

# The Annual Allowances

The other side of the coin.

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients

This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

No reproduction, copy, transmission or amendment of this presentation may be made without our written permission.

# Learning Objectives

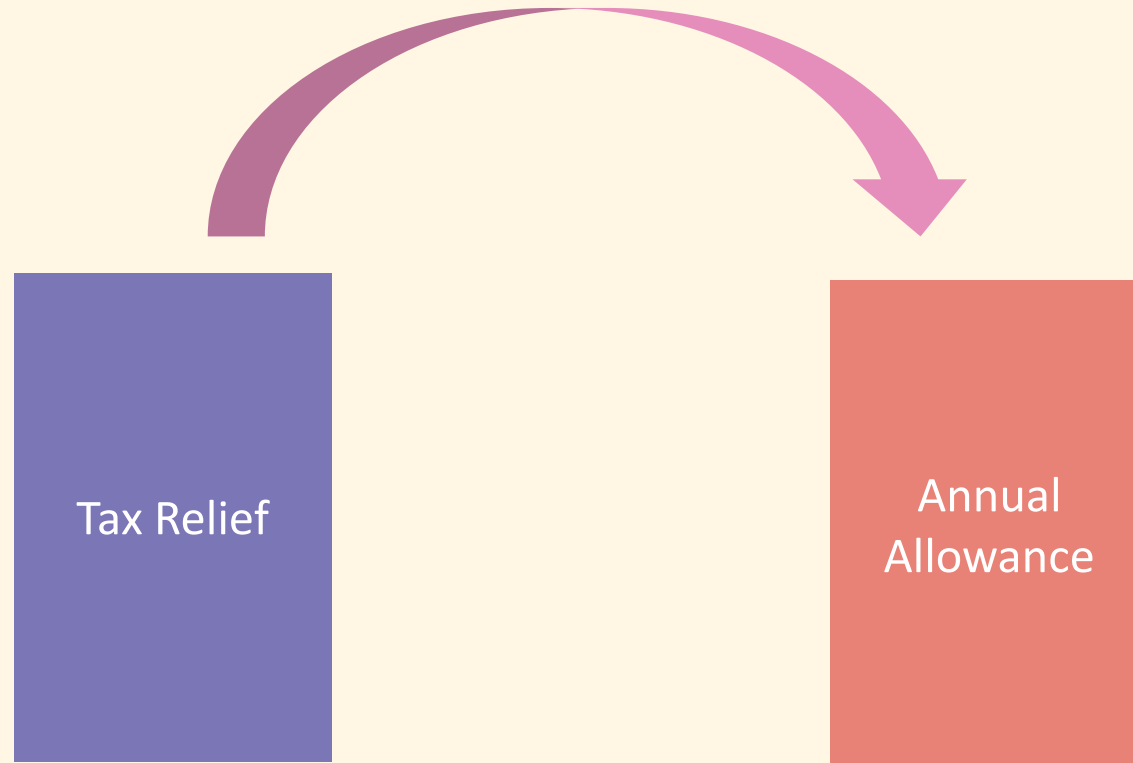
By the end of this session you will be able to:

Describe the operation of the annual allowances

Calculate the available annual allowances for specific clients

Explain the taxation of annual allowance excesses

# One before the other



# Tax Relief

Relevant UK Individual

Relevant UK Earnings

## Personal contributions

- 100% of relevant earnings or £3,600 if higher

## Third party contributions

- 100% of relevant earnings or £3,600 if higher

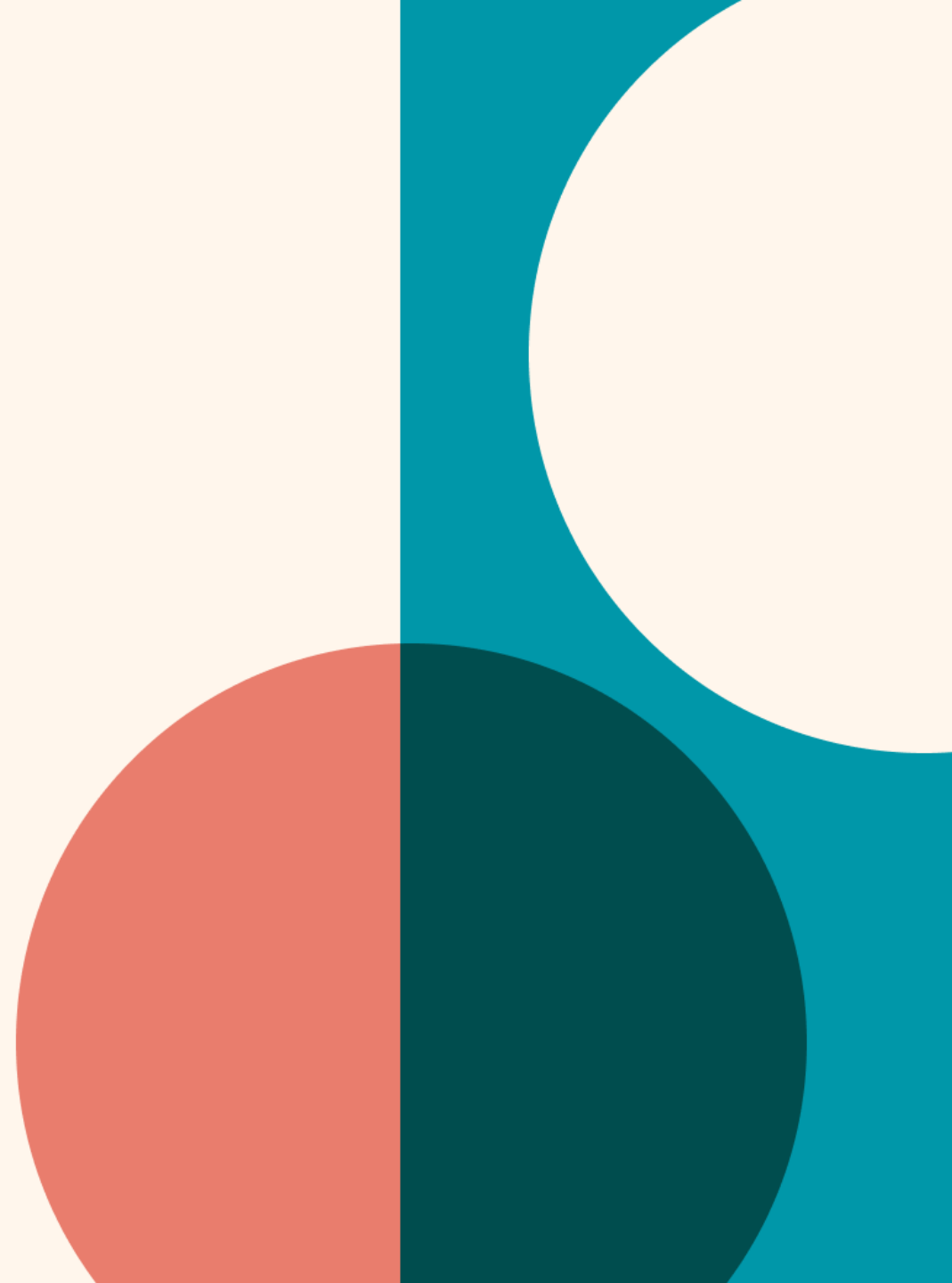
## Employer contributions

- Wholly & Exclusively rules

← No link to earnings!

# ANNUAL ALLOWANCE

The three flavours



# AA Limits

Standard AA

£60,000

MPAA

£10,000

Tapered AA

£10,000 -  
£60,000



# Calculating Pension Input Amounts



# Money Purchase Inputs

The calculation

Your  
Contributions



Your  
Employer  
Contributions



Third  
Party  
Contributions

# DB Inputs

The calculation

$$\left( \text{Value* at end of year} - \left\{ \text{Value* at start of year} \times \text{Inflation (CPI)} \right\} \right) \times 16$$

\*Value = pension accrued

plus

one times cash by addition

Remember remember the 6<sup>th</sup> of  
October



# Pension Savings Statement

Schemes must give the member a standard or money purchase pension savings statement if:

- their savings in a pension input period are more than the **standard** annual allowance
- you have reason to believe they have flexibly accessed their pension savings and their money purchase input amounts under the scheme exceeded the money purchase annual allowance

Must be by 6 October the following tax year

Even if you don't have to give a pension saving statement, a member can still ask you to give them this information.



# What will it look like?

Your pensions savings statement will help you assess whether your pension savings in this made up scheme have exceeded the annual allowance and the amount of any available carry forward from the previous three years that you may have.

If you have made savings outside of this made up scheme that are assessed in the same tax year you will need to add these to the amounts shown in this statement to determine whether the Annual Allowance is exceeded.

