Pension contributions and tax relief

This note provides details of the tax privileged limits that apply for pension contributions, the annual allowances, and the tax charges that can arise if these limits are exceeded. This information is for your guidance only. Countrywide Assured plc accepts no liability for any action taken or not taken by an individual or firm as a result of the contents of this material. Whilst we have made every effort to ensure the accuracy of this material we cannot accept responsibility for any consequences (financial or otherwise) arising from relying on it. It is important to note that tax treatment depends on individual circumstances and may change in the future.

Member contributions

There is no limit on the amount that an individual can contribute to a registered pension scheme, although there are restrictions on the amount of contributions that qualify for tax relief - see “Tax Relief on Member Contributions”.

If your pension savings exceed the Annual Allowance, you will be subject to an Annual Allowance Tax Charge - see “When an Annual Allowance Tax Charge Applies”.

Employer contributions

There is no limit on the amount that your employer can contribute to a registered pension scheme for you. However, the amount they pay towards your pension savings will count towards your Annual Allowance – see “When an Annual Allowance Tax Charge applies”.

Third party contributions

There is no limit on the amount that a third party can contribute to a registered pension scheme for you. However, the amount they pay towards your pension savings will be treated as a gift to you, and for tax relief purposes, treated as if it were a Member Contribution paid by you. The third party contribution counts towards your Annual Allowance – see “When an Annual Allowance Tax Charge applies”.

The third party is unable to claim tax relief on the contribution they pay.

Annual allowance.

The annual allowance is currently £60,000. It was set at £40,000 in the 2017/2018 tax year and remained at this level until 5 April 2023.

Money Purchase Annual Allowance (MPAA)

If you flexibly access your pension benefits under a defined contribution scheme, you will trigger the Money Purchase Annual Allowance (MPAA) of £10,000.

How do I trigger the MPAA?

You will trigger the MPAA if any of the following events occur:

a) You take income as either Flexi-Access Drawdown Pension (excluding a Pension Commencement Lump Sum) or payments from a short term annuity provided from a Flexi-Access Drawdown Fund.

b) You take an Uncrystallised Funds Pension Lump Sum

c) You convert your pre 6 April 2015 drawdown fund to Flexi-Access Drawdown Pension and subsequently take an income.

d) You take income above the permitted maximum from a pre 6 April 2015 drawdown pension fund.

e) You take a stand-alone lump sum having primary protection with a protected tax free lump sum rights in excess of £375,000.00

f) You receive a payment from a variable lifetime annuity where the annual rate of payment can be decreased on request.

g) You receive a scheme pension from a money purchase arrangement providing scheme pension to less than 12 members, including dependants, at the time the first payment is made to you.

h) You made a valid flexible drawdown declaration before 6 April 2015, that was accepted by the scheme administrator.

Payment of any of the above types of benefit from an overseas pension scheme that has benefitted from tax relief will also trigger the Money Purchase Annual Allowance.

Tapered annual allowance

If you have an income over £260,000 (including pension contributions), your Annual Allowance may be reduced or “tapered”. This reduction will be at the rate of £1 for every £2 by which the above income limit of £260,000 is exceeded, subject to a maximum reduction of £50,000. So, if you have income of £360,000 or more in a tax year, your annual allowance is likely to be £10,000 for that tax year. Having said this, if your income is no more than £200,000, excluding pension contributions, you will not normally be subject to this tapered annual allowance.

Carry forward of unused annual allowance

There may be scope to utilise unused annual allowance from up to 3 previous tax years at the rate applicable for the tax year in question, subject to certain conditions.

You should speak to your Financial Adviser if you are considering doing this.

You cannot carry forward any unused Money Purchase Annual Allowance.

Tax relief on member contributions

Before age 75, basic rate tax relief is automatically added to the net contribution you pay up to the higher of £3600 and 100% of your relevant UK earnings. If you pay higher or additional rate tax, you must obtain the extra tax relief through your tax office.

After age 75, no tax relief is available on your pension contributions.

It is our normal practice to only accept contributions that are tax relievable.

Tax relief on employer contributions

Contributions made by your employer are paid gross and treated as a business expense in the year in which it is paid, provided they are paid wholly and exclusively for the purposes of the business.

When an annual allowance tax charge applies

If the total of all your pension savings made by yourself or on your behalf, including, for example, contributions paid by your employer, together with the value of any benefits from employer's defined benefits scheme, exceeds the available Annual Allowance, then you will be liable to pay an Annual Allowance Charge.

The Annual Allowance Charge is levied on any pension savings made in excess of the available Annual Allowance at your own marginal rate of income tax.

If your annual allowance tax charge is £2000 or more (from all schemes) you may be able to ask the scheme administrator to pay the charge from your pension scheme. If you request this option, there will be a corresponding reduction in your pension benefits. For a money purchase scheme, this means that your fund is reduced by the amount of the charge. There are a number of conditions which you must satisfy to be able to apply to the scheme administrator to pay the charge:

- your pension savings in the tax year to which the charge relates must have exceeded the annual allowance for that year
- you must apply to the scheme administrator no later than 31 July in the year following the tax year in which the annual allowance charge relates
- you can't have already taken all of your benefits from the scheme.

No charge applies in the tax year in which benefits are taken due to serious ill health or death.

Important: If you significantly increase your contributions in anticipation of taking a pension commencement lump sum or increase contributions significantly afterwards, this might be regarded by HMRC as recycling the pension commencement lump sum to artificially generate tax relief and a tax charge may apply to the lump sum in certain circumstances.