Information about tax relief, limits and your pension

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Before we begin

In this guide we briefly outline the current limits and allowances. Your own personal circumstances will affect how these apply to your pension(s).

The information is based on our understanding of the laws and tax rules that apply to a UK resident as at April 2021. These can and may change in the future.

For more information we recommend you search for 'Tax on pensions' at:
www.moneyadviceservice.org.uk
www.pensionsadvisoryservice.org.uk
or visit **www.gov.uk/tax-on-your-private-pension**

What type of pension do I have?

To identify which rules, limits and allowances might apply, you need to know what type of pension(s) you have:

Defined Contribution (DC) (sometimes called Money Purchase)

This can be a personal pension or a plan linked to your employer (a group/workplace pension).

How much the plan will be worth will depend on how much money has been paid in, the charges that have been taken, and how the investments have performed.

Defined Benefit (DB) (sometimes called Final Salary or Career Average)

An employer's pension scheme that guarantees a regular amount of income when it's time to draw the benefits (retire).

How much you get will be based on factors such as your salary history and length of employment. If you have one of these, then your employer or provider will be able to provide you with the scheme details.

What are the tax benefits to having a pension?

HM Revenue & Customs (HMRC) provide tax benefits on payments you make to your plan.

This will normally be at your highest Income Tax rate above the Personal allowance (the amount of income you can have before you must pay tax).

Rates for the 2021/22 tax year:

Personal allowance[1]	0%	Earnings up to £12,570
Basic rate tax	20%	£12,571 to £50,270
Higher rate tax	40%	£50,271 to £150,000
Additional rate tax	45%	over £150,000

[1] Personal allowance is reduced if your income is above £100,000.

A tax year runs from 6 April in one year to 5 April in the next year.

Personal payments made to a pension which are higher than 100% of your earnings are not normally eligible for tax relief.

Even if you have no earnings you can still receive tax benefits on payments up to £3,600 (gross).

Scottish rates

As different tax rates and thresholds now apply if you live in Scotland, compared to the rest of the UK, you may be entitled to a different rate of tax relief on your pension contributions.

More information can be found at –
www.gov.uk/scottish-rate-income-tax

Tax benefits when taking your money

You can normally take up to 25% of your plan as a tax-free lump sum (TFLS).

How are the tax benefits applied?

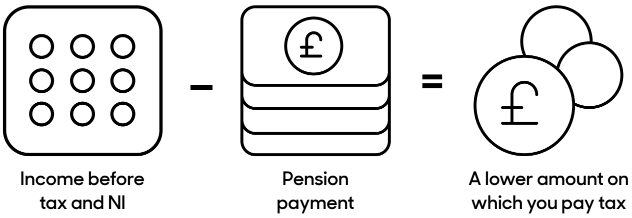
How you receive tax benefits on your payments into the pension will depend on how they are made:

Before Tax:

Normally this type of payment comes via your employer.

Salary exchange (also known as salary sacrifice)

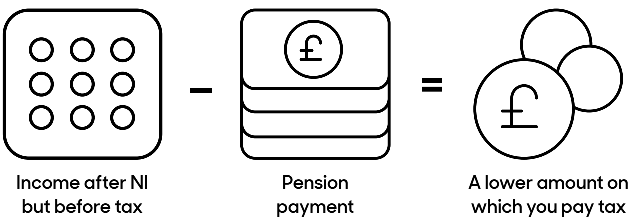
This is where you exchange part of your salary in return for a payment to your pension plan. You benefit because you don't pay any Income Tax or National Insurance (NI) on the salary you've exchanged. It's treated as an employer payment.



Salary sacrifice isn't right for some people. It could affect your state benefits, other benefits such as Income Protection, or the amount you can borrow. If you're not sure whether salary sacrifice is right for you, you should speak to your employer, or you could ask an adviser for guidance.

Non-salary exchange

Your employer will normally deduct your pension payment from your salary after National Insurance has been calculated but before your Income Tax has been worked out.



Because your payments are taken from your 'before tax' ('gross') salary, tax relief is at the highest rate of tax that you pay. If your payment is £100 and you're a 20% tax payer, the amount of income tax you pay is reduced by £20.

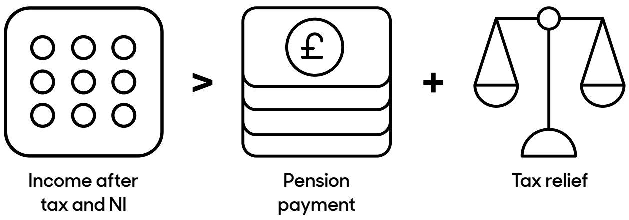
Please Note: you won't receive tax benefits if your earnings are too low for you to be paying income tax. However, if your employer is contributing then your pension plan will still benefit from getting that money.

With some schemes it is possible to make a single payment which isn't directly deducted from your salary. In those circumstances you are still entitled to tax relief, but you will have to contact HM Revenue & Customs to claim it back.

After Tax:

You may be making your payments directly to us. Or your employer could be deducting your payments from your salary after they have deducted your Income Tax. In both cases the payment is coming from your 'after-tax' (or 'net') salary. We'll claim 20% basic-rate tax relief from HM Revenue & Customs (HMRC) for you and invest it in your pension plan.

For example, if you want to invest £100, you would physically give us £80, we'd claim £20 from HMRC and the total investment would be £100.



If you're a higher or additional rate taxpayer you can normally claim further tax relief. This is usually done by contacting HMRC who can advise you on your personal circumstances.