**Name** A N Other **Scheme Reference Number** 01/23456

<b>Pension Input Period</b>	<b>Tax Year</b>	<b>Pension Input Amount</b>
06/04/2023 to 05/04/2024	2023/24	£92,000.00

### Pensions Savings for the previous three tax years


<b>Pension Input Period</b>	<b>Tax Year</b>	<b>Pension Input Amount</b>
06/04/2022 to 05/04/2023	2022/23	£49,000.00
06/04/2021 to 05/04/2022	2021/22	£25,000.00
06/04/2020 to 05/04/2021	2020/21	£26,000.00





CARRY  
FORWARD

# Carry Forward


---

What's it for  Mitigate Annual Allowance charges



---

Eligibility  From 1<sup>st</sup> tax year joined a scheme  
 No earnings or contributions needed

---

Who benefits  Anyone whose inputs exceed their annual allowance

---

Using carry forward  Up to 3 yrs **unused** allowance can be carried forward to current tax year  
 No need to make a claim

---

Does **NOT** apply to MPAA

# How much AA in 2024/25

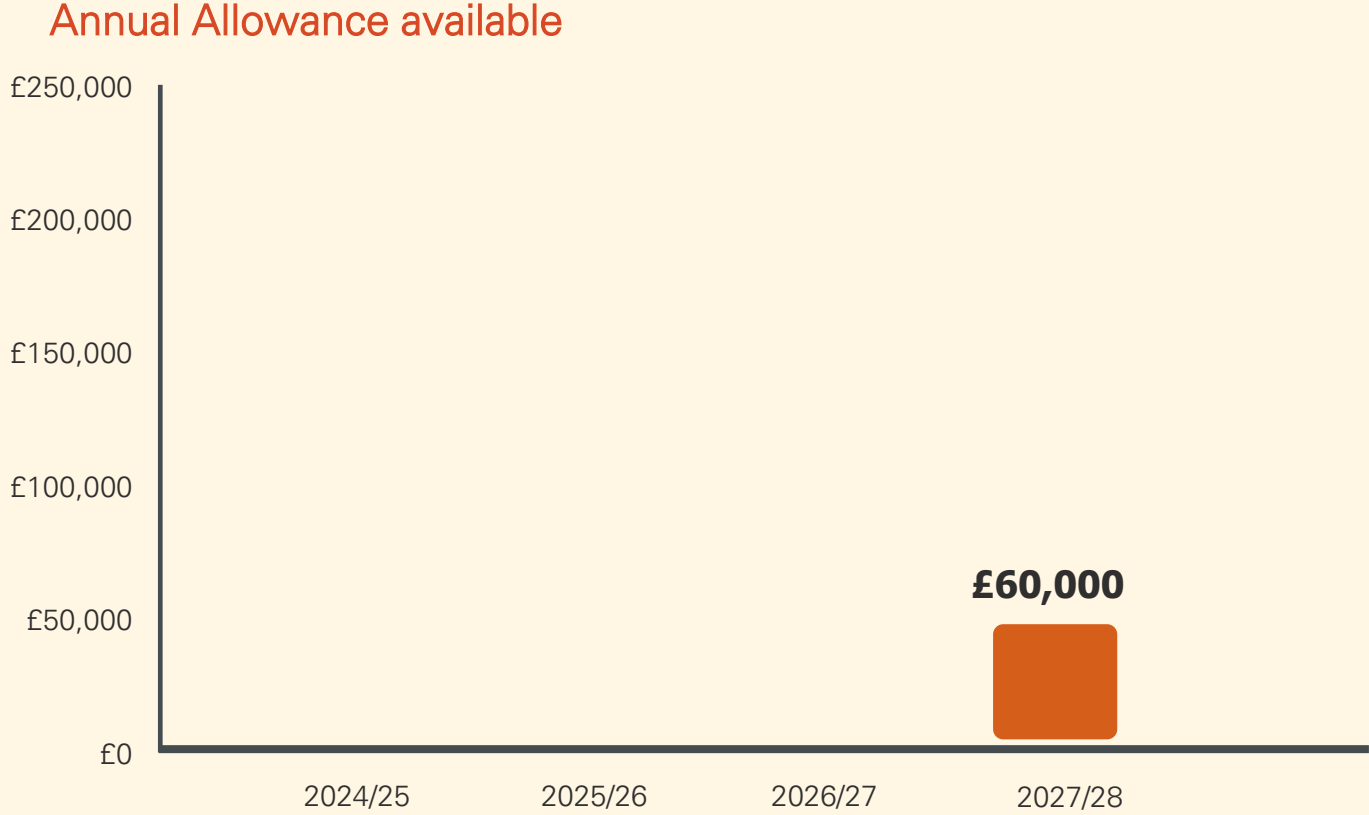
	2020/21	2021/22	2022/23	2023/24	2024/25
Pension Inputs	£26,000	£25,000	£49,000	£92,000	
Unused	£14,000	£15,000	£11,000	-£32,000	£60,000
Used in 2023/24	£14,000	£15,000	£3,000	-£32,000	
Unused for 2024/25	£0	£0	£8,000	£0	£8,000
					£68,000

Don't look back for just 3 years...

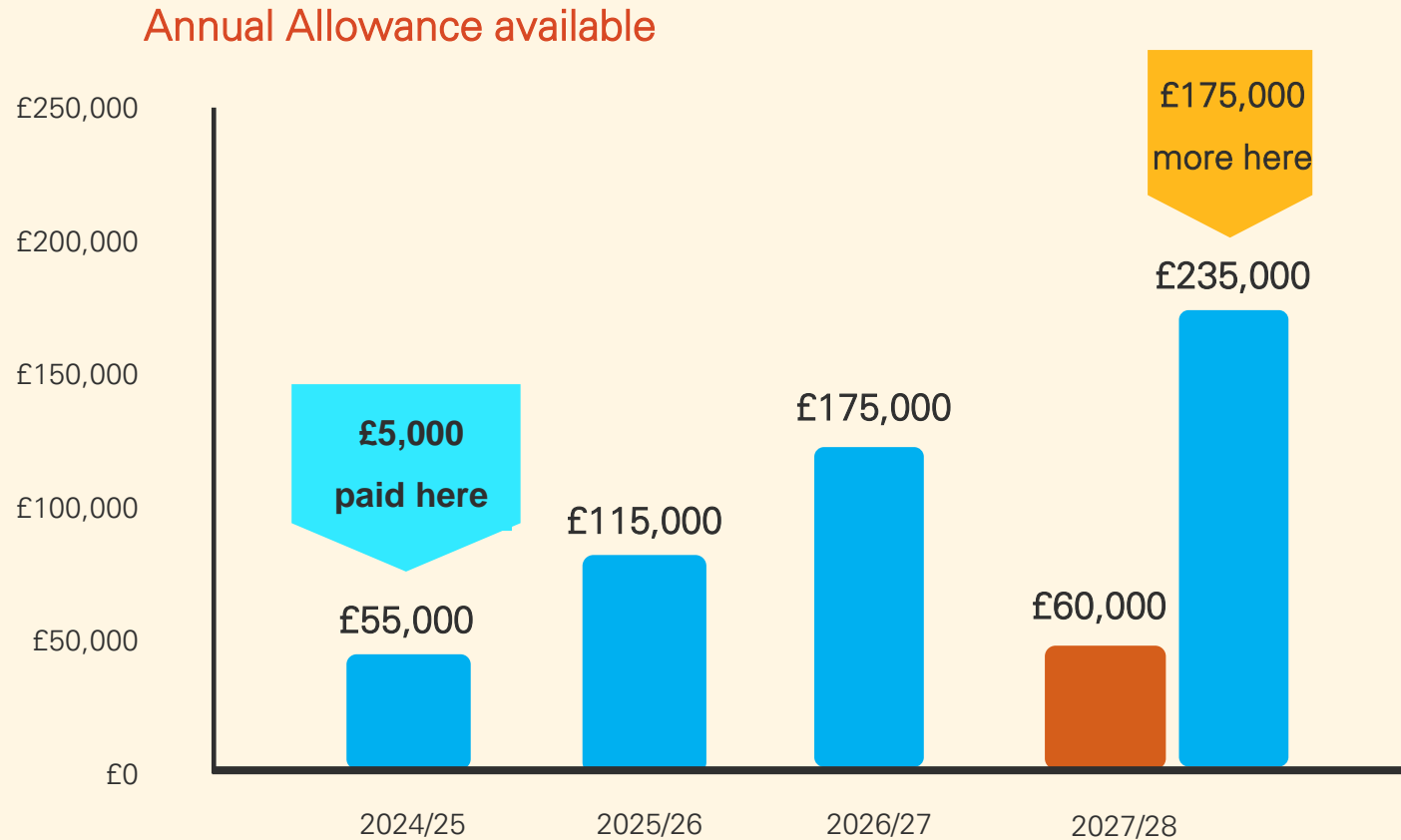
1. Go back until you've three excess free years
2. Uncover unused allowances



