

Information about tax relief, limits and your pension



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Before we begin

In this guide we briefly outline the current tax limits and allowances. Your own personal circumstances and where you live in the UK 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 2024. These may change in the future.

For more information we recommend you search for 'Tax on pensions' at:



 www.moneyhelper.org.uk

or visit

 www.gov.uk/tax-on-your-private-pension

Please note that all limits quoted normally include basic tax relief at source.

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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). It can also be a plan that is in 'drawdown' for example, a SIPP.

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 take the benefits (retire).

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

Note: Standard Life do not currently offer DB pension plans.

What are the tax benefits of having a pension?

The government provide tax benefits on payments you make to your plan.

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

Rates for the 2024/2025 tax year:

Personal allowance†	0%	Earnings up to £12,570
Basic rate tax	20%	£12,571 to £50,270
Higher rate tax	40%	£50,271 to £125,140
Additional rate tax	45%	over £125,140

† 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 taxable earnings you can still receive tax benefits on payments up to £3,600 (gross).

The Welsh Assembly has devolved powers to set their own Income Tax rates. They have currently set the rates at the same level as the UK rates (as above), but please note the Welsh rates may change in the future.

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-income-tax

Tax benefits when taking your benefits

You can normally take up to 25% of your benefits as a tax-free lump sum (TFLS). This has been capped at £268,275 for anyone without protection.

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 or available 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 seek financial advice.

Non-salary exchange (also known as Net Pay Deduction)

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 the Government to claim it back.

After Tax:

You may be making your payments directly to your pension plan. 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. Your provider will claim 20% basic-rate tax relief from the government for you and invest it in your pension plan.

For example, if you want to invest £100, you would pay £80 to your pension plan, your provider would claim £20 from the government 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 the government who can advise you on your personal circumstances.

Even if you have no taxable 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 across all your pension plans (excluding transfer payments), which are eligible for tax benefits.

The standard Annual Allowance for the current tax year is £60,000.

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, your 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 8 and 11).

The Pensions Advisory Service website (see page 1) 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.

Please note that if you are not earning an income or you have triggered your Money Purchase Annual Allowance cap, that you are not eligible for carry forward.

What if I am a high earner?

High earners may see a reduction in their standard Annual Allowance. A 'tapered' Annual Allowance may apply, depending on your total income in a tax year.

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

Tapered Annual Allowance (Tax Years 2021/22 to 2022/23)

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

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

Total Income	Over 240k threshold	Formula	Tapered AA
£250,000	£10,000	$£40,000 - (£10,000/2)$	£35,000
£280,000	£40,000	$£40,000 - (£40,000/2)$	£20,000
£300,000	£60,000	$£40,000 - (£60,000/2)$	£10,000
£320,000	£80,000	$£40,000 - (£80,000/2)$	£4,000 (minimum)

Tapered Annual Allowance (Tax Years 2023/2024 to 2024/2025)

Since tax year 2023/2024, the tapered Annual Allowance increased to £260,000, the Annual Allowance rose to £60,000, and the minimum taper was extended to £10,000.

So from 6 April 2024, if your total income is over £260,000, your Annual Allowance could start to reduce by £1 for every £2 income above this level. That means anyone with a total income of £360,000 or more may have a flat £10,000 Annual Allowance.

Total Income	Over 260k threshold	Formula	Tapered AA
£280,000	£20,000	$£60,000 - (£20,000/2)$	£50,000
£300,000	£40,000	$£60,000 - (£40,000/2)$	£40,000
£320,000	£60,000	$£60,000 - (£60,000/2)$	£30,000
£380,000	£120,000	$£60,000 - (£120,000/2)$	£10,000 (minimum)

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

What happens if I pay in too much and exceed my Annual Allowance?

Example 1 – Grace from Gateshead has an overpayment of £10,000 in the 2024/2025 tax year. Her income is £75,000 so she is a higher rate taxpayer. To calculate the tax charge, the overpayment is added to her income, giving her a total income of £85,000.

All of the overpayment is liable to tax at 40% giving a tax bill of £4,000. This charge is reported through the self-assessment.

Example 2 – Tobias from Telford has an overpayment of £20,000 in the tax year. His income is £120,000. To calculate the tax charge, the overpayment is added to his income, giving him a total income of £140,000. As the additional rate tax bracket starts at £125,140, the overpayment straddles two tax bands. This means £5,000 of the overpayment is liable to tax at 40% and £15,000 at 45%, so overall his tax bill is £8,750. Again, this charge is reported through the self-assessment.

How much can I save?

Lifetime Allowance

From 6 April 2024 onwards there are no longer any limits on the total amount you can save into a pension.

There are though still limits on the amount of tax free lump sum you can be paid when taking benefits.

The limit is £268,275 across all pension schemes unless it relates to a death claim when the limit rises to £1,073,100.

If you have previously applied for lifetime allowance protection then you may have a higher tax free allowance.

What happens if I go above the allowance?

The amount of any lump sum you receive that exceeds your lump sum allowance will be taxed as earned income under PAYE rules.



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 pension?

Tax and limits will depend on your personal circumstances, where you live in the UK (if you live outside the UK, please contact us to discuss your options) and how you take your benefits. You can:

Turn your pension into a regular income

Through a guaranteed income for life (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.

For more detail on the options available visit:

[standardlife.co.uk/retirement](https://www.standardlife.co.uk/retirement)

Tax on taking benefits

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

The rest of your benefits will be taxed as earned income under PAYE rules.

Depending on when and how much you take, you may initially pay more tax than you should. You may have to claim any overpaid tax back from the government.

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. Our fact sheet 'Recycling of lump sums' (GEN449) provides more information.

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

Money Purchase Annual Allowance

If you begin to take money from a DC 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 £10,000.

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 DC pension(s). The rules are different if you have a DB pension to which you can still make payments.



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

Death benefit payments made on a discretionary basis are normally paid free of inheritance tax.

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

If however a lump sum is paid that exceeds your remaining lump sum allowance then the excess will be taxed at the rate of income tax that applies to the beneficiary to whom the payment is being made.

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.

www.standardlife.co.uk

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