The latest Finance Bill (2015/16) contains new rules on the reduced annual allowance for high earners. However, the consequential changes affect everyone.

The introduction of the tapered annual allowance for higher earners has brought together a link between earnings in a tax year and the annual allowance which previously did not exist. Therefore, for the changes to work, the government has announced alignment of all Pension Input Periods with the tax year from April 2016.

As we explain below, with multiple pension input periods in 2015/16, to protect any pension savings made before the budget from retrospective charges there has been a need to increase the annual allowances available this year.

So how does the transitional provisions work?

- All Pension Input Periods open on 8th July 2015 ended on 8th July 2015. The next pension input period for all pensions will be 9th July 2015 to 5th April 2016.

- This means that all existing pension arrangements, in force on 8th July 2015, will have two or three mini pension input periods (mini tax periods) ending in the tax year 2015-16, dependant on the start date of the open pension input period.

- The period from the start of a schemes PIP to the 8th July 2015 is called the "pre-alignment tax year". The period from the 9th July 2015 to the 5th April 2016 is called the "post-alignment tax year".

- The pre-alignment tax year has an £80,000 annual allowance (plus any carry forward from 12/13, 13/14, 14/15).

- The post-alignment tax year will have a nil annual allowance, but the unused balance of the pre-alignment annual allowance, up to a maximum of £40,000, can be carried forward to the post-alignment period, assuming they were a member of a registered pension scheme during the pre-alignment period and had not triggered the MPAA. The post-alignment tax year can also utilise the unused carry forward allowance from 12/13, 13/14, 14/15 that has not already been used in the pre-alignment tax year.

- New arrangements that have their first PIP starting on or after 9th July 2015 and on or before 5th April 2016, the pension input period will start on the normal commencement day and will end on the 5th April 2016 and have an annual allowance of £40,000.

- Although the concept of PIP will remain at present, the government will consider if they can at a later stage remove the concept of PIP’s altogether. It is no longer possible to vary PIP’s.
Calculating the pension input amount (PIA) for 2015-16

For Defined Contribution arrangements that are subject to the transitional provisions the PIA for each mini tax year (pre and post alignment) will be the total of all releivable contributions in respect of that member in a pension input period ending in the mini tax year. Just as we would expect.

For Defined Benefit schemes and cash balance arrangements that are subject to the transitional provisions special rules will apply for the mini tax years in 2015-16.

The pension input amount for the pre and post-alignment tax years will be a proportion of the pension input amount calculated as if both the pre and post alignment contributions had been made in a single pension input period, this is called the "combined period". As the combined period will be at least 12 months and possibly longer, there have been two changes made to the normal DB pension input amount calculation.

In a normal DB PIA calculation we would normally uprate the opening value of the benefits by the CPI increase for the year to September in the tax year prior to the year the PIP ended (for PIPs ending in 2015/16 this would be to September 2014 – 1.2%). However, for the combined period this has been uprated to 2.5% to ensure that nobody is penalised by the extended combined period.

Similarly for the purpose of calculating the relevant percentage used to work out if a deferred member benefit needs to be included in the AA calculation (the "deferred member carve out"), the 2.5% rate rather than the standard CPI figure should be used. Further details on the special rules that apply to individuals who become deferred members during the combined period are available within HMRC – Pensions: Transitional provisional provisions for aligning pension input periods – Technical note.

The pension input amount for the post-alignment tax year will therefore be the proportion of the pension input amount for the combined period that related to the 272 days from 9th July 2015 to 5th April 2016.

Post-alignment pension input amount = the pension input amount for the combined period x 272/D.

Where D is the number of days in the combined period (which will vary from scheme to scheme dependant of the schemes pre budget PIP start date).

The pension input amount for the pre-alignment tax year will be the pension input amount for the combined period less the proportioned post alignment pension input amount (as calculated above).

Paying any annual allowance charge for 2015-16

An individual's annual allowance charge for 15/16 will be the total of any charge arising for either the pre-alignment tax year or the post-alignment tax year, or both. They should not be reported separately. Any charge for 2015/16 should be reported as usual in the 2015/16 self-assessment return.

Carry Forward

Carry forward will continue to apply as currently. However, special rules will apply for the 2015/16 tax year, due to this encompassing two mini tax years.

For contributions in excess of £80,000 in the pre-alignment tax year, carry forward will be available for any unused annual allowance from 12/13, 13/14, 14/15.

This could be significant for members who made contributions in excess of £40,000 in the period prior to the budget, thinking that the excess contributions were using up the unused annual allowance from 12/13. Now, due to the transitional arrangements, the excess contributions will use up the pre-alignment £80,000 annual allowance first, leaving the unused allowance from 12/13 unused. Where the aim of prior planning was to use this unused allowance, further contributions will be required, where possible. This opportunity must be utilised prior to 5th April as on the 6th April the 12/13 unused allowance falls out of the three previous PIP's and is lost, forever.

