Financial Advice.net
MONEY NEWS

June 2019

An update on recent tax changes

In this newsletter we are rounding up some recent tax changes relevant both to tax planning in the tax year ending 5 April 2020 (2019/20) and strategies to minimise tax in subsequent years.

Although, while arranging your affairs to save tax is an important part of financial planning, it is not the only part. It is also essential that any tax planning strategy that is being considered also makes commercial sense.

In this newsletter we only cover tax planning opportunities open to UK resident individuals. All references to spouse include civil partners and all references to married couples include registered civil partners.

1. Income tax rates and allowances for 2019/20

The basic, higher and additional rates of income tax for 2019/20 remain at 20%, 40% and 45% respectively.

The basic rate limit for 2019/20 rose to £37,500 (except in Scotland). The threshold at which a taxpayer starts paying additional rate tax is unchanged at £150,000.

The personal allowance for 2019/20 increased to £12,500.

The point at which an individual is liable to higher rate income tax is £12,500 + £37,500 = £50,000.

The dividend tax rates for 2019/20 remain at:
- 7.5% (dividend ordinary rate);
- 32.5% (dividend upper rate); and
- 38.1% (dividend additional rate).

The dividend nil rate band remains at £2,000.

The personal savings allowance for interest received remains at £1,000 in 2019/20 for basic rate taxpayers (i.e. those who have no income chargeable at the higher or additional rates or their dividend equivalents).

For taxpayers with income chargeable at the higher rate or its dividend equivalent, the personal savings allowance is £500.

Taxpayers with income chargeable at the additional rate or its dividend equivalent are not entitled to any personal savings allowance.

The 0% starting rate tax band for savings income other than dividends (eg bank and building society interest) remains at £5,000. This tax band is only fully available where earned income (e.g. salary, benefits in kind, pensions, etc.) does not exceed the personal allowance, and it reduces to the extent that earned income does exceed the personal allowance. So, for example, if earned income is £13,000, the 0% starting rate for savings income reduces from £5,000 to £4,500. Also, this 0% tax band is not a true exemption as it uses up part of the basic rate tax band.

The trust rate, which applies to the income of discretionary and accumulation trusts above the standard rate band limit of £1,000, remains at 45% for 2019/20 and the dividend trust rate is 38.1%.

Couples where at least one of the spouses (or civil partners) was born before 6 April 1935 can still claim the old married couple's allowance. This allowance, which is relieved at 10%, is £8,915 for 2019/20. The income limit for the married couple's allowance is £29,600. If this limit is exceeded, the married couple's allowance is reduced by £1 for every £2 of excess income; but can never take the married couple's allowance down to a figure of less than £3,450.

Maximising the use of all of a couple's allowances, reliefs and exemptions – ideas for consideration

- Redistribute investment capital to a spouse with a lower income so that the income generated is taxed on them instead, to maximise effective use of any personal allowance, personal savings allowance and 0% savings band, dividend allowance, and basic rate tax band. No capital gains tax (CGT) or income tax liability will arise on transfers between married couples living together or where the asset to be transferred is an investment bond. However, any transfer must be done on a 'no-strings-attached' basis to ensure that the correct tax treatment applies. This means investments must be fully transferred with no entitlement retained by the transferor.
- Reallocate dividend income for couples who run their business through a company. Where they are planning to transfer shares to achieve this, it is important that any share transfers are made by way of an unconditional gift with full voting, capital and income rights – the transfer will not incur CGT where the couple are living together and married.
- Reinvest in tax-free investments, such as an ISA, so that taxable income is replaced with tax-free income.
- Reinvest in tax-efficient investments that generate no income and so will not contribute to the loss of the personal allowance, such as:
    - investment bonds from which a 5% tax-deferred withdrawal may be taken each year, for 20 years, without affecting the personal allowance calculation; or

- Unit trusts / OEICs geared to producing capital growth, but not where Unit trust / OEIC dividends are reinvested, or accumulation Unit trusts / OEICs, as the dividends still count as income and will affect the personal allowance even though they are not received by the investor. As for all financial planning, a careful balance needs to be struck between investment appropriateness and tax effectiveness. While performance through capital growth is obviously tax attractive, reliance on growth at the expense of income can introduce (possibly unacceptable) risk.

- Where possible, a couple should try to ensure that they both have pension plans that will provide an income stream in retirement that will enable them to use both their personal allowance.
- Individuals who are taking a pension under flexi-access drawdown should consider managing their taxable income to maximise the tax reliefs and allowances currently available, if they are not already doing so.

