of tax relief.

ANNUAL ALLOWANCE

If you don't earn any taxable income, you're still entitled to receive 20% tax relief on your contributions up to the amount you earn. If you have no earnings, or earn less than £3,600 in the current tax year, you can still receive tax relief on contributions up to £3,600 (i.e. if you pay £2,880 net of basic rate tax relief, an amount of £3,600 is added to your pension). While income tax is slightly different in Scotland, the effect on your pension contributions is broadly the same.

In addition to the tax relief limit described above, there is an annual allowance which, is £40,000 for most people. If all contributions combined, including those from an employer, exceed the annual allowance in a tax year, a tax charge will be applied to the excess.

PENSION CONTRIBUTIONS

The annual allowance applies to the total amount of contributions made into all of your pension plans in a tax year – including the ones your employer, or any third-party, makes on your behalf. The good news is that if you haven't used all of your pension annual allowances in the last three tax years, you may be able to carry them over and use them to pay in more in the current tax year.

When planning to make large pension contributions, spreading them across tax years can make tax sense, for example, that will mean higher rate relief is available on the full contributions. Remember that you still can't contribute more than 100% of your earnings in any tax year if tax relief is to be available on the contributions.

RETIREMENT GOALS

Most people can contribute up to £40,000 to pensions each year and benefit from tax relief. But if your income rises above a certain level – which is £200,000 for the 2021/22 tax year – this allowance could be reduced or 'tapered'. The tapered annual allowance effectively reduces the amount of money that can be contributed to a pension by you and / or your employer before having to pay tax.

The taper doesn't usually apply if your 'threshold income' is less than £200,000. If it is above this level, you will need to check whether your 'adjusted income' is greater than £240,000 (2021/22 tax year). The annual allowance reduces by £1 for every £2 that your adjusted income exceeds £240,000, to a minimum tapered allowance of £4,000. Without careful financial planning, you could find yourself subject to an unwelcome tax charge. ■

READY TO PLAN YOUR RETIREMENT INCOME WITH US, STEP BY STEP?

You should bear in mind that tax rules and legislation may change and your own individual circumstances, including where you live in the UK, will have an impact on your tax treatment. For more information about how we can help you build a bigger pension, please contact us.