TAX RELIEF ON PENSION CONTRIBUTIONS - POTENTIAL CHANGES

George Osbourne announced in the emergency budget in July 2015 that the government will be cutting the Annual Allowance for those earning over £150,000 from £40,000 per year to £10,000, using a sliding scale.

From April 2016, high earners will have their Annual Allowance reduced by £1 for every £2 of adjusted net income above £150,000, down to a minimum of £10,000.

Since the announcement in July, pension providers have reported a sharp increase in the number of contributions. AJ Bell, a pension provider, said 86 percent of advisers at a recent conference it had hosted said they were advising clients to maximise pension contributions in anticipation of further restrictions.

There is much speculation that the Chancellor will scrap the current system in the March Budget (set for 16th March) where you claim tax relief at the rate you pay income tax on their pension contributions - whether that be 45, 40 or 20 per cent. Instead George Osbourne is tipped to replace this with a single-rate incentive for pension saving, set between 25 and 33 per cent. This would make pension saving more appealing to basic rate taxpayers but less attractive for those paying the higher and additional rates.

The Chancellor has also been considering a more radical option of taxing pensions more along the lines of ISAs, where contributions to your pension would be made out of taxed income, but the investment growth, and income, when ultimately taken at retirement are tax free.

Both of the major reforms being considered would lead to higher earners expecting to receive less generous tax treatment of pension contributions in the future. Therefore, they might plausibly respond by bringing forward their future pension contributions in order to qualify for more generous tax treatment while they still can.

Currently, there is an opportunity for savers to pay up to £180,000 into a pension in the current tax year under the carry forward rules. This does, of course, depend on the amount of unused Annual Allowance from the three previous tax years, any contributions made during the current year and providing that there is sufficient earned income. Professional advice should be sought before making any additional contributions as charges can arise where contributions are in excess of an individual's Annual Allowance (refer to our factsheet on the Annual Allowance changes).