Where an individual's 'adjusted net income' for 2019/20 exceeds £100,000, the personal allowance of £12,500 is withdrawn at the rate of £1 for every £2 of excess income. Adjusted net income is defined as an individual's total income less:

- trading losses;
- allowable interest;
- pension contributions paid gross;
- the grossed up amount of pension contributions paid net; and
- the grossed up amount of Gift Aid donations.

The personal allowance is lost where adjusted net income for 2019/20 is £125,000 or above.

Reclaiming the personal allowance

Where it is earned income that is likely to take the individual into the £100,000 - £125,000 bracket they could consider reducing this by adopting one or both of the following strategies:

- starting, or increasing, the payment of regular monthly individual pension contributions, and topping up at the end of the tax year if required; or
- starting, or increasing, monthly regular pension contributions via a salary sacrifice arrangement, and topping up at the end of the tax year if required; or
- making charitable donations qualifying for gift aid.

The effective rate of tax in the £100,000 - £125,000 band of earned income is 60%. It may therefore be possible to obtain 60% tax relief on some pension contributions and charitable donations; even more with the National Insurance saving potentially available under a pension contribution via a salary sacrifice arrangement.

It's also useful to note that a taxpayer may treat a gift aid donation made in the tax

year ended 5 April 2020 (up to the date their tax return for 2018/19 is submitted) as paid in 2018/19, provided that their 2018/19 tax return is submitted to HMRC by the appropriate filing date (i.e. normally by 31 January 2020).

The 60% tax saving is based on:

- 20% basic rate tax relief at source on the pension contribution and / or gift aid payment;
- 20% higher rate tax relief on the pension contribution and / or gift aid payment through self-assessment;
- 20% reduction in income tax achieved through the return of the personal allowance.

The same result can also be achieved where a gross pension contribution reduces taxable income, eg an occupational pension contribution deducted from salary before tax, or an AVC to an occupational pension scheme. The 60% tax saving is based on tax relief being given at 40% under PAYE or through self-assessment, plus 20% from the reduction in income tax achieved through the return of the personal allowance.

By using salary exchange, it's possible to save nearly 67%, provided the employer passes the savings they've made in reduced National Insurance (NI) contributions on to the employee, by making a higher pension contribution.

Individuals who are married (or in a civil partnership) can transfer 10% of the standard personal allowance (£12,500 for 2019/20) to their spouse/civil partner provided neither is liable to income tax at the higher or additional rate (or the dividend equivalent).

Until last year, the legislation was drafted in such a way that the individual giving up part of their personal allowance and the other party who is entitled to the tax reduction had to be married to (or in a civil partnership with) one another at the time when the election is made, so could not apply if the spouse who would otherwise have been able to make the election was no longer alive. Elections can now be made by personal representatives on or after 29 November 2017, for any of the previous years during which the transferable marriage allowance rules were in force (2015/16 onwards) and the surviving spouse/civil partner could benefit from a tax reduction for those years.

2. National insurance (NI) contributions for 2019/20

For 2019/20, the starting point for the payment of Class 1 NI by employees rose to £166 per week (£8,632 per annum).

The lower earnings limit for 2019/20 went up to £118 per week (£6,136 per annum).

Earnings between the lower earnings limit and the primary threshold protect an entitlement to basic state retirement benefits without incurring a NI liability.

NI planning – ideas for consideration

Company directors should consider whether to take advantage of this rule for themselves and other family member employees, as should owners of unincorporated family businesses employing other family members.

The upper earnings limit for 2019/20 increased to £962 per week (£50,000 per annum). The Class 1 percentage for standard-rated employees remained at 12%.

Earnings in excess of the upper earnings limit are subject to a 2% charge on the employee.

The employer rate for 2019/20 remains at 13.8% on all earnings in excess of the 'secondary threshold' which is £166 per week (£8,632 per annum).

Class 4 NI is 9% on trading profits between £8,632 and £50,000; and is 2% on all profits above £50,000.

Employment Allowance

For 2019/20, eligible employers are able to reduce their employer Class 1 NI contributions by up to £3,000 for the tax year.

From 6 April 2020, access to this allowance will be restricted to employers with an annual NI liability of less than £100,000 (and where employers are connected, eg as part of a group, the threshold will apply to their aggregated liability). This will be based on the liability of the immediately preceding tax year. However, the vast majority of smaller businesses should continue to be eligible for the Employment Allowance.

