

# Limiting tax liability in a year of exceptional income, post business sale.

## The problem

Mr Y had recently sold his business and therefore did not have an immediate need for the significant salary he continued to receive from working for the new owners.

His objective was therefore to minimise his tax liability on his 2016/17 income. It was decided that this would best be achieved by making the maximum possible personal pension contribution before 5 April 2017.

## The solution

Detailed examination showed Mr Y had expected total income from employment and investments for the year of just under £200,000. His employer made an annual pension contribution of £12,000 and he had made no previous personal pension contributions. In finding a solution for him, the first thing was to consider what unused relief he had available. The maximum contribution that can be made each year from all sources is £40,000 (2013/14 and prior £50,000). Unused relief may be carried forward for three years so that a contribution in excess of the annual maximum of £40,000 can be paid. As a result of the employer contribution, the unused amount for 2014/15 and 2015/16 was £28,000 and for 2013/14 it was

£38,000. Due to specific rules in 2015/16 where pension periods were changed to match the tax year, a further £3,000 was available for that year. Therefore, the absolute maximum contribution that could be made was £125,000.

However since 2016/17 there has been a further restriction so that the maximum annual contribution of £40,000 is reduced where the individual had an Adjusted Income over £150,000 AND a Threshold Income over £110,000. In this situation, the annual allowance is reduced by £1 for every £2 by which the Adjusted Income exceeds £150,000 to a minimum allowance of £10,000, which is reached when Adjusted Income is £210,000.

Adjusted Income is taxable income plus employer pension contributions, so for Mr Y it is £212,000, which means that potentially the annual limit is reduced to its minimum of £10,000. However, as noted above, for the reduction to apply it is also necessary that Threshold Income exceeds £110,000. Threshold Income is taxable income less any personal pension contributions made. In the absence of personal contributions, the limit is clearly exceeded. However, by making contributions of £90,000, Threshold

Income is reduced to £110,000 and the full £40,000 allowance was available. Additionally, if a £100,000 contribution is made, the 2016/17 personal allowance becomes available producing further tax savings. This produced a tax saving of nearly £50,000 and still left £25,000 of possible relief to carry forward to 2017/18 when the £10,000 pension cap is unavoidable. Savings for client - £50,000 (plus potential for more).

## We said

“Maximising the effectiveness of pension contributions is no longer a straightforward matter, but with careful planning significant savings are possible. This becomes more interesting for clients approaching retirement where they may be able to pay into their pension and save tax at 45% and in a short period of time on retirement take, 25% of their fund tax free.”

Alan Ross, Tax Director,  
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