



The Pensions Annual Allowance Factsheet

Paying contributions into a pension is generally a very tax efficient investment. This is especially true for the higher paid as the amount of tax relief that you receive is determined by the rate of tax that you would otherwise have paid on that money had you kept it as income.

However, there are controls on the amount of tax relief from which an individual may benefit. This is controlled by the Annual Allowance (AA).

If you think that you are affected, Shackleton Employee Benefits can help you understand your options and whether you may have any available AA to carry forward.

Any contribution over the AA will result in the individual being liable for a tax charge that would reclaim any tax relief already granted.

- The standard AA is £60,000 or 100% of 'relevant earnings' in any one Tax Year, whichever is lower
- The AA is reduced for those who have invoked the 'Money Purchase Annual Allowance' (MPAA) by accessing pension benefits flexibly or for those who are defined by HMRC as 'High Earners'
- High Earners are those whose total income that is subject to Income Tax PLUS employer's pension contributions exceed £260,000 in a Tax Year
- For such people the AA is 'tapered' (i.e. reduced) at a rate of £1 for every £2 of earnings above £260,000
- Once income reaches £360,000, the AA is therefore £10,000. At this point it will not reduce further, irrespective of earnings levels
- The AA available to an individual may be increased by 'carrying forward' unused AA from any of the three previous Tax Years. All of the existing year's AA must be used first and then unused AA from the furthest away year is carried forward
- Once MPAA is invoked, the Allowance reduces to £10,000 per annum. Typically, this is triggered by flexibly accessing pension benefits by:
 - Being in 'Flexible Drawdown' prior to April 2015
 - Having an existing 'Capped Drawdown' arrangement and taking income above the 'GAD' limit
 - Taking taxable income from 'Flexi Access Drawdown'
 - Taking an Uncrystallised Funds Pension Lump Sum (UFPLS)
- The MPAA is NOT triggered when purely taking tax-free money under 'Flexi Access Drawdown', taking an annuity or taking a 'small pots lump sum'

As you can see, there are many considerations, and some of these can be complex. This Factsheet is not designed to be a comprehensive guide but just to give an overview to help you understand if you may be affected. Full details of the AA are available here:

<https://www.gov.uk/tax-on-your-private-pension/annual-allowance>