NI Planning – ideas for consideration

One of the existing restrictions is that this relief cannot be claimed if the director is the only employee paid above the £8,632 threshold. However, if a company employs husband and wife directors where both earn above the £8,632 threshold, the employment allowance remains available. See HMRC's guide 'Single-director companies and Employment Allowance: further guidance'.

This means that they could, for example, both take a salary of £12,000, to potentially use their respective personal allowances and reduce their NI bill to £Nil by benefitting from the employment allowance.

3. Buy to let property

The 2019/20 tax year sees the amount of interest on a buy to let mortgage that can be set against rent cut from a half to a quarter, with a corresponding increase in the sum qualifying for a basic rate tax credit. From next tax year there will be no direct offset against rent and all interest paid will only qualify for a 20% tax credit. That is clearly bad news for a buy to let investor who is also a higher rate taxpayer.

Tax year	Mortgage interest deductible from rental income under the old system	Mortgage interest qualifying for 20% tax credit under the new system
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21 onwards	0%	100%

Many company directors will also personally own a buy to let property. If they structure their remuneration from their company as a combination of low salary and high dividends (to benefit from the personal allowance, the dividend allowance and the 7.5% basic rate on dividends, and avoid, or minimise, NI) they may not obtain the 20% tax credit available for interest paid on their buy to let property straight away.

This is because, in a tax year, relief for interest at 20% is only available on the lower of:

- The interest subject to restriction;
- The property income for the year (less losses brought forward); or
- Adjusted total income, being total income less savings income, dividend income and the personal allowance.

However, the position should correct itself in time, as the 20% credit is effectively carried forward.

4. Trading and property allowances

The allowances for trading and property income remain at £1,000 for 2019/20.

Individuals with income of this type which does not exceed their allowance do not have to declare and pay tax on such income. This eliminates the need for the recipients to determine their allowable expenses or to contact HMRC to notify them of the receipt of this income.

A partial relief applies where the individual's income is above the level of the allowance, so that the individual can elect to pay tax based on their receipts less the allowance, instead of deducting their actual expenditure.

Alternatively, an individual can elect not to be given full relief, so that the tax result will be calculated using income received less expenses incurred. This option is likely to be adopted where there is a loss and the income does not exceed £1,000.

5. Benefits in kind

Car benefits and salary sacrifice (optional remuneration arrangements)

Broadly, the optional remuneration arrangement rules operate by comparing the amount of earnings foregone (i.e. the salary sacrificed) with the amount which would normally be charged to tax by reference to the cash equivalent of the benefit involved and the employee is taxed on the higher figure.

Two anomalies have been corrected for 2019/20 onwards:

i. In the case of company cars, the amount foregone under an optional remuneration in respect of any connected benefits, (other than for the provision of a driver or for the provision of fuel, for which there are separate benefit in kind charges) such as insurance, road tax and servicing, represents a separate salary sacrifice.
ii. In calculating the cash equivalent of a company car, the deduction available for capital contributions by an employee (up to a maximum of £5,000) is to be reduced to take account of periods where a car is only available for part of a year.

Vehicle-battery charging at workplace

From 6 April 2018, if an employer provides battery charging facilities (including electricity) at or near an employee's workplace, for a vehicle used by the employee (including a vehicle used by the employee as a passenger), the employee is not subject to an income tax or NI benefit in kind charge. (This exemption was included in Finance Act 2019, and effectively backdated to 6 April 2018.) Note that the exemption does not extend to the reimbursement by employers of costs incurred by individuals when recharging vehicles away from the workplace (eg at a motorway service station). Company cars and vans were already exempt, as the relevant benefit in kind figure covers all vehicle-related costs.

Beneficiaries of employer-provided pension benefits

When an employer provides death-in-service benefits through a life assurance policy or offers retirement benefits through a qualifying relevant overseas pension scheme, the employee in question will usually name a beneficiary to receive any payment due on their death or to receive their retirement benefits.

Up to 5 April 2019, premiums paid into these schemes by the employer only represented a tax-free benefit for the employee if the named beneficiary was another employee or a member of the deceased employee's family or household (eg spouse, civil partner, parents, children, dependants, domestic staff and guests). For 2019/20 onwards, the exemption is extended to include **any** named individual as the preferred recipient, irrespective of their relationship to the employee. The extended exemption will also allow employees to nominate a registered charity.