# The benefits of joining a pension plan early



# The benefits of joining a pension plan early





MONEY  
PURCHASE  
ANNUAL  
ALLOWANCE

# Flexibly accessing benefits

UFPLS

Payment from post  
April 15 flexible  
annuity

Income from  
Flexi-access  
Drawdown

Capped Drawdown  
payment above cap

Scheme Pension  
< 12 members

Flexible Drawdown  
6 April 15

Standalone Lump  
Sum  
Primary Protected  
TFC

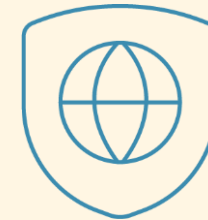
# What does NOT trigger MPAA



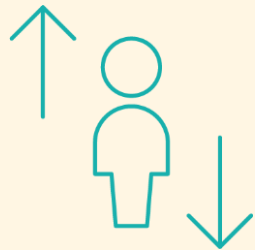
DB arrangements



Small pots or DB triviality payment



PCLS, nil income



Beneficiary FAD Income

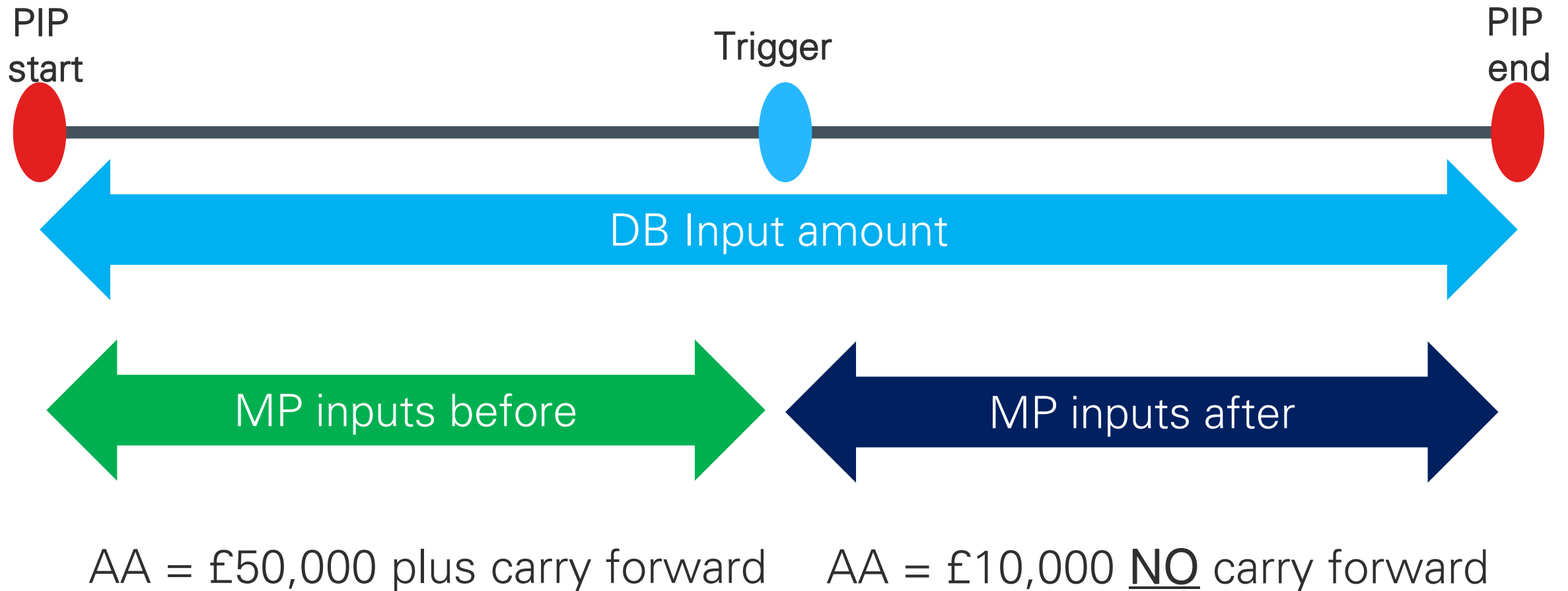


Disqualifying pension credit usage



Capped Drawdown income within GAD

# MPAA Limits



# What is the alternative allowance?



If the MPAA is triggered, the alternative annual allowance still applies

- Standard alternative is £50,000
  - Used by DB and pre-trigger MP inputs
- If high earner, might trigger taper
- Taper must be calculated annually
- Can be increased using carry forward

Calculate and consider the correct chargeable amount.....



# TAPERED ANNUAL ALLOWANCE



# Threshold Income & Adjusted Income

"Threshold income" > £200,000 from 2020/21

"Adjusted income" > £260,000 from 2023/24

"Threshold income" > £110,000 2016/17 to 2019/20

"Adjusted income" > £240,000 2020/21 to 2022/23  
> £150,000 2016/17 to 2019/20

Total Income

Total Income

Allowable reliefs

Allowable reliefs

Personal Pension Contributions

"Paid Gross" pension contributions (individual)

Employment Income given up > 9 July 2015

Employer Pension Contributions

Taxable lump sum death benefits

Taxable lump sum death benefits

# What's included in Total Income?

Income Tax Act 2007  
(Section 23)

Allowable Reliefs  
(Sections 24 & 25)

Bond Gains  
(FULL AMOUNT)

Dividends  
(including nil rate)

Savings  
(including nil rate)

Self-Employed  
Income

Buy To Let  
(Taxable Amount)

Pension Income

Employment Income



Total  
Income

# UK Income Tax computation (abridged)

Key building block of adjusted and threshold income – amount after step 2

## Payroll Giving

- deduction from employment income
- Step 1
- Yes

## Gift Aid

- Increases tax bands
- Step 4
- Only RAS contributions (also step 4) reduce threshold income
- No

**Step 1** Identify and add together the amounts of income on which the individual is chargeable to income tax.

**Step 2** Identify and deduct from the income in Step 1 those deductions that can be made from total income (other than personal reliefs, which are deductible in Step 3 or given effect at Step 6 depending on their nature).

**Step 3**

.....

**Step 4** Apply the appropriate tax rates to the various components of taxable income.

**Step 5**

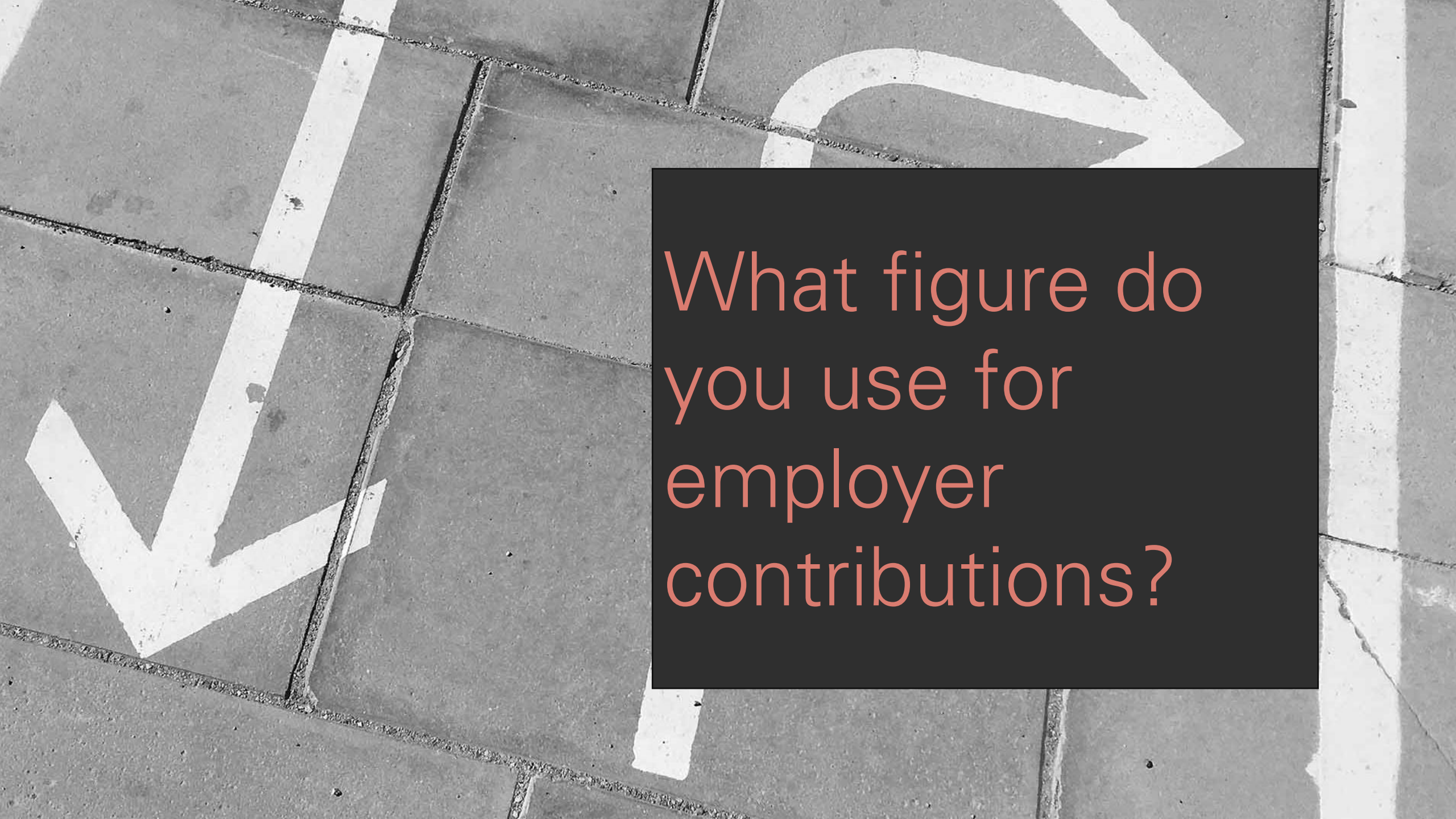
.....

**Step 6**

.....

**Step 7**

.....



What figure do  
you use for  
employer  
contributions?

