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Pension contributions are made to provide individuals with a passive income when they retire. At present, tax relief can be claimed on individuals' contributions at their highest rate of income tax. Which means pension contributions remain one of the most popular ways to save for retirement and reduce income tax payments.

However, the new government may change this generous tax deduction by limiting the amount of tax relief that can be claimed by individuals to say 30%. Currently, higher income earners can claim income tax relief at their highest rates, potentially at 40% or 45%.

High income earners may like to hedge their bets and make their 2024-25 pension contributions ahead of the Autumn Budget due to be announced later this year. Unless changes are back-dated, this may ensure higher rate tax relief.

A summary of the current tax position of pension contributions follows. But please note, before making any changes to your present pension contributions, please discuss your options with your pensions advisor.

### **Limits on an individual's annual contributions**

You will be limited to annual contributions of £60,000 plus any unused annual allowance accrued for the previous three years. For the tax years 2016-17 to 2022-23 the standard annual allowance was £40,000.

This £60,000 allowance will be reduced for high income earners on a tapered basis and could be as low as £10,000.

## **Employer contributions**

There are no limits on employer contributions, but any contributions made will count towards the employee's annual allowance.

In most cases HMRC will allow employer contributions to be deducted from profits as a business expense, and this will reduce corporation tax payments. However, HMRC do have the right to challenge this deduction if they consider the payment did not meet their "wholly and exclusively" criteria.

## **Further complications**

If an individual has taken more than their tax-free cash from their pension fund they may have a reduced annual allowance of £10,000 This is called the money purchase annual allowance.

## **Like to consider your contribution options for 2024-25?**

Please call us on **01753 888 211** or email **info@nhllp.com** if you would like to consider your pension contribution options for 2024-25, and as highlighted above, do not make any changes without taking professional advice, we would be happy to help.