6. Capital gains tax (CGT)

The annual CGT exemption for individuals and personal representatives increased by £300 to £12,000 for 2019/20. The exempt amount for most trusts is £6,000.

There were no changes to any of the CGT rates. Taxable capital gains are added to the investor's other taxable income to determine the rate of CGT they pay. To the extent they fall within their basic rate tax band they are taxed at 10%. To the extent they exceed it, they are taxed at 20%. Capital gains linked to residential property are, however, still taxed at 18% and 28% (as appropriate).

CGT planning – ideas for consideration

i. Use of the CGT annual exemption (which cannot be carried forward, so will otherwise be lost). If the annual exemption is not systematically used an individual is more likely to reach a point where some of his or her gains are subject to CGT.
In using the CGT annual exemption, unfortunately a gain cannot simply be crystallised by selling and then repurchasing an investment – the so-called bed-and-breakfast planning - as the disposer must not personally reacquire the same investment within 30 days of disposal. However, there are other ways of achieving similar results, such as by acquiring the same investments within an ISA or a SIPP, or similar investments with a fund, or by one spouse selling an investment and the other spouse separately buying the same investment.

ii. Use of planning strategies by married couples/civil partners, by, for example an individual, who is a higher or additional rate taxpayer, transferring assets (by an outright and unconditional lifetime transfer) into their spouse's name to utilise that spouse's annual exemption on subsequent disposal. This will mean that, between them, the spouses can realise capital gains of £24,000 each year with no CGT. (In transactions which involve the transfer of an asset showing a loss to a spouse who owns other assets showing a gain, care should be taken not to fall foul of the CGT anti-avoidance rules that apply - money or assets must not return to the original owner of the asset showing the loss).

iii. Use pension contributions to reduce the tax on the capital gain – either whereby the basic rate tax band is increased by a grossed up pension contribution, eg a personal pension contribution where tax relief is given at source, or whereby a pension contribution paid gross reduces taxable income, thereby freeing up some of the basic rate tax band, eg an occupational pension contribution deducted from salary before tax or an AVC to an occupational pension scheme.

iv. CGT deferral - it may be worthwhile, if possible, spreading a disposal across two tax years to enable use to be made of two annual exemptions. However, if deferring a disposal, it should also be borne in mind that from 6

April 2020, a return in respect of the disposal of a residential property made by a UK resident will need to be delivered to HMRC within 30 days following the completion of the disposal, and a payment on account will have to be made at the same time.

Three CGT changes affecting residential property

i. Any CGT on residential property will become payable within 30 days of a sale, if that occurs on or after 6 April 2020. The payment will need to be accompanied by an interim tax return.

ii. From 6 April 2020, the period during which an individual can own two homes as main residences with neither of them being liable to CGT will be reduced in most circumstances from the current 18 months to just nine months.

iii. Also, from 6 April 2020, letting relief, which exempts up to £40,000 of a gain from CGT if a main residence is let, will only apply if the owner remains in the property while it is let.

Note that the 36-month exemption is being retained for:

- a property owner who is in, or moving into, a care home as a long-term resident; and
- a property owner who is disabled.

CGT planning

Affected individuals may want to rearrange their affairs, eg by selling their property under the current rules.

CGT changes for non-UK residents

With effect from 6 April 2019, the CGT charge has been extended to all non-UK residents (with very limited exceptions) and to take in all forms of UK property (i.e. commercial as well as residential) as well as entities such as shares which, directly or indirectly, derive at least 75% of their value from UK property interests.

The 30-day deadline for submitting returns and making CGT payments on account applies from 6 April 2019 for all non-UK residents who directly or indirectly dispose of UK commercial or residential property, whereas the equivalent provision for UK residents applies from 6 April 2020 (and only applies to residential property.)

Entrepreneurs' relief

The 2018 Budget included two significant announcements in respect of entrepreneurs' relief:
(i) for disposals of shares taking place on or after 29 October 2018, an individual, as an additional measure, must be entitled to at least 5% of the company's distributable profits and, in a winding up, must have an entitlement to at least 5% of the company's assets; and
(ii) with effect from 6 April 2019, the minimum period throughout which the various qualifying conditions must be satisfied in order for the relief to be available is being doubled from one year to two years.

