

# Building up more tax-free money in your pension

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Changes present significant opportunities for various individuals.

When making contributions to your pension, it's important to keep in mind that there's a limit to how much you can contribute each year without incurring additional taxes. This limit is known as the pension Annual Allowance.

On 6 April 2023, new pension legislation came into effect, presenting significant opportunities for various individuals. Among other things, the pension Annual Allowance increased from £40,000 to £60,000.

## BUILDING UP TAX-FREE MONEY

The Annual Allowance is the limit on how much money you can build up tax-free in your pension in any one tax year while still benefiting from tax relief. It's not the maximum pension contributions you can make. You could still make more. However, if you exceed this amount, you won't receive tax relief on the excess contributions, and you may be subject to an Annual Allowance charge.

One way to reduce or eliminate this charge is by taking advantage of carry forward. This option allows you to use any unused Annual Allowance from the previous three tax years to offset your contribution in the current year, subject to having sufficient Net Relevant Earnings in the current tax year.

## ANNUAL ALLOWANCE CHARGE

Carry forward is not available to everyone, only to those who are not subject to the Money Purchase Annual Allowance (MPAA). Additionally, you'll need to make sure that you don't exceed your Net Relevant Earnings in the current tax year, even after using carry forward.

If you do find yourself facing a pension Annual Allowance charge, you may be able to ask your pension scheme to pay the charge from your pension using Scheme Pays. This would result in a reduction in your pension, so it's important to carefully consider whether this is the right option for you.

## IN EXCESS OF LIFETIME ALLOWANCE

The removal of the punitive tax charge for breaching the Lifetime Allowance also provides new opportunities for those wishing to pay more into their pension or draw more out of their pension. From 6 April 2023, the Lifetime Allowance charge has been completely removed, with the total removal of the LTA set for April 2024.

However, you will still be taxed at your marginal rate of Income Tax on any benefits taken in excess of the Lifetime Allowance.

## LEVEL OF PENSION CONTRIBUTION

Additionally, for those who have flexibly accessed a pension in the past, the Money Purchase Annual Allowance increased to £10,000 from 6 April 2023, providing scope for those returning to work after taking retirement to make a more meaningful level of pension contribution.

While the level of tax-free cash available when taking a pension hasn't been increased, these changes provide valuable new possibilities for pension planning; however, navigating these changes can be complex.

## TIME TO CREATE A PERSONALISED PLAN TO ACHIEVE YOUR FINANCIAL GOALS?

Are you concerned about your financial future and not sure where to start? We're here to assist! We will help you identify your priorities and create a personalised plan to achieve your financial goals, showing you how much you need to save in order to have the lifestyle you want. Don't let your retirement plans slip away. Contact us today and let us help you secure your financial future.