# Money Purchase Inputs

The calculation

~~Your  
Contributions~~

Your  
Employer  
Contributions

~~Third  
Party  
Contributions~~

# DB Inputs

The calculation

$$\left( \text{Value* at end of year} - \left\{ \text{Value* at start of year} \times \text{Inflation (CPI)} \right\} \right) \times 16$$

\*Value = pension accrued

plus

one times cash by addition

LESS

The employee contribution to the scheme

# The Easy Way

**Instructions:**  
Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant.  
For income definitions see Pensions Tax Manual - PTM057100

		Adjusted Income	Threshold Income
Total Income <small>(please remember to deduct net pay contributions from this figure)</small>	<input type="text" value="£0.00"/>	£0.00 -	£0.00 -
Allowable Reliefs	<input type="text" value="£0.00"/>	£0.00 +	£0.00
Net Pay Contributions <small>(including any s226 contributions)</small>	<input type="text" value="£0.00"/>	£0.00	-
Relief at Source contributions (Gross)	<input type="text" value="£0.00"/>	-	£0.00
<b>Value of employer pension contributions</b>			
Employer Pension Contributions to Money Purchase	<input type="text" value="£0.00"/>	£0.00 +	-
Total DB Pension Input Amount for year	<input type="text" value="£0.00"/>	£0.00 -	-
Total gross employee contribution to DB scheme(s) included above	<input type="text" value="£0.00"/>	£0.00	-
Employment Income given up post 09/07/15 <small>e.g. Salary Sacrifice - Remember to add the new employer contribution above</small>	<input type="text" value="£0.00"/>	-	£0.00 +
Taxable Lump Sum Death Benefits (Gross Value)	<input type="text" value="£0.00"/>	£0.00	£0.00
<b>Totals</b>		<u>£0.00</u>	<u>£0.00</u>
Limit based on		No	No
Is the Taper Triggerged? Annual Allowance for 2022/23	No £40,000		

Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.

For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be roughly two thirds of the remaining AA that has been calculated.