On 21 December 2018, an amendment to what is now the 2019 Finance Act, added an alternative 'economic' test to the CGT definition of 'personal company', based on the shareholder's entitlement to proceeds in the event of a hypothetical sale of the whole company. The question being asked by this alternative test is whether it is reasonable to suppose that, if the whole of the ordinary share capital of the company were to be sold for its market value on the date of the shareholder's actual disposal, he or she would be entitled to at least 5% of the proceeds. If this question can be answered 'yes' then entrepreneurs' relief should normally be available.

This economic' test should be effective in restoring entrepreneurs' relief for companies with alphabet share structures, i.e. share structures which involve more than one class of capital, such as 'A', 'B' and 'C' shares, certainly in the common situation of a private company where genuine co-owners use alphabet shares to maintain flexibility in allocating profits on a year-by-year basis without affecting the underlying equity ownership of the company. Otherwise where the proportion of the dividend paid which is allocated to any particular share class is completely discretionary (and could therefore be anything from zero to 100%), it would have been difficult to see how the holder of, say, the 'A' shares is *entitled* to any percentage of the profits available for distribution.

In other scenarios, such as where venture capital investment is involved or where there are growth shares, it will still be necessary for advisers to take extra care when examining the precise impact of the arrangements in question.

Also, note the added complication that the original 'economic' tests took effect from 29 October 2018 onwards, whereas the new hypothetical sale test only applies from 21 December 2018.

Entrepreneurs' relief and incorporations

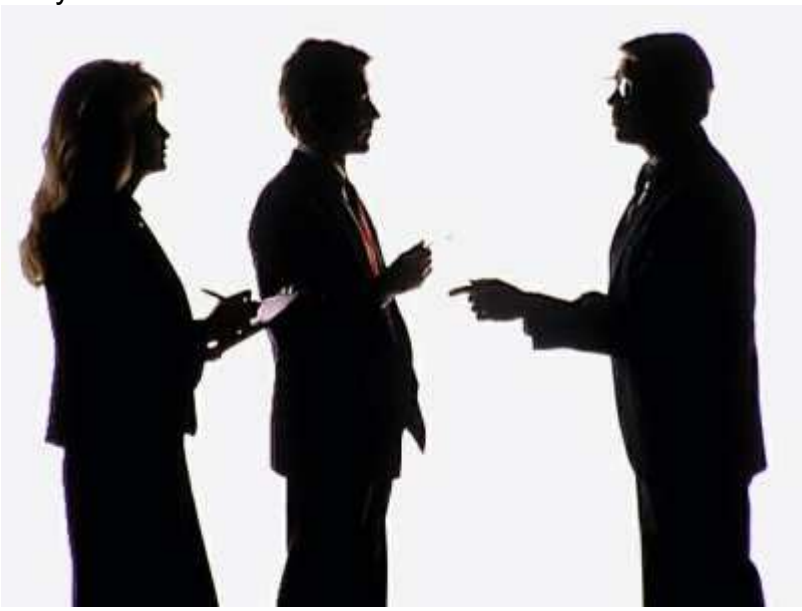
For share sales taking place on or after 6 April 2019, a taxpayer can now include in the qualifying entrepreneurs' relief period of 24 months both the period when they carried on their sole trader (or partnership) business and the post-incorporation period. Note that this aggregation rule only applies where the sole trader (or partnership) has incorporated under S162 TCGA 1992. This means that the whole of the assets of the trade (other than cash) must have been transferred as a going concern in return for an issue of shares in the company.

7. Inheritance tax (IHT)

Whilst the residence nil rate band of £150,000 per person from 2019/20, rising to £175,000 per person (from 2020/21) may provide some respite from potential IHT liabilities remember that:

- this only applies on deaths occurring after 5 April 2017;
- it will not help people whose estate exceeds £2.35 million (£2.7 million on the second death).

The IHT nil rate band will remain frozen at £325,000 until April 2021, increasing the amount of IHT collected by HMRC to substantial levels, particularly as house prices and investment values increase. People whose estates may be affected should therefore take early action.



Changes to the IHT residence nil rate band

Any unused residence nil rate band can be transferred to a surviving spouse (or civil partner) who meets the relevant requirements. The residence nil rate band is also available where a person downsizes their residence or ceases to own a home on or after 8 July 2015, provided the former home would have qualified for the residence nil rate band had it still been owned. In this situation, assets of an equivalent value, up to the limit of the relevant residence nil rate band, can be passed on death to one or more direct descendants on a tax-free basis.

