**Annual allowance (AA) – Pension contributions for money purchase schemes**

The allowance sets the annual contribution an individual can make in any one tax year and receive tax relief at their marginal rate. This was changed in the recent budget with earnings threshold increased as is the case for the adjusted income.

The annual allowance is set at £60,000 gross a year from 6th April 2023, an increase on the previous year's AA of £40,000. Where individuals have taxable income, from all sources is less than £200,000, the AA remains intact and be used where taxable earnings at least match it. Where this is exceeded, HMRC require a further calculation to be made to determine if the allowance remains in full or if it needs to be adjusted down.

The standard £60,000 annual allowance (AA) will be reduced by £1 for every £2 of 'adjusted income' more than £260,000 until the AA drops to the minimum allowance of £10,000. So, someone with taxable income of £360,000 would see their AA reduced to £10,000.

There is a second test, which can help some people who are caught simply because pension savings exceed £60,000 in the tax year. So even if their threshold income exceeds £200,000, their AA will not be tapered until their 'adjusted income' exceeds **£260,000** for the tax year and whilst employee and employer contributions count toward the annual allowance, personal contributions are deducted from your taxable pay.

**Carry forward – pension contributions**

Where individuals have not used their full annual allowance in the past 3 tax years, they can carry forward the unused relief once they have fully used the annual allowance in the current tax year.

For a money purchase scheme such as an employer qualifying workplace pension or a personal pension it will be the actual contributions paid into the arrangement from both employee and employer.

Personal contributions will lower your taxable income.

**What happens if the annual allowance is exceeded after allowing for carry forward?**

If you exceed the maximum contribution allowable you will be liable to a tax charge based on the excess amount – the amount above the annual allowance or tapered allowance.

The tax charge will reflect your marginal income tax rate.

It is important that the annual allowance is presented to your accountant to ensure that any excess is shown on your tax return and the liability met.

July 2024