This document is for investment professionals only and should not be relied upon by private investors.

Pension contributions

Checklist

Adviser Solutions

Fidelity INTERNATIONAL

Our checklist is designed to highlight important considerations for clients making pension contributions. While there is no limit to the amount that can be saved into pensions each tax year, there is a limit in respect of the contributions that can potentially receive tax relief.

Additionally, contributions from all sources (including any paid by the employer) will be assessed against the 'annual allowance' available for the tax year. If this limit is exceeded, the savings in excess of the annual allowance will be subject to a tax charge.

You can navigate the guide from the table of contents below. Click on the segment you would like to review and you will be taken directly to the page.

Contents

1. Consider tax relief available

1.1 Personal contributions

Tax relief is available provided that the individual is:

- An active member of a registered pension scheme.
- A relevant UK individual (section 189 Finance Act 2004).
- Under the age of 75 at the time the contribution is made.

The maximum amount of pension contributions paid by the individual (or by a third party on their behalf) that can potentially receive tax relief in any tax year is the greater of:

- The amount of the individual's 'relevant' UK earnings subject to income tax in that tax year, or
- £3,600.

1.2 'Relevant' UK earnings

Section 189 (2-7) of the Finance Act 2004. 'Relevant' earnings include any one or more of the following types of income (select list):

- Employment income (including salary, bonus, commission, etc).
- The part of a redundancy payment above £30,000.
- Taxable benefits in kind (P11d).
- Statutory sick pay and statutory maternity pay, paid by the employer and taxable under section 7(2) Income Tax (Earnings and Pensions) Act 2003.
- Permanent health insurance (PHI) paid by the employer while still in employment.
- Income from a trade, profession or vocation that is chargeable under Part 2 Income Tax (Trading and Other Income) Act 2005.
- Certain types of patent income.

1.3 Individuals who move overseas

Individuals who are members of a registered pension scheme and are no longer resident in the UK will be able to contribute up to £3,600 and receive tax relief, if they were resident in the UK:

- The tax year when they became a member of the pension scheme.

AND

- At some point during the five tax years before the tax year in which they make the contribution.

1.4 Employer contributions

Employer contributions are paid gross into pension schemes. The contribution will need to meet the 'wholly and exclusively' rule for tax relief to be given. More details on this rule can be found in the Business Income Manual (BIM30000).

2. Consider annual allowance available

2.1 Standard annual allowance limits

- The annual allowance was introduced with A day in the 2006/07 tax year.
- The limit applies to all pension savings, including those made by the individual themselves, by their employer or any other third party.
- The annual allowance is not a restriction on the amount of tax relief given when the savings are made, but works by applying a tax charge when the allowance is exceeded.

Tax year	Standard annual allowance
2023/24 onwards	£60,000
2014/15 to 2022/23	£40,000*

*The tax year 2015/16 was split into two 'mini' years. The allowance was £80,000 for the period between 6/4/15 – 8/7/15, a maximum of £40,000 of this allowance could be carried over for the period 9/7/15 – 5/4/16.

2.2 Tapered annual allowance overview

- Applicable since the 2016/17 tax year.
- Only applies where the individual exceeds both the 'threshold income' and 'adjusted income' amounts in a tax year.
- The annual allowance is reduced by £1 for every £2 that the individual is over the adjusted income amount in the tax year.

Tax year	Minimum tapered annual allowance
2023/24 onwards	£10,000
2020/21 to 2022/23	£4,000
2016/17 to 2019/20	£10,000

2.3 Adjusted income definition

An individual's adjusted income is established by taking the following steps:

Start with the individual's net income for the tax year as calculated under steps 1 and 2 of section 23 of the Income Tax Act 2007.

+ The amount of any relief under section 193(4) of Finance Act 2004 (a claim for excess relief under net pay) and section 194(1) (relief on making a claim).

+ The amount of any pension contributions made from employment income and deducted under 'net pay' for the tax year.

+ The value of employer contributions for the year (including those by salary sacrifice).

− The amount of any lump sum death benefit taxable as pension income.

2.4 Threshold income definition

An individual's threshold income is established by taking the following steps:

Start with the individual's net income for the tax year as calculated under steps 1 and 2 of Section 23 of the Income Tax Act 2007.