Finance Act 2019 made amendments to the residence nil rate band, with the key change clarifying the operation of the downsizing provisions. Unfortunately, the new legislation, which applies to deaths occurring on or after 30 October 2018, is less favourable to taxpayers than the old rules. Until 29 October 2018, only the value of the qualifying residential interest comprised in the deceased's estate which is part of the chargeable transfer was counted in the calculation, whereas, after that date, the value of the qualifying residential interest comprised in the deceased's estate which is both chargeable **and** exempt has to be considered. An example of where this is relevant is where a residential property passes equally on death to a surviving spouse (i.e. an

exempt transfer) and to a direct descendant such as a son or daughter (i.e. a chargeable transfer).

It has been reported by some tax commentators that HMRC had been using this method of calculation for deaths occurring on or before 29 October 2018. If so, then some death estates will have been overcharged IHT.

IHT planning - ideas for consideration

Individuals who wish to transfer wealth on to the next generation should consider making full use of their £3,000 annual exemption. If this was not fully used in the last tax year (2018/19), it can be used now provided the donor first fully uses their annual exemption for this tax year (2019/20). So, for somebody who has made no gifts, they can make gifts of £6,000 within their annual exemptions now.

For those who have income that is surplus to their needs, it may also be appropriate to establish arrangements whereby regular gifts can be made out of income in order to utilise the normal expenditure out of income exemption. An ideal way of achieving this is to pay premiums into a whole of life policy in trust to provide for any IHT liability.

Larger gifts could also be considered. Where ongoing control of the assets gifted is required, a discretionary trust will be useful, but care needs to be exercised so as not to exceed the available nil rate band. If the investor needs access to cash from the trust and IHT efficiency, a loan trust or discounted gift trust should be considered.

It may be worth revisiting IHT calculations for deaths occurring on or before 29 October 2018 to check if the correct method was used by HMRC in relation to the residence nil rate band.

8. Stamp Duty Land Tax (SDLT)

The 2019/20 rates of SDLT applying to residential property in England and Northern Ireland are as follows:

On slice of value	Rate
£125,000 or less§	Nil
£125,001 to £250,000§	2%
£250,001 to £925,000§*	5%
£925,001 to £1,500,000*	10%
Over £1,500,000*	12%
*15% for purchases over £500,000 by certain non-natural persons. §For first-time buyers of property up to £500,000 there is no SDLT on the first £300,000. All rates increased by 3% for purchase of additional residential property if value is £40,000 or more.	

First-time buyers' relief (FTBR) applies to purchases of dwellings for £500,000 or less, provided the purchaser has never owned a property and intends to occupy the property as their only or main residence. Under the relief, such purchasers are not liable to SDLT on transactions valued at £300,000 or less. On transactions valued at more than £300,000 but less than £500,000, they are liable to pay 5% SDLT on the portion over £300,000.

Originally, first-time buyers were only eligible for the relief in connection with their participation in a shared ownership scheme if they made an election to pay SDLT on the full market value of the property. However, an amendment was included in the 2019 Finance Act to extend the relief to purchases where the first-time buyer does **not** make a market value election on the initial transaction. This applies where the relevant shared ownership purchase is completed on or after 29 October 2018. Also, first-time buyers who acquired a property via a shared ownership scheme before 29 October 2018 can claim a repayment of overpaid SDLT as if the new rules had been in place at the time of the introduction of the relief. A repayment claim can be made up to 29 October 2019.

FTBR applies to purchases in England and Northern Ireland. Different rules apply in Scotland and in Wales:

In Scotland, Land and Buildings Transaction Tax (LBTT) replaced Stamp Duty Land Tax in April 2015. More details on Scotland's LBTT, including rates, bands and online calculators, can be found here. The Scottish parliament introduced a similar reduction to FTBR for first-time buyers, 'Land and Buildings Transaction Tax First-Time Buyer Relief' from 30 June 2018. More details on LBTT(First-Time Buyer Relief) can be found here;

In Wales FTBR only applied up until Land Transactions Tax (LTT) replaced SDLT for transactions in Wales from 1 April 2018. More details on LTT, including tax rates and tax bands, can be found here.

As with SDLT in England and Northern Ireland, there is a 3% surcharge on the purchase of additional residential properties, such as buy-to-let properties and second homes, of £40,000 or more in Scotland and in Wales.

