

An introduction to \_\_\_\_\_



# Tax and \_\_\_\_\_ \_\_\_\_\_ pensions

Your guide to smarter pension planning

# Introduction

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**Pensions remain one of the most tax-efficient ways to save for the long term.** But as your earnings increase over time, you'll notice that the tax advantages only go so far. Understanding the tax benefits available – and the limits that apply – can help you make confident, informed decisions about your retirement planning.

For many years, the government encouraged people to save for the future by offering generous tax relief on pension contributions. This made pensions one of the most effective ways to build long-term financial security, particularly for higher earners who could contribute at their marginal rate of tax. Yet as more people made use of these incentives, the cost to the Treasury grew. To balance affordability with continued support for savers, limits such as the Annual Allowance and Lifetime Allowance were introduced – shaping the framework we use today.

**We'll help you make the most of the opportunities available and keep your pension planning on track.**

### How does tax relief work?

You receive tax relief on most pension contributions you make, meaning the government effectively tops up what you save. The amount of relief you receive depends on your Income Tax rate, and contributions are usually made from your taxable income. Because tax relief can be valuable over time, it's important to understand how the rules apply to your situation.

### The Annual Allowance

The Annual Allowance limits how much you can contribute to pensions each tax year while still receiving tax relief. At its debut in April 2006, this was £215,000, rising as high as £255,000 in later years. However, for the 2025/26 tax year, this allowance is a far more modest £60,000.

You may also be able to 'carry forward' unused allowance from the previous three tax years, provided you were a member of a UK-registered pension scheme during those years. This is useful if you're approaching retirement and have neglected savings in the past.

If your income exceeds £260,000, your allowance may be gradually reduced through the 'tapered Annual Allowance'. This can reduce your allowance to as little as £10,000, depending on your levels of income.

### Money Purchase Annual Allowance (MPAA)

Once you take taxable income from a defined contribution pension – known as 'flexible access' – your future contributions may be limited by the Money Purchase Annual Allowance, which is currently £10,000 a year. This rule helps prevent you from withdrawing pension funds and then reinvesting them solely for the tax relief. It also means that if you begin taking money from your pension but continue to work and contribute, you must stay within the £10,000 limit to continue benefiting from tax relief.

### Lifetime Allowance (LTA) changes

The LTA was abolished in April 2024, allowing people to save more into their pension over their lifetime without facing tax charges for exceeding it. This will benefit the highest earners, those with generous company pensions and those wanting to aggressively fund their pensions later in life. However, limits still apply to the amount of tax-free cash you can take, and those with existing protections should seek advice before making changes.

### Inheritance Tax and pensions

Pensions have long been a valuable part of estate planning because, under current rules, pension funds are generally exempt from Inheritance Tax (IHT) when passed to beneficiaries. From 6 April 2027, this will change and pensions will be included in the value of an individual's estate for IHT purposes. This is a significant shift that could increase IHT liabilities for many estates so getting expert advice closer to the time will be crucial.

### How to make the most of your allowances

Using pension allowances effectively can make a meaningful difference to your long-term financial position. Our expert advisers have been working with the current rules since their inception. They can help you avoid unnecessary tax charges and build a strategy that supports your wider goals.

#### We're here to help

If you have any questions or would like to talk through your pension options, tax relief or allowances in more detail, we're here to help. Just give us a call or send us an email.

**020 7444 4030**

**[info@partnerswealthmanagement.co.uk](mailto:info@partnerswealthmanagement.co.uk)**  
**[partnerswealthmanagement.co.uk](https://partnerswealthmanagement.co.uk)**



**PWM** Partners  
Wealth  
Management

**020 7444 4030**

**[info@partnerswealthmanagement.co.uk](mailto:info@partnerswealthmanagement.co.uk)**

**[partnerswealthmanagement.co.uk](https://partnerswealthmanagement.co.uk)**

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