

PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

Tax and Pensions

TAX RELIEF

ANNUAL ALLOWANCE

THE LIFETIME ALLOWANCE (LTA)

THE BEST COURSE FOR OUR CLIENTS



Tax relief on pension contributions continues to benefit many; but as most high earners discover as their careers progress, there are limits to the taxman's generosity.

Tax relief

For many decades, successive governments adopted a benevolent view of citizens saving for the future. This was partly because thrift was recognised as virtuous and partly because people with savings were less likely to need financial support from the authorities. Offering tax relief on pension contributions was a major plank of this strategy and grateful individuals have been enjoying the benefit ever since.

Many taxpayers across the earnings spectrum were naturally inclined to make the best use they could of the tax relief facility. So, high earners were able to save tax at their highest marginal rate on very substantial pension contributions. Curtailment of this entitlement was probably inevitable and in 2006 the newly formed HM Revenue & Customs (HMRC) introduced annual and lifetime allowances.

Annual Allowance

The Annual Allowance in effect places a cap on the level of pension contributions anyone may make with the benefit of tax relief and it takes into account employer contributions; anything above the cap would not qualify for relief. For its debut in April 2006, the Annual Allowance was set at £215,000 and it rose to £255,000 before being cut back sharply to £50,000 in April 2011. It was further reduced to £40,000 in April 2014 and remained at this level for 9 years. The Annual Allowance for 2024-25 is £60,000.

Individuals are able to carry forward any unutilised allowance from the previous three tax years.

Utilising the Annual Allowance and carry forward relief can benefit workers approaching retirement who may have neglected pension saving in the past.

The **adjusted income** threshold for Annual Allowance tapering is £260,000. Individuals



also need to consider threshold income when calculating the pension Annual Allowance. This is £200,000 for 2024-25. Providing both adjusted income and **threshold income** levels are exceeded, the Annual Allowance will reduce by £1 for every £2 the adjusted income exceeds £260k. The minimum tapered Annual Allowance is £10,000.

The **Money Purchase Annual Allowance (MPAA)** is £10,000. This is the amount you can pay into your pension after you have flexibly accessed pension benefits, and still enjoy tax relief. The additional MPAA means anyone already using their pension but continuing to work, or looking to return to work, is incentivised to do so as they can increase the size of their pension pot and receive tax relief.

The Lifetime Allowance (LTA)

The LTA was formally abolished in April 2024, allowing people to save more into their pension over their lifetime without facing tax charges for exceeding it.

This will impact the highest earners, those with generous company pensions and those wanting to aggressively fund their pensions later in life.

The best course for our clients

Professional pension advice is essential to ensure you make the most suitable decisions with your pension and to maximise your pension provision



without encountering tax issues.

Various choices may be available, depending upon your specific circumstances. For example, it may be advisable to stop making pension contributions and direct any further retirement savings towards other forms of investment deemed suitable for your needs.

The various allowances, coupled with the April 2015 freedoms around how and when pension pots may be invested, drawn upon and inherited, may seem daunting. From April 2027, it is proposed that pensions will also be subject to Inheritance Tax. Our expert advisers have been working with the current rules since their inception and are equipped to present a full range of options to clients and advise on selection of the most appropriate course.

We're here to help

We're only a phone call or email away. If you have any queries or would like to discuss any aspect of pensions, tax relief or HMRC allowances, please do get in touch.

020 7444 4030 |
info@partnerswealthmanagement.co.uk

PARTNERS WEALTH MANAGEMENT

020 7444 4030

info@partnerswealthmanagement.co.uk

partnerswealthmanagement.co.uk

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.

Partners Wealth Management is the trading name of Partners Wealth Management LLP and Partners Wealth Management Solutions Limited.

Partners Wealth Management LLP is registered in England and Wales No. OC307751. Authorised and regulated by the Financial Conduct Authority. FCA Registered No. 442303. Registered office: 1 Angel Court, London, EC2R 7HJ.

Partners Wealth Management Solutions Limited is registered in England and Wales No. 09865585. Authorised and regulated by the Financial Conduct Authority. FCA Registered No. 739045. Registered office: 1 Angel Court, London, EC2R 7HJ.