For the post-alignment tax year, carry forward will also be available for any unused annual allowance from these same tax years (12/13, 13/14, 14/15) and anything unused from the pre-alignment tax year. There is a slight twist on the existing rules – instead of going back to the earliest tax year first and working forward using up the unused amounts as we go, we first use up anything remaining from the pre-alignment year before going back to 12/13. Any unused allowance from the pre-alignment year is capped at £40,000.

For the three tax years after 2015-16, carry forward will be available as follows:

It should be noted that we carry forward unused allowances that have not been used up so don't forget any post-alignment inputs in these future years.

Those people who have never been members of a registered pension scheme who join will have a £40,000 annual allowance and everything will work as normal. As always, you should join a scheme at the first opportunity to open the door for carry forward use in future years, perhaps important for high earners who will have a reduced allowance in future.

<table>
<thead>
<tr>
<th>2016-17</th>
<th>2013/14, 2014/15 and the prealignment tax year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>2014/15, the pre-alignment tax year and 2016/17</td>
</tr>
<tr>
<td>2018-19</td>
<td>pre-alignment tax year, 2016/17, 2017/18</td>
</tr>
</tbody>
</table>
Post alignment annual allowance calculation process

The process for determining how much can be paid in the post-alignment tax year (assuming the MPAA has not been triggered) without incurring an annual allowance charge is:

**Step 1** – £80,000 less the pre-alignment contribution (excess above £80,000 will use up any unused carry forward allowances for the 12/13, 13/14, 14/15 tax years – if insufficient unused carry forward available then an annual allowance charge will apply to the excess) = the pre-alignment unused annual allowance.

**Step 2** – The post-alignment annual allowance will be the pre-alignment unused annual allowance in step one, limited to a maximum of £40,000.

**Step 3** – If there is any remaining unused allowances from 12/13, 13/14, 14/15 not utilised in step 1 (and using the earliest tax year first) these can be added to the post-alignment annual allowance.

**Step 4** – Make the required contribution before the end of the 15/16 tax year.

Flexibly accessed benefits

Where benefits have been flexibly accessed there are slightly different rules. The MPAA is doubled up to £20,000 and the alternate annual allowance to £60,000.

Carry forward works in broadly the same manner for the alternate annual allowance. For the MPAA the post alignment amount will be the balance of £20,000 unused pre-alignment with a £10,000 cap. We will leave this for another day.

Advice opportunities?

As Nido Qubein said, "With change comes opportunity" – if this is true, where is that opportunity...

Increased contributions in the post-alignment tax year.

The post-alignment tax year will have a nil annual allowance, assuming the member was a member of any scheme pre-budget. Where this applies, the unused balance of the pre-alignment annual allowance, up to a maximum of £40,000, can be carried forward to the post-alignment period. Assuming the MPAA does not apply. This may give the unexpected opportunity for increased contributions in the post-alignment tax year for many clients. Don't forget about the regular contributors:

**Example**

Sheila has a pension where the PIP ran between tax years and was paying £3,333.33 monthly from 6th April 2015, to use up her AA for the year (she had no carry forward available).

So prior to the budget, she had paid in a total of £13,333.33 into her pension. This £13,333.33 means that Sheila has £66,666.67 of the pre-alignment annual allowance remaining, £40,000 of which she can carry forward to the post-alignment tax year. Therefore, Sheila can increase her regular monthly premium to £5,000 from 6th August 2015 until the end of the tax year. If Sheila increases the regular contribution she will need to remember and reduce it back to £3333.33 at the start of the new tax year, alternatively she could keep her regular contributions at £3,333.33 and make an extra single contribution of £13333 before the end of the tax year.

Making sure the 2012/13 unused carry forward allowance is not lost.

Members who thought they had used up their 2012/13 unused carry forward allowance by making excess contributions prior to the budget, may find that, as their excess contributions have actually been applied against the transitional pre-alignment annual allowance and they now have the opportunity to have a second bite at the carry forward cherry and make further contributions in the post-alignment tax year to use up these unused allowances, before they are lost.

**Example**

Ian’s saving in the pre-aligned tax year was £61,000 as he was planning on mopping up £21,000 of unused annual allowance from the 12/13 tax year.

His annual allowance for the post-alignment tax year is therefore £19,000 (£80,000 less £61,000) plus the £21,000 unused from the 12/13 tax year (as the £21,000 that he thought was mopping up the 12/13 unused annual allowance has now been set against the pre-alignment annual allowance, freeing this unused annual allowance for him to use post-alignment). Therefore, he can contribute further £40,000 in the post-alignment tax year without incurring an annual allowance charge making his total contribution £101,000. He could of course contribute more if he has any unused annual allowance for 13/14, 14/15, but they will keep until the next tax year as they are not in danger of falling off the edge of the 3 year carry forward period.

Join for the first time

As always, people who want to fund pensions in future who are not already members should join this tax year to open the annual allowance gates. Perhaps important for those who may have a tapered allowance next year and would wish to pay over £10,000.

To conclude...

The clock is ticking there are time bound opportunities in the pension world. Maybe start the tax year end planning early?