How much can I pay into my pension?

Normally between you and your employer you can pay a maximum of £40,000 into your pension in a tax year as long as you have earnings to cover this amount. This £40,000 limit is called the annual allowance. Up to 6th April 2016, this limit was assessed over a Pension Input Period (PIP) which may not have coincided with the tax year. To avoid the complications that arose from this, all PIPs will be in line with the tax year from 2016/17 onwards but there were special transitional arrangements for the year to 5th April 2016 (see separate section).

You and your employer can use any unused annual allowance from the last three tax years but only if you had a UK registered pension in those years. The concept of using previous annual allowance is called carry forward. Please see below the annual allowances by tax year/payment input period:

- **6 April 2016 to 5 April 2017**: £40,000
- **6 April 2015 to 5 April 2016**: Transitional year – see separate section. You can pay up to £80,000 but only if you paid £40,000 in the period 6 April 2015 to 8 July 2015
- **6 April 2014 to 5 April 2015**: £40,000
- **6 April 2013 to 5 April 2014**: £50,000
- **6 April 2012 to 5 April 2013**: £50,000*

When it comes to your personal contributions into a pension, if you are under the age of 75, you normally receive tax relief only up to your earnings in the tax year. This does not include savings income or pension income. Any personal contributions above your earnings may result in tax relief being clawed back. Any contributions above the annual allowance will result in a tax charge if there is no option for carry forward.

*You will lose the right to carry forward any unused annual allowance from this year as of 5 April 2016.*
With the “tapered” Annual Allowance (AA) being introduced from 6 April 2016 for high earners, to ensure this works smoothly, the Government has decided to align Pension Input Periods (PIPs) with the tax year from that date. Ahead of this, transitional measures were introduced which divided the 2015/16 tax year into two “mini tax years”, one of which closed on 8 July 2015. The second mini tax year runs from 9 July 2015 till 5 April 2016.

There is an AA of **£80,000** for the first period and one of **Nil** for the second, but you can carry forward any unused Annual Allowance (as per normal) of up to **£40,000** from the first period. So this means that someone may be able to contribute up to £80,000 in the 2015/16 tax year and everyone will be able to contribute at least £40,000. And any unused AA from the second period can be carried forward to 2016/17. Some points to note for 2015/16 are:

The following examples set out how much can be contributed under various scenarios.

**Scenario 1 – Nil contribution in pre-alignment tax year (6 April 2015 to 8 July 2015).**

If you didn’t make a contribution in the first period, £40,000 is carried forward to post-alignment tax year (9 July 2015 to 5 April 2016). You can then contribute £40,000 to 5 April 2016, but if you do there would be a Nil carry forward to 16/17 from 15/16 but you can used any unused AA from 13/14 and 14/15.

**Scenario 2 - £10,000 contribution in pre-alignment tax year.**

If you contributed £10,000 in the first period, £40,000 is carried forward to post-alignment tax year. You can then contribute up to £40,000 to 5 April 2016 making a total of £50,000 in the 2015/16 tax year, but there would be Nil to carry forward to 16/17 from 15/16. You can still use any unused AA from 13/14 and 14/15.

**Scenario 3 - £40,000 contribution in pre-alignment tax year.**

If you contributed £40,000 in the first period, £40,000 is carried forward to post-alignment tax year. You can then contribute up to £40,000 to 5 April 2016 making a total of £80,000 in the 2015/16 tax year, but there would be Nil to carry forward to 16/17 from 15/16. You can still use any unused AA from 13/14 and 14/15.

**Scenario 4 – contributes more than £40,000 in pre-alignment tax year (e.g. £60k).**

This might occur for instance where a PIP ends on 31 May for instance.

Under this scenario, £20,000 carried forward to post-alignment tax year. You can then contribute up to £20,000 to 5 April 2016 making a total of £80,000 in the 2015/16 tax year, but there would be Nil to carry forward to 16/17 from 15/16. You can still use any unused AA from 13/14 and 14/15.

**Scenario 5 – contributes less than £40k in pre and less than £40k in post (e.g. £30k).**

If you contributed £30,000 in the first period, £40,000 is carried forward to post-alignment tax year. You can then contribute up to £40,000 to 5 April 2016. If you only contribute £20,000 this would make a total of £50,000 in the 2015/16 tax year, and there would be a £20,000 carry forward to 16/17 from 15/16. You can still use any unused AA from 13/14 and 14/15.

As you will see, these transitional rules are complicated and can be even more complex if you have a defined benefit pension. It is therefore suggested that you should contact your scheme or provider, or seek independent financial advice to confirm exactly how much you are able to contribute.

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From 6 April 2016, high earners will have their annual allowance reduced. This reduction is called the tapered annual allowance (TAA) and reduces the annual allowance by £1 for every £2 above earnings of gross (pre-pension contribution earnings) of £150,000 p.a. This includes all earnings including savings and pension income as well as the value of your employer’s pension contribution. Your annual allowance can only be reduced to £10,000 p.a. when you reach the £210,000 p.a. threshold.

