

Questions & Answers

Important information about pensions allowances

How much you can pay into a pension depends on two main rules; tax relief and annual allowance (including the Tapered Annual Allowance and Money Purchase Annual Allowance).

Under tax relief rules you can pay up to 100% of your qualifying earnings into a pension each year or £3,600 if that is higher than your earnings. These figures include any tax relief that may be applied to your contributions.

Please read our questions and answers and speak to a financial adviser if you feel you are affected by these changes.

What is the Annual Allowance?

There's a limit to the amount of pension savings (also known as pension inputs) which you can make over a 12-month period, before you face a tax charge. This is called the Annual Allowance. All pension input periods are aligned to the tax year (6 April to 5 April).

For money purchase arrangements, such as personal pensions and additional voluntary contributions (AVCs), the amount of Annual Allowance you have used is found by adding together the total contributions paid by you, or on your behalf over the tax year.

For defined benefit arrangements, such as final salary schemes, the amount of Annual Allowance you have used is worked out using a calculation to factor in the growth of your benefits over the tax year.

If you go above the Annual Allowance, you may be liable for a tax charge and you must let HMRC know by completing a tax return.

How much is the Annual Allowance?

| Tax Year | Annual Allowance |
|--------------------------------|---|
| 2021/2022 | £40,000 |
| 2020/2021 | £40,000 |
| 2019/2020 | £40,000 |
| 2018/2019 | £40,000 |
| 2017/2018 | £40,000 |
| 2016/2017 | £40,000 |
| 2015/2016 – after 8 July 2015 | £0 (plus up to £40,000 carried over from the period up until 8 July 2015) |
| 2015/2016 – before 9 July 2015 | £80,000 |

What if I don't have sufficient allowance?

You are able to carry forward any unused Annual Allowance from the three previous tax years, provided you were a member of a UK-registered pension scheme during this period. Special rules applied to the 2015/2016 tax year.

Does the level of my income affect my Annual Allowance?

If your total income, including income from investments, pensions, your salary, bonuses or trading profits, is over £200,000, you may have a reducing Annual Allowance. This is called the Tapered Annual Allowance.

The maximum reduction for those with the highest incomes will be £36,000, leaving a minimum allowance of £4,000 in the tax year.

It's worth noting that regardless of whether you are subject to the Tapered Annual Allowance or not, you may still be able to carry forward unused allowance from the last three years to increase your allowance in any tax year.

The Tapered Annual Allowance and carrying forward allowances, is a tricky subject, so you should speak to a financial adviser. Alternatively, for more information visit: [gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance](https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance)

What's the Money Purchase Annual Allowance?

The Money Purchase Annual Allowance (MPAA) will apply if you have "flexibly accessed" your pension.

There are different ways you can "flexibly access" and the most common are:

- taking a cash lump sum (uncrystallised funds pension lump sum) subject to tax;
- taking income from flexi-access drawdown. Taking tax-free cash only does not count;
- if you have a capped drawdown fund and take income above the cap.

The MPAA may limit the amount of pension contributions that can be made before an Annual Allowance tax charge is made.

The MPAA will not affect you if you have taken final salary or career average benefits only, nor will it affect you if you have a non-flexible Annuity. It also does not apply to any final salary or career average benefits that you may build up in the future.

How much is the Money Purchase Annual Allowance?

The MPAA for different tax years, are listed below:

| Tax Year | MPAA limit |
|--------------------------------|---|
| 2021/2022 | £4,000 |
| 2020/2021 | £4,000 |
| 2019/2020 | £4,000 |
| 2018/2019 | £4,000 |
| 2017/2018 | £10,000 |
| 2016/2017 | £10,000 |
| 2015/2016 – after 8 July 2015 | £0 (plus up to £10,000 carried over from period up until 8 July 2015) |
| 2015/2016 – before 9 July 2015 | £20,000 |

How will I know if I have triggered the MPAA?