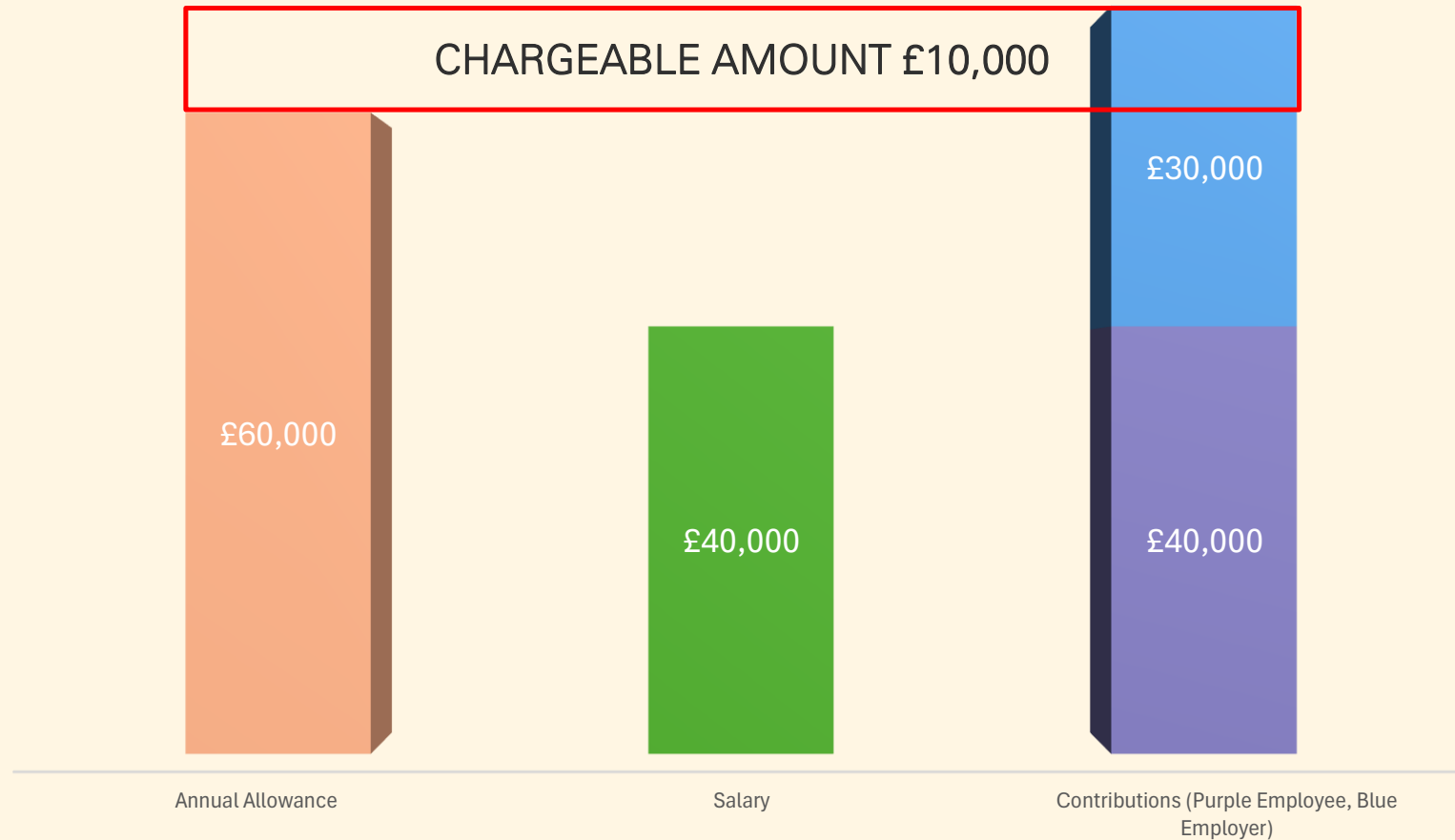
Reset



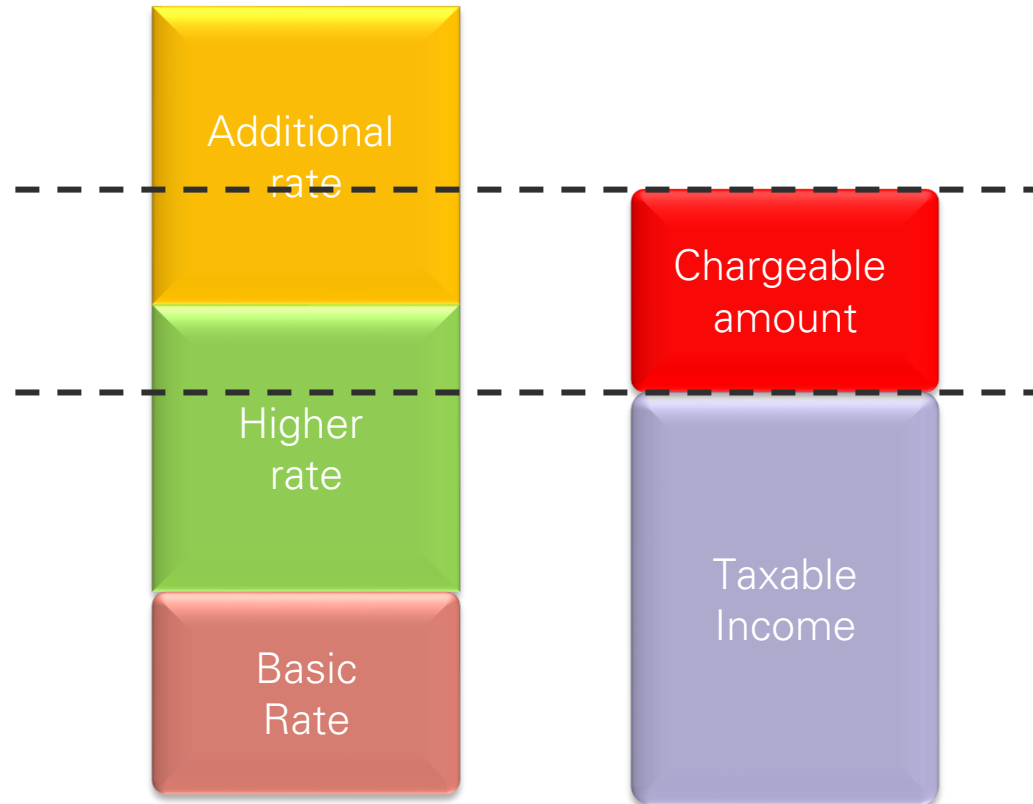
EXCEEDING THE  
AA AND CARRY  
FORWARD



# Exceeding the allowance



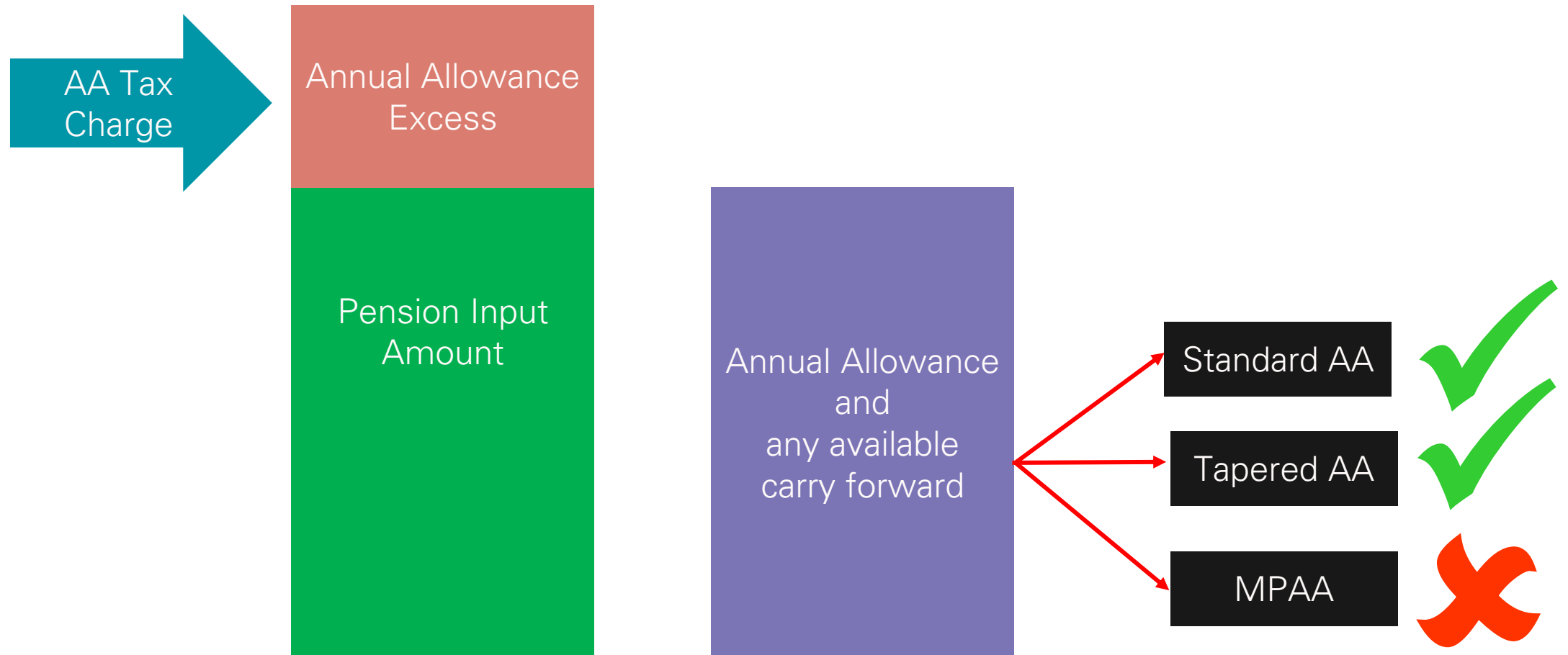
# The tax charge



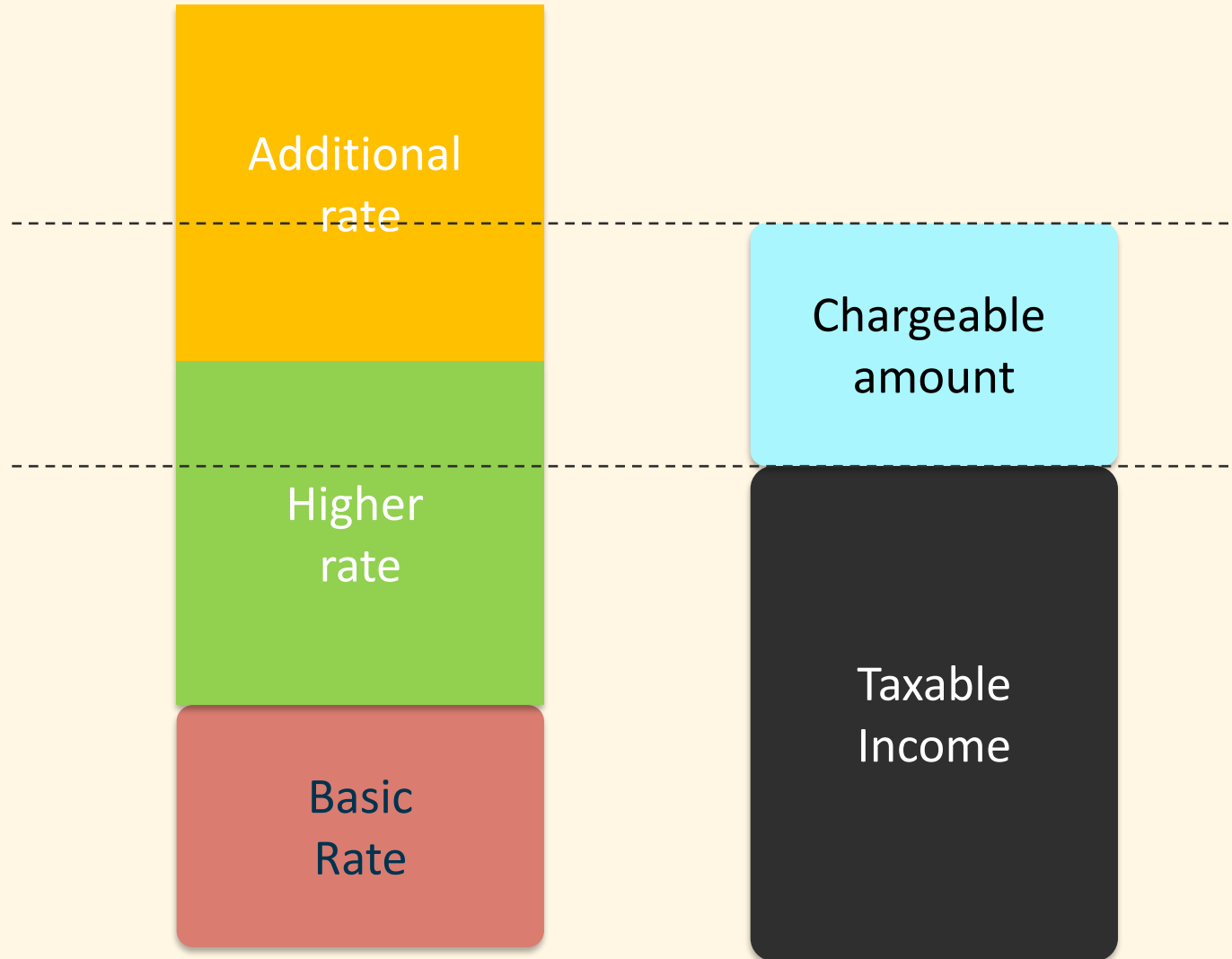


SCHEME PAYS

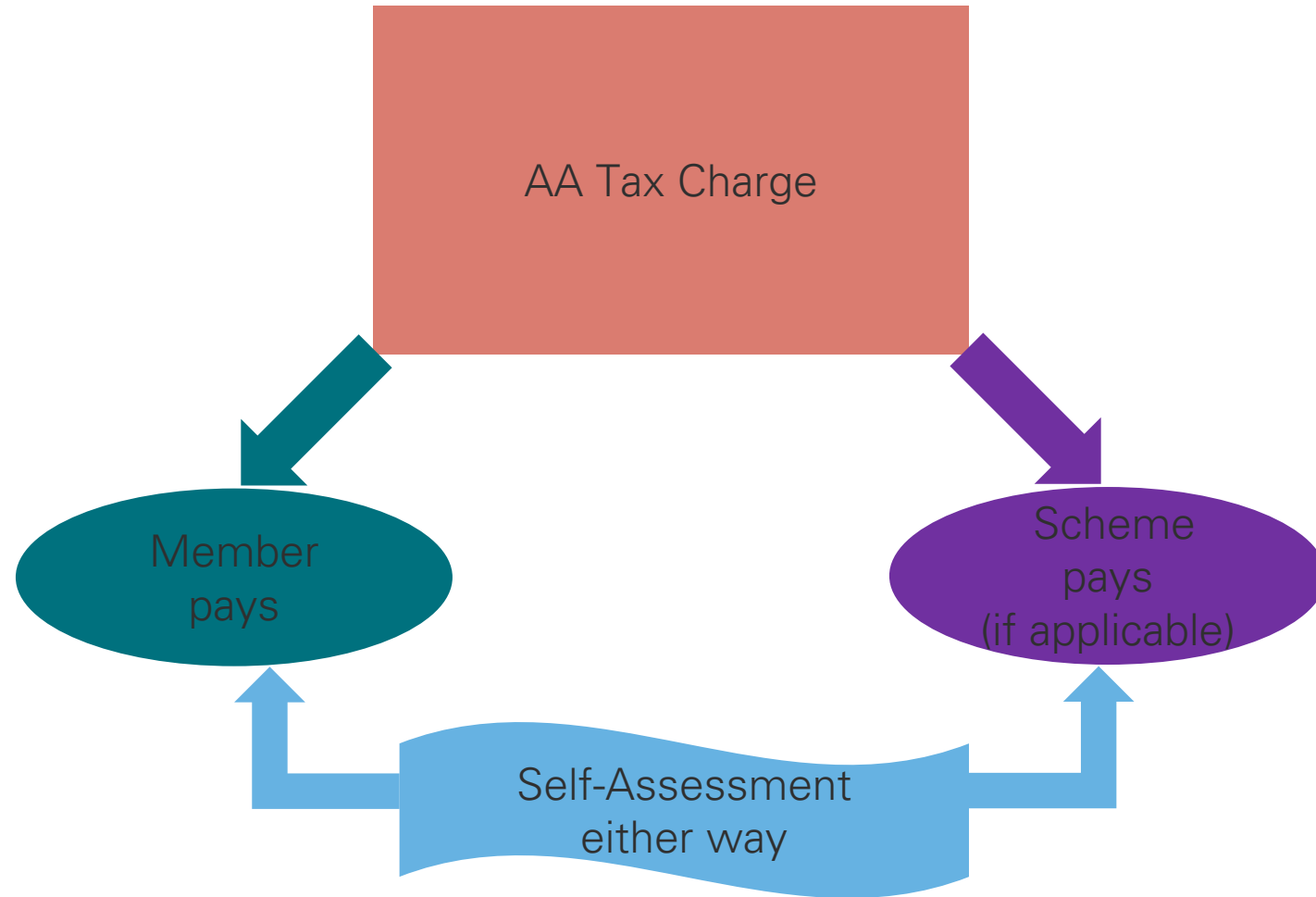
# So why have Scheme Pays?