− The gross amount of any pension contributions made by the individual in the current tax year to which they are entitled to receive tax relief under 'relief at source'.

− The amount of any lump sum death benefit taxable as pension income.

+ The amount of any reduction of employment income for pension provision as a result of any 'salary sacrifice' arrangement made on or after 9 July 2015.

2.5 Adjusted and threshold income limits

Tapering will apply where income is above both the adjusted and threshold income limits in the tax year. These limits are:

Tax years	Threshold income	Adjusted income
2023/24 onwards	£200,000	£260,000
2020/21 to 2022/23	£200,000	£240,000
2016/17 to 2019/20	£110,000	£150,000

2.6 Carry forward

Once the individual has fully utilised their current tax year annual allowance, any unused annual allowance for the previous three tax years can also be used, subject to the following conditions:

- The individual was a member of a registered pension scheme at some point in the tax year for which carry forward is to be used. Refer to PTM025400.
- Unused relief is used in chronological order i.e. oldest year first and then working forward.

While the individual will have needed to be a member of a registered pension scheme in order to qualify for carry forward, the contribution does not have to be made to that scheme.

The unused allowance for the previous tax year is the difference between the total pension input (personal and employer) amount for that year and the annual allowance for that same year. If the individual was subject to a tapered annual allowance, the total pension input will be tested against the individual's reduced annual allowance.

2.7 Money purchase annual allowance (MPAA)

Where the MPAA has been triggered, a modified allowance applies for contributions to money purchase schemes for each tax year. The MPAA will apply, where its application produces a greater amount subject to the annual allowance charge compared to the annual allowance being applied. Otherwise the annual allowance will apply for the tax year concerned. For full details refer to the Pension Tax Manual at PTM056510.

Tax years	Money purchase annual allowance
2023/24 onwards	£10,000
2018/19 to 2022/23	£4,000

- Tapering will not affect MPAA.
- Only contributions to money purchase schemes are included for MPAA. An alternative allowance will be available for defined benefit schemes.
- Any unused MPAA cannot be carried forward.
- Where MPAA is triggered during a tax year, the MPAA will apply between that date and the end of that tax year and for every full tax year thereafter.

2.8 Money purchase annual allowance trigger events

Section 227G of the Finance Act 2004.

- Payments from newly designated member flexi-access drawdown funds (excluding beneficiary flexi-access drawdown).
- Converting capped drawdown to flexi-access drawdown (triggered on first payment).
- Qualifying for pre-6 April 2015 flexible drawdown – where a valid declaration was made and regardless of whether any payments have actually been made.
- Uncrystallised funds pension lump sums (UFPLS).
- Stand-alone lump sums – where a stand-alone lump sum is paid to an individual who has primary protection and the protected tax-free lump sum right paid is greater than £375,000.
- Lifetime annuities that can reduce in amount.
- Scheme pensions from schemes with less than 12 pensioners.
- Payments from overseas pensions – payments of one of the types of benefits listed above from an overseas pension that has benefitted from tax relief.

2.9 Annual allowance tax charge

- Where contributions exceed the individual's annual allowance, (or MPAA where applicable), the excess contributions will be subject to the annual allowance tax charge.
- The annual allowance tax charge is at the individual's marginal income tax rate after allowing for any other income for that tax year. Depending upon an individual's personal circumstances, it can fall into more than one tax band. It should be noted that tax rates and bands can differ between England, Scotland and Wales.
- The individual can pay the charge themselves as part of their self-assessment. They may also be able to ask the pension scheme to pay some or all of their annual allowance tax charge, in return for an appropriate reduction in their pension benefits. Please see our Scheme Pays fact sheet for further details.

Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. The value of benefits depends on individual circumstances. Withdrawals from a pension will not normally be possible until the normal minimum pension age, unless the client has a lower protected pension age. Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning.

Visit our Technical matters hub for more insights on tax and pensions

We're committed to providing you with technical support to help you keep pace with the latest rules and legislation. Our range of practitioner material is designed to help you keep on top of all aspects of retirement planning. Themes covered include death benefits, the State Pension, pension withdrawals taxation and much more.

Adviser Solutions

Fidelity INTERNATIONAL

Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited.
UKM0324/LM/QC/0425

[WF:1653178]