If you have flexibly accessed any pension, so triggering the MPAA, then your pension scheme or provider will tell you.

You then have to inform any other money purchase pension scheme which you, your employer or a third party is paying into on your behalf within 91 days. If you don't do this, you may be fined by HMRC. You don't need to do this if you are only paying into a defined benefit scheme.

What happens if I exceed the MPAA?

If you are subject to the MPAA, you will get a tax charge on any pension contributions to money purchase pensions which exceed the MPAA in a tax year. This is based on both contributions made by you, and on your behalf.

Unlike the Annual Allowance *there is no facility to carry forward any unused MPAA.*

In any year when you exceed the MPAA, your Annual Allowance for other types of tax-relieved pension saving, such as defined benefits, is reduced by the MPAA.

What happens if I am subject to both the Tapered Annual Allowance and the MPAA?

If you are subject to the MPAA, your limit on contributions made by you, or on your behalf, to money purchase plans is reduced to £4,000.

For other types of tax-relieved pension saving, such as defined benefits, you would have an alternative Annual Allowance of £36,000 for 2021/2022 (the standard Annual Allowance less the MPAA).

However, if you are also subject to the Tapered Annual Allowance the alternative Annual Allowance will be subject to a gradual tapering.

This means if you are affected by the MPAA and Tapered Annual Allowance your alternative Annual Allowance is reduced by the Tapered Annual Allowance, less the MPAA.

The amount of the tapered reduction will depend on the amount of your total income and potentially could reduce your alternative Annual Allowance for other types of pension saving to £0. Where the MPAA is exceeded and the Annual Allowance is tapered to a minimum of £4,000.

If you think you may be affected by this, we'd suggest getting in touch with a financial adviser.

Is there a limit to the amount of pension benefits I can build up?

There's a limit to the total amount of pension benefits that can be drawn before you incur a tax charge.

This limit is known as the standard Lifetime Allowance (LTA) and applies to the total of all of your pension benefits including any existing entitlement you have to defined benefit schemes, but excluding the State Pension.

The standard Lifetime Allowance (LTA) is:

| | |
|-----------|------------|
| 2021/2022 | £1,073,100 |
| 2020/2021 | £1,073,100 |
| 2019/2020 | £1,055,000 |
| 2018/2019 | £1,030,000 |
| 2017/2018 | £1,000,000 |

With some limited exceptions, each time you take benefits from a pension scheme, including payments out, when you reach 75 or die, it uses up your LTA.

Once the allowance is used up, a tax charge applies. This is currently 55% if the amount over the lifetime allowance is used for a lump sum, or 25% if it is used for income payments. Any income you then elect to take will be subject to income tax.

You may be able to apply for protection from the tax charge or you may have a form of protection from when the LTA was reduced in the past.

I have some more questions. Where can I find help?

Working out tax can be tricky and depends on your personal circumstances and tax rules can also change in the future, so we'd recommend you speaking to a financial adviser on this subject.

And there's also two free and impartial services, set up by the Government, to help you.

The Money Advice Service

The Money Advice Service also offers free and impartial guidance on anything and everything to do with money, not just pensions. They also have a handy guide called 'Your Pension: it's time to choose' that outlines all the options for taking your pension benefits at retirement.

Website: moneyadvice.service.org.uk

Phone number: 0800 138 7777

Pension Wise

The Government created Pension Wise to give free and impartial guidance about what you can do with your pension pot. They can help face to face, over the phone and through their website.

They can't recommend specific products or tell you what to do with your money. But they can help you understand all your options and their potential tax implications to help you make the right decision for you.

Website: pensionwise.gov.uk

Phone number: 0800 280 8880

More help online

For more information on the subjects covered in this leaflet, please visit the HMRC website: [gov.uk/government/organisations/hm-revenue-customs](https://www.gov.uk/government/organisations/hm-revenue-customs)

pru.co.uk

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