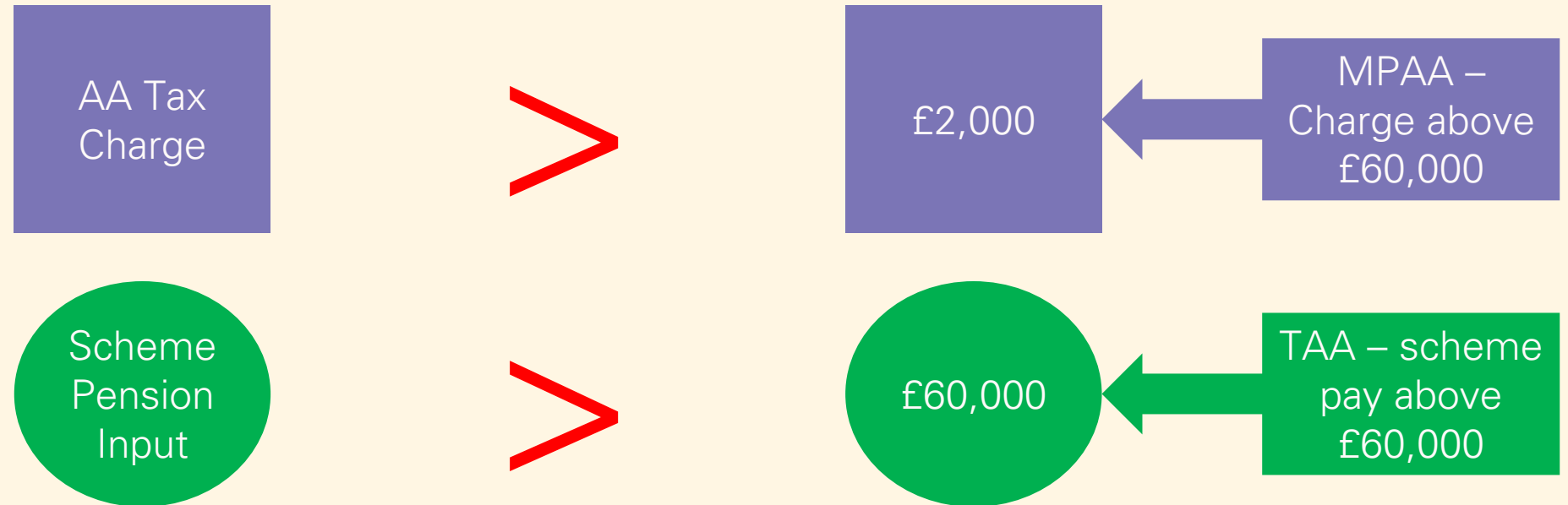
# The tax charge



# So who pays the charge?

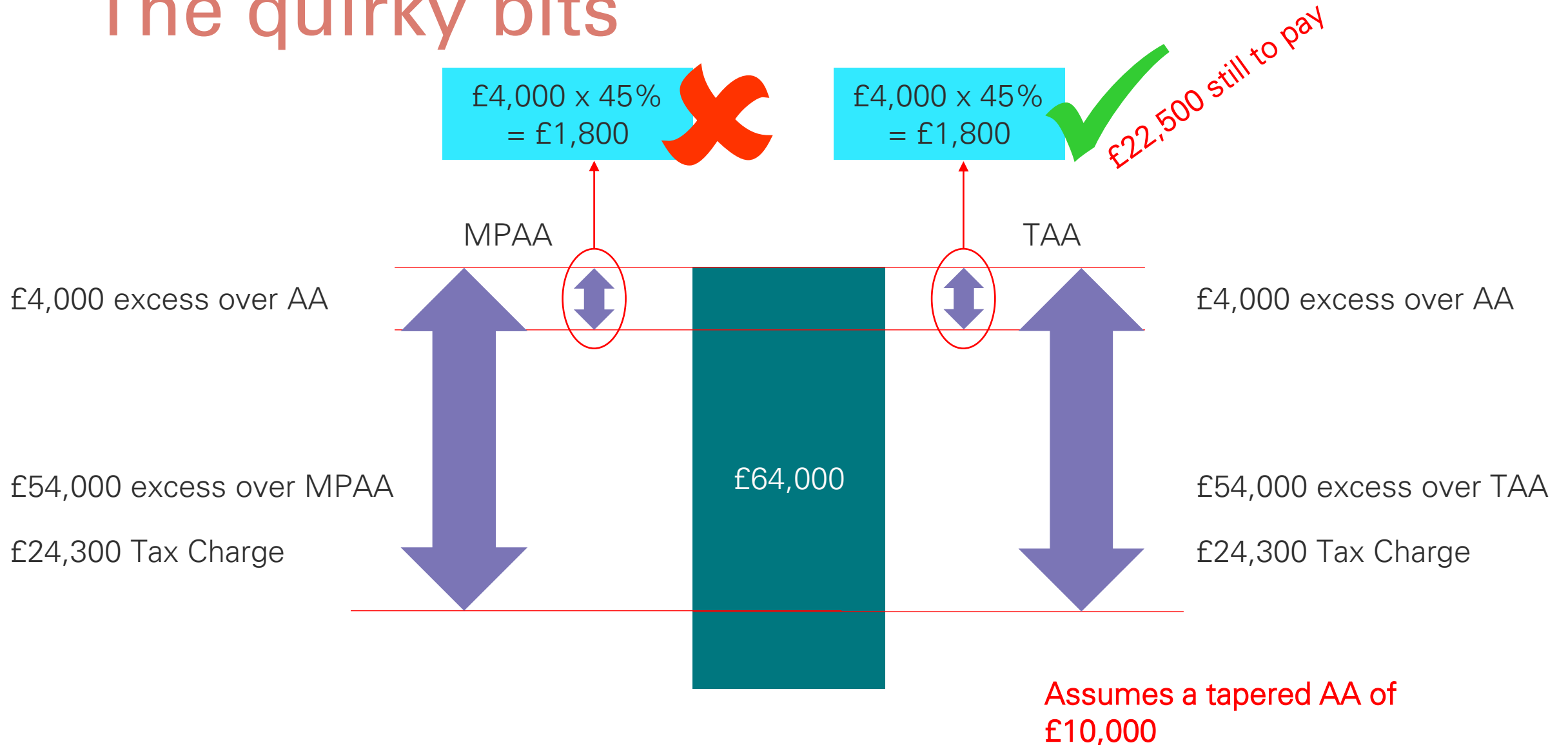


# Mandatory Scheme Pays



Member notice submitted by deadline in legislation  
(31<sup>st</sup> July TWO tax years post the excess)