The Government published a consultation in February 2019 on the introduction of a 1% SDLT surcharge for non-UK resident individuals, companies and trusts who buy residential property in England and Northern Ireland.

9. Pensions

The lifetime allowance increased to £1,055,000 for 2019/20.

Whilst this is the only change, maximising pension tax relief should feature prominently in planning at any time of year.

Pension tax relief is restricted in a number of ways:

- The annual allowance is the maximum amount of pension savings that can be made in the tax year before a charge applies. Pensions savings consist of personal, employer and third-party contributions to pensions schemes and the increase in value of any defined benefit pensions. If the annual allowance is exceeded, then there is a tax charge of your marginal rate(s) of income tax. It is important to note that for personal contributions, any higher or additional rate tax relief should be reclaimed even if the annual allowance is breached. The tax charge for breaching the annual allowance is stand alone.

  However, unused annual allowances from the three previous tax years can be carried forward and added to the current tax year's annual allowance which can help to reduce or remove any tax charge that would have been applicable.

  For higher earners the annual allowance may be reduced to as low as £10,000 if their "adjusted income" is in excess of £210,000. Tapering only applies to those with a "threshold income" of more than £110,000 and an "adjusted income" of more than £150,000.

  Care needs to be taken when calculating these figures and it should be noted that an individual's "adjusted income" will often be a much higher figure than their "adjusted net income" for the personal allowance calculation mentioned earlier. Adjusted income for the tapered annual allowance includes employer pension contributions, and no deduction can be made for personal pension contributions or charitable donations.

- A lifetime allowance charge will apply when the value of an individual's benefits exceeds their available lifetime allowance following a benefit crystallisation event (BCE), eg when they buy an annuity, move into drawdown, start to receive a scheme pension, take tax free cash, and so on.

- A money purchase annual allowance of £4,000 applies from the day after a trigger event, such as flexibly accessing a pension, and once triggered it applies for the rest of the tax year and for each subsequent year. The remainder of the standard annual allowance mentioned above can then only be used to accrue defined benefits.

i. The annual allowance and carry forward

The payment of contributions to maximise the current tax year's annual allowance and to make full use of carry forward is an important consideration for higher and additional rate taxpayers.

Any pension savings in excess of the annual allowance will be subject to the annual allowance charge. However, provided the individual has been a member (even if no contributions were made) of a pension scheme for the previous three tax years pension contributions can be paid in the current tax year to use up any unused allowance from the previous three tax years. This year's annual allowance will be used first and then the oldest available of the three years.

In order to receive tax relief on personal contributions the member will need to have UK relevant earnings (basically earned income) in the tax year to support them.

Any unused annual allowance for 2016/17 will be lost if it isn't used by the end of the 2019/20 tax year.

Another good reason for maximising pension contributions is the risk that the current, or a future, Government will at some point announce a reduction or removal of tax relief on pensions.

ii. The tapered annual allowance

Since 6 April 2016, where an individual has threshold income of more than £110,000 and adjusted income of more than £150,000, their annual allowance is reduced by £1 for every £2 of excess income, up to a maximum reduction of £30,000. An individual with income of £210,000 or more will only have an annual allowance of £10,000. Any contributions in excess of this will be subject to the annual allowance charge. The annual allowance charge is a stand-alone tax charge but the purpose of it is to remove the tax relief benefit that the contribution will have received.

For these purposes the test is to see if an individual's adjusted income exceeds £150,000. Adjusted income is their net income (before deducting individual pension contributions or gift aid) and includes the value of any employer pension contributions.

It will therefore be apparent that a person may be subject to these provisions if, for example, he or she has income of £130,000 and a pension provision of more than £20,000 is made for him or her via an employer contribution in a particular tax year.

This could cause some concern for people who have income that hovers around £110,000 whose employers intend to make substantial pension provision – possibly by paying a contribution to make use of the unused relief for previous tax years.

To cover such situations, the rules provide that for the taper to apply the individual must have a threshold income of at least £110,000. An individual whose income falls below the threshold income level will not be subject to the tapering provisions. Individual pension contributions (not employer) can be deducted to determine threshold income (although salary sacrifice arrangements set up after 8 July 2015 will be caught as will earlier salary sacrifice arrangements that require the individual to make an annual declaration).

For those affected, the impact of the annual allowance charge (likely to be 45% for those impacted by tapering) together with income tax on benefit withdrawals of up to 45%, can result in a very high effective rate of income tax.

