

# FACT SHEET

## ANNUAL ALLOWANCE

APPROVED FOR CLIENT USE | APRIL 2024



### Definitions

#### What is the annual allowance?

The annual allowance is the maximum value of pension savings you can make each year while benefiting from tax relief. If you're unclear on the tax relief rules, you should read our 'Contributions and Tax Relief' fact sheet first.

Think of it this way: your income each year determines how much tax relief you can *claim*, and the annual allowance determines how much you can *keep*.

### Rules

#### How much is my annual allowance?

The standard annual allowance for the 2024/25 tax year is £60,000. However, there are variations which may affect you.

If you haven't fully used your annual allowance in previous tax years you may be able to use carry forward to get a higher annual allowance. If you are a high earner, or if you have already accessed some of your pension benefits, you may be subject to the tapered annual allowance or money purchase annual allowance (or both). Please read our separate fact sheets on these topics for more information.

#### What kinds of pension savings count towards the annual allowance?

If you are below age 75, your personal contributions and third party contributions (including the value of the tax relief) count

towards the annual allowance. All employer contributions also count towards the annual allowance.

If you have a *defined benefits* scheme (where your pension benefits are based on factors such as your salary and years of service), the benefits built up during the year also count towards your annual allowance. Your defined benefit scheme provider will be able to confirm the value that will count towards your annual allowance.

Remember that the annual allowance does not apply per pension scheme; it applies to all of your pensions collectively.

#### What happens if I exceed my annual allowance?

If you exceed your annual allowance, you will incur an annual allowance charge on the excess amount. The annual allowance charge amount is found by calculating how much income tax would be due if the excess amount was added to your income for the year. If you exceed your annual allowance, you'll need to tell HMRC by including the details on your Self Assessment tax return.

#### How do I pay an annual allowance charge?

There are two ways to pay an annual allowance charge. You can either pay the charge yourself by way of your Self Assessment tax return, or under some circumstances you can arrange for your pension scheme administrator to pay the charge and reduce your pension accordingly. Please read our guidance note, 'Paying an Annual Allowance Charge from your Pension', for more information.

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## **Important points to consider**

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

## **Contact details**

If you'd like to speak to us about anything on this fact sheet, please contact us on:

**T 01473 296 950**

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