Neptune Tax & Accounts

Pension Saving in Guernsey for High Earners

Introduction

Since 2017, higher earners in Guernsey have been subject to the Withdrawal of Personal Allowances ("WOPA") rules and had personal allowances withdrawn.

This impacts on how much tax relief is available for pension contributions.

Up to 100% of earnings can be contributed to a pension scheme tax-free by the individual subject to a cap of £35,000 per annum. If a contribution has been made in any given year but full advantage was not taken of the limit, the unused allowance can be carried forward for up to six years.

Withdrawal of Personal Allowances

Above a certain income threshold (for 2024, this is £80,000), allowances are tapered away at the rate of £1 for every £5 of income over the threshold.

WOPA applies to all allowances except a £50 bank deposit interest allowance and a £2,500 de minimis pension contributions allowance (£1,000 prior to 2024) which are available to everyone regardless of income.

As WOPA reduces allowances gradually, there is still some relief available for many higher earners. The threshold beyond which all relief is lost will depend on what other allowances are available to them.

Scenario 1 – No Mortgage on Own Home

In this scenario, Miss A and Miss B would be eligible for a full personal allowance and up to £35,000 of pension contributions before WOPA is applied to reduce the relief given.

	Miss A £	Miss B £
Total 2024 income	149,500	312,000
Personal allowance	13,900	13,900
Pension contributions	35,000	35,000
WOPA	(13,900)	(46,400)
Total Allowances	35,000	2,500
Taxable Income	114,500	309,500

Miss A's income is just high enough to lose her £13,900 personal allowance but does not erode any of her pension allowance, so she gets full relief for her contributions.

Miss B's income has reached the level whereby all her allowances are withdrawn and only the £2,500 of relief is left.

Anyone with income between these two amounts will receive partial relief for their £35,000 of pension contributions.

Scenario 2 – Mortgaged

In this scenario, Mr C and Mr D have mortgages and can claim the maximum £3,500 of relief for their interest paid in 2024.

	Mr C £	Mr D £
Total 2024 income	167,000	329,500
Personal allowance	13,900	13,900
Mortgage Interest	3,500	3,500
Pension contributions	35,000	35,000
WOPA	(17,400)	(49,900)
Total Allowances	35,000	2,500
Taxable Income	132,000	327,000

Note that the maximum mortgage relief is expected to decrease to £2,000 in 2025, £1,000 in 2026 and no relief from 2027.

Mr C's income is just high enough to lose his personal allowance and mortgage interest relief but does not impact on his pension allowance, so he gets full relief for his pension contributions in 2024.

Mr D's income has only just reached the limit such that all his allowances are withdrawn and only the £2,500 of pension contributions relief remains.

Scenario 3 – Non-Earning Spouse

Any unused part of a spouse's / civil partner's personal allowance can be transferred to their partner.

In this example, Mrs E and Mrs F pay mortgage interest and receive the benefit of 100% of their husbands' personal allowance.

	Mrs E £	Mrs F £
Total 2024 income	236,500	399,000
Personal allowance	13,900	13,900
Transfer from spouse	13,900	13,900
Mortgage Interest	3,500	3,500
Pension contributions	35,000	35,000
WOPA	(31,300)	(63,800)
Total Allowances	35,000	2,500
Taxable Income	201,500	396,500

Full relief for pension contributions is still available for income up to £236,500 and proportionately reduced from there.

Employer Contributions

Employer pension contributions are a tax-free benefit in kind for the employee and a tax-deductible expense for the employer.

The withdrawal of allowances only affects pension contributions made by the individual. Contributions made by the employer are not limited in the same way.

The contributions made by the employer do need to be commercial however, and any excessive contributions are at risk of being taxed.

If an employee who is, or potentially is, subject to the WOPA rules, requests that their employer makes additional contributions in lieu of salary then these contributions could be taxed as part of their employment income.

For proprietary directors and proprietary employees, employer contributions should not exceed 25% of relevant earnings. If they do, the excess will be treated as a taxable benefit in kind.

Spouse / Civil Partner Contributions

If further pension contributions into one's own scheme are unlikely to attract tax relief, contributions could instead be made to a spouse's / civil partner's scheme if they have spare capacity and are less affected by WOPA and they will then benefit from the tax relief.

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