

Reap the benefits of tax-efficient savings

A guide to your pension and ISA tax allowances



Pensions and ISAs – a guide to tax allowances

As your adviser will have explained to you, saving into a pension or an ISA is a tax-efficient way of investing for your future. This guide sets out the key information you may need about tax, including the annual limits, so that you can make the most of your savings. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to your financial adviser.



Saving for retirement

People are now living longer than ever before and for many the State Pension won't be enough to sustain the lifestyle they would like to enjoy when they retire. Therefore saving for retirement is more important than ever.

A pension is one of the best ways to save for your retirement, offering tax benefits, both while saving for the years ahead and when you eventually retire. Withdrawals from a pension will not normally be possible until you reach age 55 (57 from 2028).

As you build your pension savings, your contributions attract income tax relief at your highest marginal rate. When you access your pension, you will have the freedom to use your pension pot as you wish. You can normally take 25% (a quarter) of your pension pot as a tax-free lump sum and then decide how to

use the rest. Your options include, securing a guaranteed income for life, by purchasing an annuity, setting up a flexible retirement income through income drawdown or you could even leave the remaining pension pot invested if you do not need an income immediately. Any income you do receive from your pension pot will be subject to income tax.

The Government offers a free and impartial guidance service to help you understand your options at retirement. This is available via the web, telephone or face-to-face through government approved organisations, such as The Pensions Advisory Service and the Citizens Advice Bureau. You can find out more by going to moneyhelper.org.uk/pensionwise or by calling Pension Wise on 0800 011 3797.

Alternatively, you could take your pension pot as a single or number of lump sums. Each time a lump sum is taken, a quarter (25%) of the lump sum will be tax-free - the rest will be taxed as earnings. Your adviser can tell you more about these options.

The contributions you make to your pension each year are subject to allowances, which are set by HMRC, including the annual allowance.

The annual allowance is the limit on the total contributions that can be made to your pensions each year, including your contributions and basic rate tax relief as well as any contributions made by your employer or by someone else.

For the current tax year it is capped at £60,000 if you earn less than £200,000. For those earning over £260,000, this is tapered down from £60,000 to £10,000 as your earnings

increase. This is known as the tapered annual allowance. Your annual allowance may also be reduced to £10,000 (known as the money purchase annual allowance) if you have taken or take taxable money from your pension using the pension freedoms. However, this reduction doesn't affect any 'defined benefit' pensions to which you contribute.

If you exceed the limits, tax charges may apply. Your adviser will be able to explain whether this affects you.

Why choose to invest in a pension?

- It's a long-term savings plan offering great tax advantages
- You receive tax relief on your contributions, which means if you pay £8,000 into a personal pension for example, the government adds an additional £2,000 in tax relief. If you pay a higher rate of tax, you can claim additional relief through your annual tax return
- You benefit from tax-efficient growth on your investments
- You can make the most of tax advantages when you retire
- The State Pension may not be enough to fund a comfortable lifestyle in retirement
- If you invest in a personal pension there is no capital gains tax on growth and no income tax on interest

Please note: The value of tax savings and eligibility to invest in a personal plan depend on personal circumstances. All tax rules may change in future.

Pension allowances

This table shows the pension allowances going forward, as well as other relevant information which you may find useful.

	2022/23	2023/24	2024/25
Annual allowance*	£40,000	£60,000	£60,000
Annual allowance for a Junior Pension**	£3,600	£3,600	£3,600
Lifetime allowance****	£1,073,100	£1,073,100	N/A
Lump Sum allowance	N/A	N/A	£268,275
Lump Sum Death Benefit allowance	N/A	N/A	£1,073,100
Overseas Transfer Allowance	N/A	N/A	£1,073,100
Rate of relief for contributions***	20%/40%/45%	20%/40%/45%	20%/40%/45%
Tax-free lump sum (as a percentage of your total pension savings)	25%	25%	25%

* The annual allowance is set for each tax year (6 April to 5 April). Tax relief on personal contributions to pensions is limited to the higher of £3,600 gross or 100% of your UK taxable earnings.

** £3,600 is the gross amount that can be contributed for a UK individual without relevant earnings, including children and adults under 75.

*** Tax rates & tax relief for Scottish Residents differ from the rest of the UK. However, they can claim tax relief in the same way.

**** The Lifetime Allowance is replaced by the Lump Sum Allowance, the Lump Sum and Death Benefit Allowance and the Overseas Transfer Allowance from 6th April 2024.

For the purpose of comparing your contributions against the annual allowance, you should calculate the total contributions paid into your pensions during the relevant tax year. If comparing contributions made before 6 April 2016, you may need to check if the pension input period was the same as the tax year. Your adviser can help with this.

If you are likely to exceed the annual allowance in any one year, then you may be able to carry forward any unused allowance from the previous three years to offset the tax charge. Please speak to your adviser for further information on the carry forward rules.



Saving into an ISA

Individual Savings Accounts (ISAs) are a great option if you want to make your investments work harder for you, because no matter how much your investment grows or how much income it produces, your returns are free from income and capital gains tax.

You can hold stocks and shares and cash together in an ISA, however you choose, up to the annual allowance. You can access your savings whenever you wish, although the tax benefits will be lost once you have withdrawn your savings.

Junior ISAs share the same tax benefits, but they're exclusively available to people under the age of 18, who do not have a Child Trust Fund (CTF). If your child was born between 1 September 2002 and 2 January 2011 the government would have automatically opened a CTF on your child's behalf. If your child holds a CTF they can transfer the investment into a Junior ISA. Junior ISAs are a great way to invest for a child, for the medium to long term. Parents, family and friends can contribute to a Junior ISA, although the money invested belongs to the child. Savings can be accessed once the child reaches age 18.

The tax treatment of ISAs is more straightforward

than pensions. There is a maximum allowance you can save into an ISA each year, either as a lump sum or as a number of monthly payments. If you don't use the maximum allowance in a given tax year, it is lost. You can't carry it forward.

Your contributions come from your taxed income, but you won't pay income or capital gains tax on the returns you receive.

If eligible, your surviving spouse or civil partner would be entitled to an additional allowance based on the value of your ISA.

Remember: To save into an ISA you need to be a UK resident for tax purposes. If you become non-resident, you can keep existing ISA investments and continue to benefit from the UK tax treatment on them, but you can't pay more money into the ISA until you return to being a UK resident for tax purposes.

The value of tax savings and eligibility to invest into a pension or an ISA will depend on your personal circumstances. All tax rules may change in the future. Please remember the value of investments and any income from them can go down as well as up and you could get back less than you invest.

ISA allowances

	Tax year 2023/24	Tax year 2024/25
Annual allowance	£20,000	£20,000
Annual allowance for a Junior ISA	£9,000	£9,000

Why choose to invest in an ISA?

- Offers a wide range of investments and cash
- You don't pay income or capital gains tax on any interest or capital growth
- You can save into a Junior ISA for children

For more information

You can find out more about our pension and ISAs from your adviser, or from the product guides they can provide. Your adviser will also be able to help with any questions you have about pension and ISA tax benefits.



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ADV-GEN-95 [WF 1699985] FIL000428

UKM0424/65973-6/SSO/0425