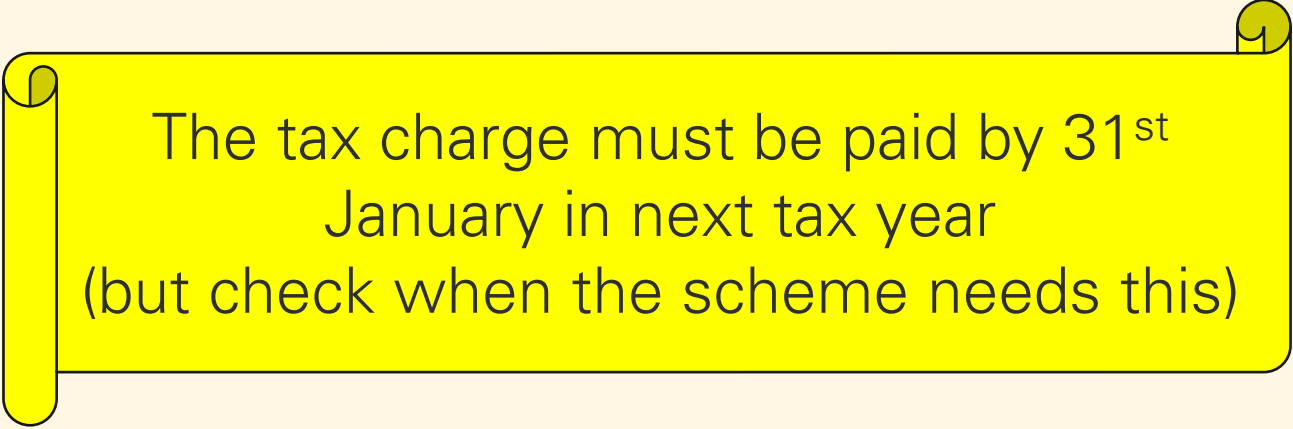
# The quirky bits





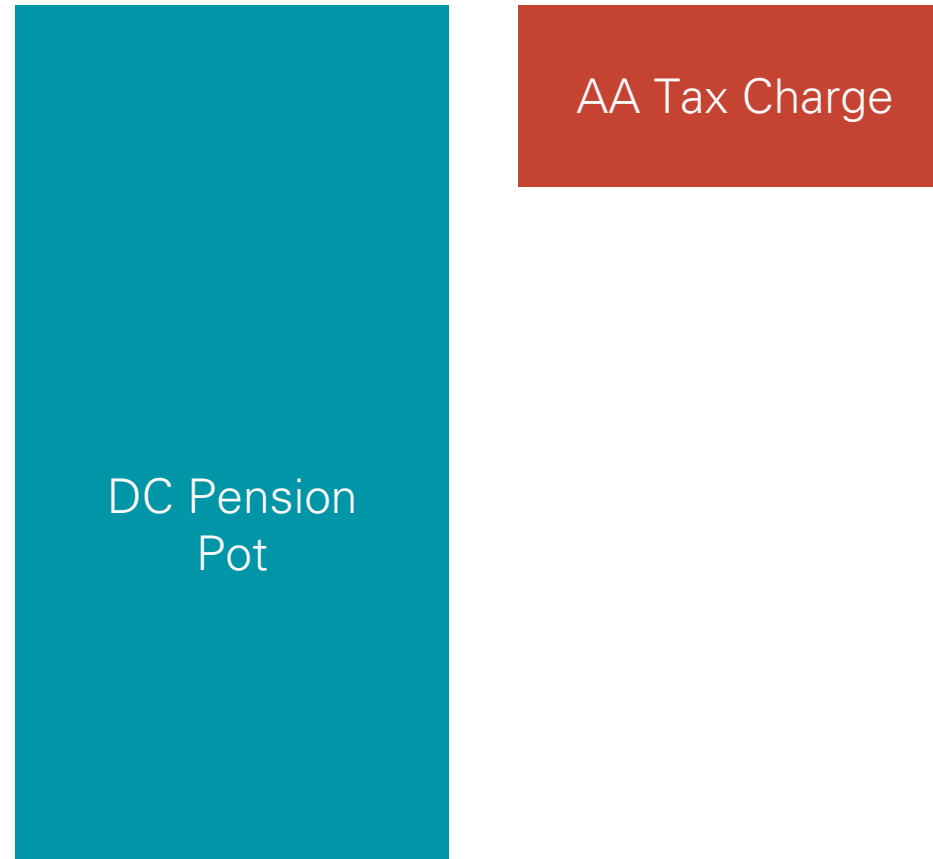
# Voluntary Scheme Pays

Only condition is the scheme must “volunteer”!

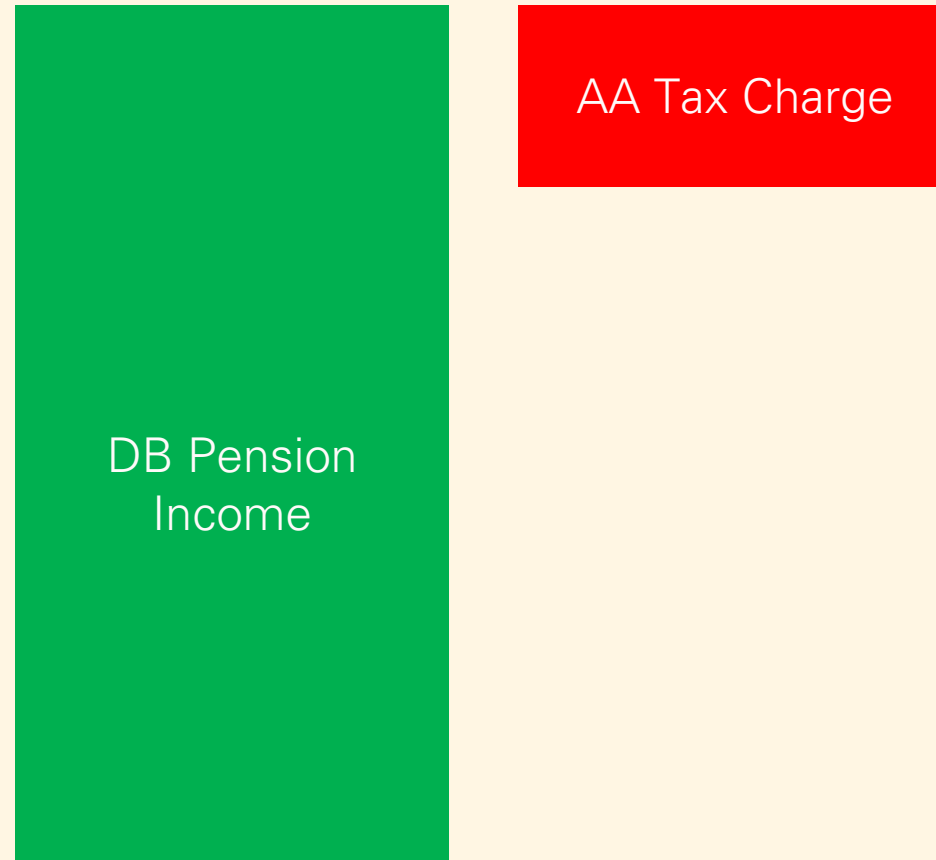
A yellow callout box with a black border and rounded corners, featuring a scroll effect on the left side. It contains text about tax charges.

The tax charge must be paid by 31<sup>st</sup>  
January in next tax year  
(but check when the scheme needs this)

# What the scheme does after paying the charge



# What the scheme does after paying the charge



# PLANNING



# Do you just stop at the AA?

£100k  
salary

Employer 6%

Employee 6%  
Employer 6%

Employee 6%  
Employer 12%

Pension  
Fund

£6,000

£12,000

£18,000

Pension Fund less  
40% AA Charge

£3,600

£7,200

£10,800

Net cost

40% taxpayer – **Scheme Pays**

£0

£3,600

£3,600

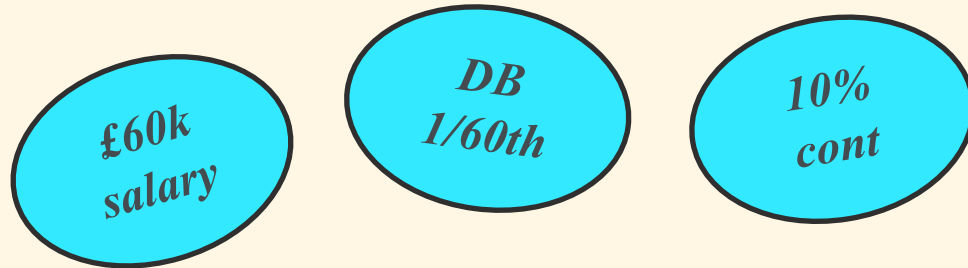
Pension taken in  
Basic Rate (25% PCLS)

£3,060

£6,120

£9,180

# Do do you just stop at the AA?



Pension Accrued	$60,000/60 = \text{£}1,000$	Deduction (20:1)	$\text{£}6,400/20 = \text{£}320$
AA used	$\text{£}16,000$	Pension after AA charge	$\text{£}1,000 - \text{£}320 = \text{£}680$
AA charge 40%	$\text{£}6,400$	Net cost	$\text{£}6,000 - 40\% = \text{£}3,600$
		Net cost <b>Member Pays</b>	$\text{£}10,000$

# Case study: Peter



“Salary” £285,000



Personal net pay  
contributions £10,000



Employer Contributions  
£20,000



£7,500 of AA Left



Employer makes extra  
payment of £7,500



(Uses all available AA?)

# It depends on how you do it!

Total Inputs  
£30,000

AA Excess  
£0

*Instructions:*  
Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant.  
For income definitions see Pensions Tax Manual - PTM057100

Total Income <small>(please remember to deduct net pay contributions from this figure)</small>	£275,000.00	£275,000	£275,000
Allowable Reliefs	£0.00	£0	£0
Net Pay Contributions <small>(including any s226 contributions)</small>	£10,000.00	£10,000	-
Relief at Source contributions (Gross)	£0.00	+	£0
<b>Value of employer pension contributions</b>			
Employer Pension Contributions to Money Purchase	£27,500.00	£27,500	+
Total DB Pension Input Amount for year	£0.00	£0	-
Total gross employee contribution to DB scheme(s) included above	£0.00	£0	-
Employment Income given up post 09/07/15	£0.00	-	+
Taxable Lump Sum Death Benefits (Gross Value)	£0.00	£0	£0
		£312,500	£275,000
		Yes	Yes

Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.

For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be two thirds of the remaining AA that has been calculated.

2024/25 Tax Year

Is the Taper Triggered?  
Annual Allowance for 2024: **£33,750**

Reset

Total Inputs  
£37,500

AA Excess  
£3,750



# Case Study: Peter



“Salary” £285,000



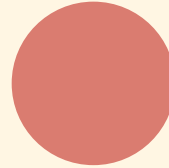
Personal net pay  
contributions £10,000



Employer Contributions  
£20,000



£7,500 of AA Left



Has £67,500 carry  
forward



£75,000 of RAS payment  
made gross (£60,000 net)



(Uses all available AA?)

