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Newnham & Son
ACCOUNTANCY AND TAXATION SERVICES

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Limits on pension contributions

Higher earners are now subject to tight limits on how much they can pay into tax-relieved pension schemes and it is essential to take care to avoid a substantial extra tax charge. With the tax year coming to an end, this is a good time to review your pension planning.

The annual allowance effectively limits pension contributions. The allowance is normally £40,000 if your 'adjusted income' is £150,000 or less, but is tapered down – by £1 for each £2 of income – to £10,000 for income of £210,000 or more. Adjusted income consists of all your taxable income before personal allowances, plus the value of certain pension contributions during the tax year, including employer contributions.

If the input into your pension schemes is greater than the annual allowance, you may have to pay tax at your marginal rate on the excess. You also will not receive tax relief on any contributions you make over the allowance.

Tapering the annual allowance started in 2016/17. The allowance was £50,000 in 2013/14, £40,000 in 2014/15 and £40,000 in 2015/16. Any unused allowance can normally be carried forward for up to three years. You can only use annual allowance from earlier years after you have used the current year's annual allowance. So, for example, if your annual allowance for 2016/17 is £10,000 and you have £20,000 unused allowance from 2013/14, you would have to pay £30,000 by 5 April 2017 to use up all the 2013/14 allowance.

Another tax charge – at 25% or 55% – may arise if the value of your pension benefits is greater than the lifetime allowance, now £1 million, when you draw benefits. You need to plan ahead now to avoid it.

The last Autumn Statement

The replacement of George Osborne as Chancellor by Philip Hammond has not brought about a significant change in tax policy, although it has heralded the end of Autumn Statements.

In his first, and last, Autmn Statement Mr Hammond confirmed that corporation tax would be reduced to 17% in 2020, with a 19% rate from 1 April 2017. He also confirmed that the tax and national insurance advantages of most salary sacrifice schemes would be removed from April 2017, except for arrangements relating to pensions (including advice), childcare, cycle to work schemes and ultra-low emission cars. Arrangements in place before April 2017 will be protected until April 2018, and in some cases until April 2021.

One matter that attracted some attention was the confirmation that termination payments to employees of over £30,000, which are subject to income tax, would also be subject to employer's national insurance contributions. The government confirmed that tax would only be applied to the equivalent of an employee's basic pay if they have not worked their notice. The first £30,000 of a termination payment will normally remain exempt from income tax and NICs.

A new announcement was the reduction in the pensions money purchase annual allowance (MPAA) from £10,000 to £4,000. Individuals who have drawn any income benefits under the pension flexibility rules are subject to a reduced annual allowance if they continue to pay into a pension scheme.

There may be some exemptions to the reduced allowance following consultation. If you need any help or advice then please get in touch with us. We are here to help.

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An update on Making Tax Digital

The government's Making Tax Digital (MTD) initiative has been very controversial.

From 2018, the self-employed and landlords will need to use software or apps to keep their business records, and to update HM Revenue & Customs on a quarterly basis – even though the due dates for paying tax will not change.

Implementing MTD will be a major challenge if you currently keep your records on paper or use spreadsheets, and you will only be exempt from MTD if your annual turnover or income is below £10,000.

The government has promised to publish its response to the MTD consultations in January 2017, and we will of course keep you informed.

Advisory fuel rates – petrol rises

The latest update to HM Revenue & Customs' (HMRC) advisory fuel rates sees a couple of 1p increases to the petrol rates, with all diesel and LPG rates unchanged:

Engine size	Petrol	Diesel	LPG
1,400cc or less	11p	9p	7p
1,401cc to 1,600cc	14p	9p	9p
1,601cc to 2,000cc	14p	11p	9p
Over 2000cc	21p	13p	13p

HMRC's rates can be used where an employee pays for fuel in a company car and is reimbursed for business mileage.

They can also be used where the company pays for fuel and the cost of private travel is reimbursed by an employee – avoiding a taxable fuel benefit.

A round-up of payroll

If you are not using HM Revenue & Custom's (HMRC) payrolling benefits in kind service for 2016/17, you need to register online before 5 April 2017 if you want to use it for 2017/18.

It is advisable to register as soon as possible. You can choose which benefits to payroll and any employee who does not want their benefits to be payrolled can be excluded.

Three-day grace period

HMRC can charge you penalties on a monthly basis if your real time PAYE submissions are late. There is no penalty for the first month in a tax year for which you make a late submission, but after that there may be a monthly late filing penalty depending on how many employees you have. By concession, HMRC has until now given you an extra three days to make submissions before a penalty is applied. However, this three-day grace period is due to end on 5 April 2017.

Automatic enrolment penalties

The Pensions Regulator has reported a huge rise in the number of fines for not complying with automatic enrolment requirements. That is perhaps not surprising given that it is now the turn of smaller employers to enrol their employees.

Penalties can be substantial, with even the very smallest of employers facing a daily penalty of £50 if they ignore a 28-day warning notice.

Illness or being short-staffed are not accepted as reasonable excuses for non-compliance. We can help with any queries.

Voluntary contributions to your pension

The full amount of state pension for those retiring after 5 April 2016 is currently £155.65 a week, and it is generally an improvement over the old basic state pension.

You must have made 35 qualifying years of national insurance contributions (NICs), but there is a big catch. If you have been in 'contracted out' employment, this will result in a deduction from the full pension.

There is an attractive option for those retiring early, say, at 60. The idea is that you can pay voluntary class 3 contributions for the years between retirement and reaching state pension age, reducing the amount of deduction. The current cost for each year of voluntary contributions may seem high at £733, but this could add £231 a year to your pension – not a bad return if you live well into your eighties or nineties.

Unfortunately, the new state pension is not paid to those who retired before 6 April 2016. Such pensioners have been given the chance to top up their pension entitlement by up to £25 a week, but the take-up has so far been way below government expectations. If you wish to purchase a top-up, you only have until 5 April 2017 to do so.

The extra income is for life, is inflation-proofed and, in most cases, your surviving spouse or civil partner will inherit between 50% and 100% of the income following your death. Advice is essential, so please do get in touch.