Upbeat About Retirement

T: 01228 587588
E: info@trulyonline.co.uk
W: www.trulyifa.co.uk

TRULY INDEPENDENT
Financial Advice for Everyone

Saving into a pension is one of the most tax-efficient ways to save for your retirement. Not only do pensions enable you to grow your retirement savings largely free of tax, but they also provide tax relief on the contributions you make.

There are various pension allowances in place that you need to be aware of and understand how to make the most of them. These limit the amount of money you can contribute to a pension in a year, as well as the total amount of money you can build up in your pension accounts, while still enjoying the full tax benefits.

Lifetime Allowance

All your pensions, including workplace pensions, count towards the Lifetime Allowance, with the exception of the State Pension and overseas pensions. The standard Lifetime Allowance is currently £1,073,100 You don't pay the tax charge until you take your pension savings over and above your Lifetime Allowance (or reach age 75, if earlier). The charge is only on the excess money saved in your pension that is above your Lifetime Allowance.

Non-taxpayer or earning less than £3,600

If you have no earnings or earn less than £3,600 a year, you can still pay into a pension scheme and qualify to receive tax relief added to your contributions up to a certain amount. The maximum you can contribute is £2,880 a year. Tax relief is added to your contributions, so if you pay £2,880, a total of £3,600 a year will be paid into your pension scheme, even if you earn less than this or have no income at all.

This applies if you pay into a personal or stakeholder pension yourself (so not through an employer's scheme) and with some workplace pension schemes – but not all. The way some workplace pension schemes give tax relief means that people earning less than the personal allowance (£12,570 in the 2021/22 tax year) won't receive tax relief.

Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) rules were introduced as an anti-avoidance measure to prevent widespread abuse of the pension freedoms which commenced from 6 April 2015. It's intended to discourage individuals from diverting their salary into their pension with tax relief and then immediately withdrawing 25% tax-free.

The MPAA applies only to money purchase contributions and has remained at £4,000 since 6 April 2017. If you have taken flexible benefits which include income, such as an 'Uncrystallised Funds Pension Lump Sum (UFPLS)' or flexi-access drawdown with income, and you want to continue making contributions to a defined contribution pension scheme, you will have a reduced annual allowance of £4,000 annually towards your defined contribution benefits.

Annual Allowance

The pension Annual Allowance is the maximum amount of money you can contribute towards a defined contribution pension scheme in a single tax year and receive tax relief on. All contributions made to your pension by you, your employer or any third-party, as well as any tax relief received, count towards your Annual Allowance.

The standard pension Annual Allowance is currently £40,000, or 100% of your income if you earn less than £40,000. A lower Annual Allowance may apply, however, if you are a high earner or you have already started accessing your pension. High earners may potentially be subject to the Tapered Annual Allowance, while those who have already started accessing their pension potentially face the Money Purchase Annual Allowance.

Carry forward

Carry forward is a way of increasing your pension Annual Allowance in the current tax year. It is used when your total pension contribution amounts for a tax year exceed your annual pension Annual Allowance limit for that year.

You can do this by carrying forward unused allowances from the three previous tax years to make contributions this year. This may enable you to absorb or reduce any pension Annual Allowance excess paid in the current tax year which, in turn, would reduce any potential Annual Allowance charge amount. The 2021/22 tax year allows use of unused allowances from 2018/19, 2019/20 and 2020/21.

Tapered Annual Allowance

The Tapered Annual Allowance calculations will now not affect anyone with a Threshold Income level of £200,000 or below. The taper starts in this tax year at £240,000 and is extended to a minimum of £4,000 Annual Allowance. This reduces the level of pension funding high earners and their employers can make into pension schemes.

If high earners exceed the threshold and adjusted income amounts, their Annual Allowance may be reduced by £1 for every £2 of adjusted income over this level until the minimum annual allowance level of £4,000 is reached. The maximum Tapered Annual Allowance reduction is £36,000.

Pension tax relief

The government encourages you to save for your retirement by giving you tax relief on pension contributions. Tax relief has the effect of reducing your tax bill and/or increasing your pension fund.
However, at the time of writing this article, the way pension tax relief works is reportedly under review by the Treasury.

You can receive tax relief on private pension contributions worth up to 100% of your annual earnings. Since the tax relief you receive on your pension contributions is paid at the highest rate of Income Tax you pay, the higher your rate of tax, the more you could receive.

The Welsh Government now has the power to set Income Tax rates and bands, but has opted to keep these the same as England and Northern Ireland for tax year 2021/22.

If you live in Scotland, you pay Scottish Income Tax to the Scottish Government.

Seek Professional Advice

If you're not sure about your pension options and allowances, speak to one of our Truly Independent Financial Advisers for further information.

Truly Independent Ltd. Company Registration No: SC367442. Principal Office Address: Atlantic House, Parkhouse, Carlisle, Cumbria, CA3 0LJ. Registered Office Address: Forsyth House, 93 George Street, Edinburgh, EH2 3ES