Even if you have no earnings you can still make payments up to £2,880 (net) and get 20% tax relief, giving you a total investment of £3,600 (gross).

How much can I pay into my pension each year?

Annual Allowance

This is the total payments that you, your employer and any third party can make to all your pension plans (excluding transfer payments) without triggering a tax charge.

The standard Annual Allowance for the current tax year is £40,000.

For tax benefit purposes personal and third party payments cannot normally exceed 100% of earnings, even if this is lower than the Annual Allowance.

Employer payments are not limited to earnings but are still subject to the allowance limit.

A variable tax charge applies to any payments made that are above the annual allowance. This is linked to your income tax bracket. In some circumstances you may be able to pay the charge from your plan.

A lower allowance may apply depending on your individual circumstances – please see sections on Tapered Annual Allowance and Money Purchase Annual Allowance.

Carrying forward unused Annual Allowance

You may be able to carry forward any unused Annual Allowance from the previous three tax years to let you pay more in the current tax year. However, payments still cannot exceed 100% of your earnings in the current tax year to still be eligible for tax relief.

The payments may also be restricted if you are affected by the Tapered Annual Allowance or Money Purchase Annual Allowance (see pages X and X).

The Pensions Advisory Service website (see page X) has some useful examples of 'carry forward' in action.

If you think carry forward is something you want to consider you should speak to your financial adviser. There may be a charge for any advice.

What if my income is more than £240,000?

Tapered Annual Allowance

If you have a total income (including P11D benefits/dividend income/etc) and employer pension payments that come to more than £240,000, then you may have a reduced Annual Allowance.

The standard £40,000 Annual Allowance is reduced by £1 for every £2 of 'income' you have over £240,000 in a tax year, until your allowance reaches £4,000.

Total Income	Over 240k threshold	Formula Tapered	AA
£250,000	£10,000	£40,000–(£10,000/2)	£35,000
£270,000	£30,000	£40,000–(£30,000/2)	£25,000
£290,000	£50,000	£40,000–(£50,000/2)	£15,000
£310,000	£70,000	£40,000–(£70,000/2)	£5,000

If you think you are going to be affected by tapering speak to your adviser.

Remember, you may be able to carry forward unused allowances from previous tax years if you are affected by the Tapered Annual Allowance.

Are there any limits on how much I can save?

Lifetime Allowance

This is the total amount you can have in your pension(s) before a tax charge needs to be paid once you start taking benefits.

The Lifetime Allowance is currently £1,073,100. If you have previously applied for protection you may have a higher lifetime allowance.

The standard Lifetime Allowance is linked to the Consumer Prices Index.

What happens if I go above the allowance?

When you choose to access benefits above the Lifetime Allowance they will be taxed as a Lump sum, Income or both:

55%

tax charge applies

25%

a one-off tax charge applies and PAYE if you chose to take an income.

You may be able to limit your exposure to these tax charges by applying to HMRC for protection. If you have applied for protection before the current limit was set, you may not be able to pay in more without losing that protection.

You should speak to a financial adviser or tax specialist if you are unsure how this information may affect your own tax position.

Will I be taxed when I access my money?

Tax and limits will depend on your personal circumstances and how you take your money out. You can:

- **Turn your pension into a regular income**
  Through a guaranteed income (annuity) or a flexible income (drawdown).
- **Take lump sums**
  Take some or take it all.
- **Leave your money invested**
  Select a different Nominated Retirement Date (NRD) and leave your money invested.

Tax on taking benefits

You can normally take up to 25% of your plan as a tax-free lump sum. If taking more than your TFLS you need to be careful or you could end up with a large and unnecessary tax bill.

Any other income will be taxed as earned income under pay-as-you-earn (PAYE) rules.

Depending on when and how much you take, you may initially pay more tax than you should. This can often sort itself out if further withdrawals are made in the same tax year. If not, then you may have to claim any overpaid tax back from HMRC.

Note – If you use your TFLS to make a new or increased payment to a pension plan, it could be classed as 'recycling' and result in a tax charge.

Can I still pay in if I begin to take money out?

Money Purchase Annual Allowance

If you begin to take money from a defined contribution pension then you may trigger what's known as the Money Purchase Annual Allowance (MPAA).

This limits the annual amount you can pay into a DC pension to £4,000.

You also won't be able to use carry forward in any of your defined contribution pension(s).

Triggering an MPAA depends on how you access your money. As a guide the main situations are:

- Taking more than your tax-free lump sum allowance (normally 25% of the fund).
- Taking out a variable annuity.

It's important to note that this only applies to defined contribution pension(s). The rules are different if you have a defined benefit pension to which you can still make payments.

This can get complicated. If you still want to be able to make payments greater than the limits shown above then you should check you are not triggering the MPAA.

There are other options to take your benefits without reducing your Annual Allowance. We recommend you speak to an adviser.

How much tax will be paid when I die?

Defined Contribution Pension

If you die before age 75, your beneficiaries do not normally have to pay any income tax on the benefits they receive.

Any part of the benefits that exceeds your remaining Lifetime Allowance, will be taxed as outlined in the 'What happens if I go above the allowance?' section on page X.

Die aged 75 or older, and benefits will normally be taxed at the rate of income tax that applies to your beneficiaries.

Defined Benefit Pension

The tax payable depends on the type of benefit that's paid. Ask your DB provider for the details.

Other information about tax and your pension

Capital Gains/Dividend Tax

Your pension savings are not liable for additional tax on any investment growth and income.

For more information visit abrdn.com/financial-advice

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