For previous tax years these taxpayers could have been entitled to higher annual allowances depending on their income levels and the tax year. This could mean that individuals caught by the taper could pay the maximum for 2019/20 and then make contributions in respect of unused relief from earlier tax years.

However, as the tapered annual allowance enters its fourth tax year this planning has gradually become less useful and high earners may now see all three previous tax years subject to tapering. This can mean that even for someone who hasn't made any contributions in this or the three previous tax years, the maximum allowance this year could be as little as £40,000 in total. That is, a tapered £10,000 allowance for 2019/20 plus tapered £10,000 allowances carried forward from each of the previous three tax years.

Whilst individuals need to know their net income, threshold Income, adjusted income and their pension input to carry out effective planning, which are often not known until near or even beyond the end of the tax year, subject to not exceeding the lifetime allowance (see (iii) below) it still makes sense for individuals who think they will be affected by the tapered annual allowance to:

- pay the maximum contribution for this tax year, which although dependent on their threshold and adjusted income in 2019/20, will not be less than £10,000; and
- pay a contribution in respect of any carried forward annual allowance for the tax year 2016/17. There may also be some allowance available to carry forward from 2017/18 and 2018/19 if either, or both, of those year's contributions were less than any tapered allowance.

Also, an individual caught by the tapered annual allowance may be able to use carry forward to make a large enough personal pension contribution to reduce their threshold income for this tax year below £110,000 and thereby restore their annual allowance to £40,000 for 2019/20.

iii. Lifetime allowance

Individuals who are, or are likely to be, affected by the reduction in the lifetime allowance from £1.25 million to £1 million which applied from 6 April 2016 will need to consider what action they should take.

Action may still be possible to preserve a higher entitlement for those people who have not paid any further contributions since 5 April 2016 - Fixed Protection 2016 - or for those who have paid, or plan to pay contributions, after 5 April 2016 - Individual Protection 2016. However, those applying for Individual Protection 2016 need to have had pension benefits worth at least £1 million as at 5 April 2016.

Whilst there isn't a deadline, apart from the requirement to make an application before drawing pension benefits, as schemes only have a statutory duty to provide 5 April 2016 values up to 5 April 2020 this may result in an effective deadline to apply for Individual Protection 2016 for many individuals.

There is no longer any value in applying for Individual Protection 2016 for individuals whose fund value was greater than £1 million but less than £1.055 million.

Although the increase in the lifetime allowance is relatively small it could be taken as an indication that the Government doesn't intend to reduce it any further and that they will continue to uplift it in line with inflation. However, people who have pension benefits some way short of £1.055 million, but who have some years to retirement over which reasonable investment growth, could still be caught by a lifetime allowance charge.

A lifetime allowance charge could also apply to those with pensions that commenced pre-6 April 2006, who have since that date taken out further pension arrangements that have yet to be tested against the lifetime allowance.

Some individuals may be better off waiting until after 5 April 2020 to vest their pension benefits. It's important to consider where the pension fund is likely to be at the point of crystallising (or other BCE event).

Where people feel that they do not want to make further provision via a registered pension scheme because of the imposition of the lifetime allowance, but still need to save for retirement, they could consider using tax-efficient investments outside of a pension wrapper. Savings such as ISAs, collectives and investment bonds should all be considered.

iv. People affected by the Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) reduced from £10,000 to £4,000 with effect from 6 April 2017. The MPAA is triggered by one of a list of events, for example drawing income under flexi-access drawdown, taking an uncrystallised funds pension lump sum (UFPLS), establishing a scheme pension from a SSAS or by purchasing a flexible annuity.

The restriction does not apply to all people. For example, it does not apply to:

- those who only draw tax free cash from their pension;
- those who draw benefits in the form of an annuity;
- those who can draw benefits by encashing small pension pots of up to £10,000 each; or
- those who are in (pre-6 April 2015) capped drawdown arrangements.

The reduction in the MPAA to £4,000 further disadvantages people who take benefits at an early age. Many of these people will find it difficult to rebuild their pension funds and may need to look at making tax-efficient investments outside of a pension wrapper.

Pension planning for family members

Individuals should consider making a net pension contribution of up to £2,880 (£3,600 gross) each year for members of their family, including children and grandchildren, who do not have relevant UK earnings.

The £720 basic rate tax relief added by the Government each year is a significant benefit and the earlier that pension contributions are started the more they benefit from compounded tax-free returns.