# It depends on how you do it!

**Instructions:**  
Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant.  
For income definitions see Pensions Tax Manual - PTM057100

**2024/25 Tax Year**

	Adjusted Income	Threshold Income
Total Income <small>(please remember to deduct net pay contributions from this figure)</small>	£275,000.00	£275,000
Allowable Reliefs	£0.00	£0
Net Pay Contributions <small>(including any s228 contributions)</small>	£10,000.00	-
Relief at Source contributions (Gross)	£75,000.00	£75,000
<b>Value of employer pension contributions</b>		
Employer Pension Contributions to Money Purchase	£20,000.00	-
Total DB Pension Input Amount for year	£0.00	-
Total gross employee contribution to DB scheme(s) included above	£0.00	-
Employment Income given up post 09/07/15	£0.00	£0
Taxable Lump Sum Death Benefits (Gross Value)	£0.00	£0
	£305,000	£200,000
	Yes	No
Is the Taper triggered?	No	No
Annual Allowance for 2024	£60,000	£60,000

Reset

**Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.**

**For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be two thirds of the remaining AA that has been calculated.**

£7.5k left this year

Had £67.5k carry forward

Makes £75k RAS contribution

Threshold Income now £200k

NO Taper = £22.5k extra AA

£22.5k extra can be employee or employer, this won't affect threshold.

# If only there was an easy way to do this...

## Annual Allowance Calculator

built by M&G

Tax Year 2024/25

What tax year did individual first join a pension?  
(If a member prior to 2008/09 tax year select 2008/09)

2008/09

**Instructions for use**  
 Step1: Input tax year first joined a pension scheme.  
 Step2: Calculate tapered AA if applicable using grey button on right hand side.  
 Step3: Input existing pension input amounts in white boxes. Inputs are required until there is 3 clear years with no AA excess

Total inputs for PIPs ending in Tax Year: Existing Inputs

2008/09	£	-
2009/10	£	-
2010/11	£	-
2011/12	£	-
Inputs prior to 14/10/2010	£	-
Inputs on or after 14/10/2010	£	-
2012/13	£	-
2013/14	£	-
2014/15	£	-
2015/16	£	-
Inputs prior to 09/07/15	£	-
Inputs on or after 09/07/15	£	-
2016/17	£	-
2017/18	£	-
2018/19	£	-
2019/20	£	-
2020/21	£	-
2021/22	£	-
2022/23	£	-
2023/24	£	-
2024/25	£	-

2008/09 to 2010/11 - Inputs are capped at £50,000 for Carry Forward calculations

Straddling PIPs - if total inputs are less than or equal to £50,000 then put all in as post 14/10/2010. If total inputs are over £50,000 then you need to enter the pre and post 14/10/10 split of inputs.

**Tapered Annual Allowance Details**

£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-
£	-

Input the taper figures here if known - or select relevant tab(s) to calculate.

Reset Summary

**Summary Information**

Existing Inputs	
Annual Allowance	£60,000
Total Inputs	£0
Unused allowance from this year	£60,000
Carry Forward available from:	
2021/22	£40,000
2022/23	£40,000
2023/24	£60,000
	£140,000
Maximum Allowance Remaining This Year	£200,000
Chargeable Amount	£0

See Carry Forward Workings for summary or full calculation

## Tapered Annual Allowance Calculations

built by M&G

**Instructions:**  
 Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant.  
 For income definitions see Pensions Tax Manual - PTM057100

2024/25 Tax Year

	Adjusted Income	Threshold Income
Total Income (please remember to deduct net pay contributions from this figure)	£0.00	£0
Allowable Reliefs	£0.00	£0
Net Pay Contributions (including any s226 contributions)	£0.00	-
Relief at Source contributions (Gross)	£0.00	£0
<b>Value of employer pension contributions</b>		
Employer Pension Contributions to Money Purchase	£0.00	-
Total DB Pension Input Amount for year	£0.00	-
Total gross employee contribution to DB scheme(s) included above	£0.00	-
Employment Income given up post 09/07/15	£0.00	£0
Taxable Lump Sum Death Benefits (Gross Value)	£0.00	£0
	£0	£0
	No	No
Is the Taper Triggered? Annual Allowance for 2024/25		No £60,000
Reset		

Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.

For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be two thirds of the remaining AA that has been calculated.

# Learning Objectives

By the end of this session you will be able to:

Describe the operation of the annual allowances

Calculate the available annual allowances for specific clients

Explain the taxation of annual allowance excesses

# Tech Matters

Award winning technical support for Financial Professionals



Pensions



Investment & Taxation



IHT & Estate Planning



Tools and Calculators



Events & CPD

## News & Views

[Our Technical team in the Press](#) →

Last Updated: 6 Apr 24 | 2 min read

[Pension savings statements \(PSS\)](#) →

Last Updated: 6 Mar 24 | 20 min read

[Spring Budget 2024](#) →

[See all](#) →

## Les recommends

[LTA Transitional Tax Free Amount Tool](#) →

6 Apr 24 | 10 min read

[Transitional Tax Free Amount Certificates \(TTFAC\)](#) →

6 Apr 24 | 36 min read

[UK investment bonds: taxation facts](#) →

6 Apr 24 | 7 min watch

[ISA allowances](#) →

## Next event

18 Apr 24 | 4 min read

[Quite simply – the new pension allowances](#) →

## On-demand events

Last Updated: 27 Mar 24 | 60 min read

[Paraplanners Assembly 2024: What do paraplanners need to know following the Budget?](#) →

7 Mar 24 | 90 min watch



Search for posts in this group



Les Cameron **Manager**

Joined group: Feb 2023

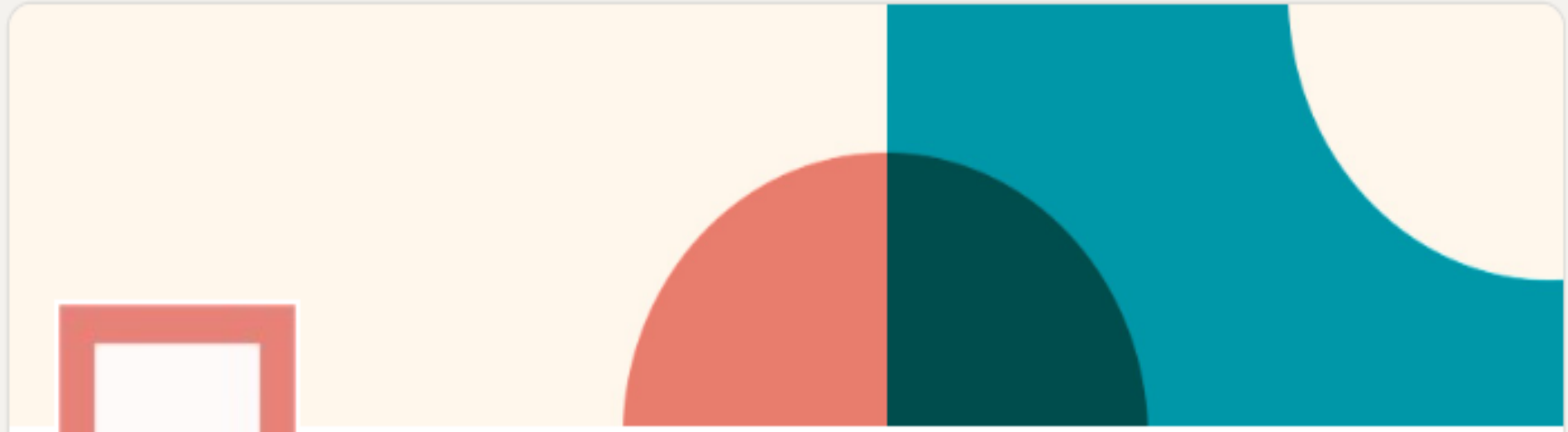
Pending posts 0

Requests to join 3

Manage group

Recent

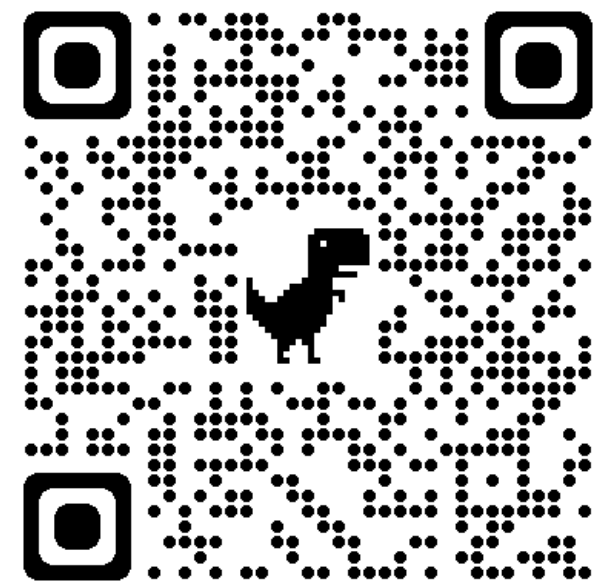
M&G Wealth - Tech Matters



# M&G Wealth - Tech Matters

Private Listed

**Active Group** [View activity](#)



# QUESTION TIME



YOU CAN ASK A QUESTION VIA THE Q&A BUTTON

# Thanks for your time

Get in touch with your usual contact if you need further help.







M&G Wealth is a trademarked brand of the M&G plc group, which includes 3 business divisions as follows:

M&G Wealth Advice, provided by M&G Wealth Advice Limited, registered number: 08022795. Model Portfolio Services, provided by M&G Wealth Investments LLP, registered number: 0C305442. M&G Wealth Platform, provided by Investment Funds Direct Limited, registered number: 11444019. Each legal entity is registered in England and Wales and has its registered address at 10 Fenchurch Avenue, London EC3M 5AG. Each legal entity is also a subsidiary of M&G plc and is authorised and regulated by the Financial Conduct Authority.

M&G plc, incorporated and registered in England and Wales. Registered office: 10 Fenchurch Avenue, London EC3M 5AG. Registered number: 11444019. M&G plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.