You will still be able to carry forward unused annual allowance from previous tax years and if your income subsequently drops to below the thresholds you will be restored to the normal annual allowance. If you have earnings of £110,000 p.a. (post-pension contributions) you will not be affected by the TAA.

If you are likely to be affected by the TAA, you should ask your employer if there is an alternative benefit to being a member of a pension scheme. Bear in mind that, even with a tax charge, your employer’s pension scheme may still be a valuable benefit. Alternatively, you may wish to consider other investments with tax incentives. You should consult a financial adviser if you wish to discuss alternatives.
Do the same rules apply to my defined benefits pension?

You and your employer are subject to the same allowances if you have a defined benefit pension but the way your annual contributions is worked out is not based on what you pay from your salary but how much pension is built up over the tax year (your pension scheme can tell you this).

The amount of benefit accrual in the tax year is the difference between your entitlement to pension at the end of the previous tax year and your entitlement at the end of the current tax year multiplied by a factor of 16. You can deduct any increases for inflation over the year when working out the net value.

If you have a MPAA, you will still be able to accrue £40,000 p.a. into your defined benefit scheme but this will be restricted to £30,000 p.a. if you are contributing £10,000 p.a. into a defined contribution pension as well.

The Tapered Annual Allowance also affects defined benefits pension scheme members.

How much am I allowed to have in a pension?

In the 2015/16 tax year you are allowed to have up to £1.25 Million in UK registered pensions altogether. This is called the lifetime allowance.

You may have a form of lifetime allowance protection from HMRC to allow you to have more than this in a pension and if you do you will have a certificate with all the details. We have another spotlight on the lifetime allowance that gives more information on any previous forms of lifetime allowance protection you may hold.

From 6 April 2016, the lifetime allowance will be reduced to £1 Million with a current plan to increase it with inflation from 6 April 2018.

The lifetime allowance is tested each time certain actions happen in relation to your pensions. These actions are called benefit crystallisation events (BCE) and are typically triggered when you start to draw an income from your pension, and also when you reach age 75.

The value of a BCE is normally the amount paid out or moved to provide retirement income. For defined benefit pensions, the value is normally treated as 20 times the initial amount of pension plus any tax-free cash.

If you are unsure whether or not your current pension savings will exceed the lifetime allowance, you should speak to your pension provider, scheme administrator or seek financial advice.
How can I plan for the change in lifetime allowance?

From April 2016 you will be able to apply for one of two protections:

- **Fixed protection 2016 (FP2016)** is available for those that do not already have a previous version of fixed, enhanced or primary protection and do not contribute into or accrue benefits after 5th April 2016. The lifetime allowance will be £1.25 Million or the lifetime allowance at the time, whichever is higher. Those planning to apply for FP2016 cannot contribute or accrue further benefits from 6 April onwards.

- **Individual protection 2016 (IP2016)** is available for those that have a total relevant amount of their pensions valued in excess of £1 Million as at the 5th April 2016. Payments can continue.

The total relevant amount is the sum of amounts A to D below all valued as at 5 April 2016:

A. The amount of pensions in payment before 6 April 2006 (A-Day)
B. The amount of benefits crystallised between 6 April 2006 and 5 April 2016
C. The amount of uncrystallised UK registered pension savings
D. The amount of uncrystallised relieved non-UK pension savings

The calculation can be complicated so we have set out some straightforward examples in our lifetime allowance Spotlight. Individual protection 2014 (IP2014) is still available to apply for until 6 April 2017 when pension funds were valued in excess of £1.25 million as at 5 April 2014. The lifetime allowance remains at this value, subject to a maximum of £1.5 million. Payments into the funds can continue.

Be aware that any pension savings above the lifetime allowance are subject to the lifetime allowance charge. This charge will continue to be:

- 55% if the excess is taken as a lump sum
- 25% if the excess is taken as income, for example as a scheme pension, an annuity or drawdown. Income tax at your marginal rate will also be payable.

Where can I learn more about the issues in this spotlight?

Please find some useful links to further information below:

**Annual Allowance**

http://www.pensionsadvisoryservice.org.uk/content/spotlights-files/uploads/Annual_Allowance_SPOT004_V1.8.pdf

**Lifetime Allowance**

http://www.pensionsadvisoryservice.org.uk/content/spotlights-files/uploads/Lifetime_Allowance_SPOT021_V2.3.pdf


**Independent Financial Advice**

http://www.pensionsadvisoryservice.org.uk/content/publications-files/uploads/Financial_Advice_SPOT009_V1.3.pdf

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About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

Contacting us

Pensions Helpline 0300 123 1047
(Monday- Friday 9:00am- 5:00pm)

Online enquiry form www.pensionsadvisoryservice.org.uk/online-enquiry

Web chat live www.pensionsadvisoryservice.org.uk

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