

# Pension Contribution Rules

Now, for tomorrow

Pensions are often a fantastic way to save towards retirement, or just for the future, given retirement can be somewhat flexible under pension access rules. They can offer tax relief on contributions, grow free of tax, and are only taxable when you withdraw in retirement, with up to 25% of the pension held available to be withdrawn as tax-free cash.

These tax benefits can be very generous, so Government legislation restricts how much can be contributed each year.

**There are two limits to consider, and you can make contributions at the lower of:**

### **1 Pensions Annual Allowance**

You will be restricted to a maximum contribution between you and your employer of £60,000 before tax relief obtained in the current tax year.

If your earnings exceed £200,000, please speak to your financial adviser or your accountant, as you may find that the contributions you and/or your employer can make are restricted. The Government has put in place a taper to the £60,000 allowance for high earners, which in some cases can see a reduction to the £60,000 allowance available to £10,000.

Where an Annual Allowance has been breached, or you wish to make larger contributions, unused allowance from the previous three tax years can also be made available via "Carry Forward".

### **2 UK Relevant Earnings**

Irrespective of the Pensions Annual Allowance available to you, tax relief on pension contributions (as opposed to a tax charge where allowances are breached), is also limited to your UK Relevant Earnings. Whilst not an exhaustive list, these are earnings by way of employment or a profession, and include notional payments such as benefits in kind, and deductions from pay for purchase into company share schemes. Dividends and interest are not included.

**As a business owner who mainly draws dividends, how do I pay into a pension?**

If dividends are mainly drawn, the expectation is that your UK earnings will be nominal and based on the above, it would seem like pension contributions would be heavily restricted. However, there is a difference to the rules regarding directors making contributions to their own pension.

The Pensions Annual Allowance is still relevant, so a limit of £60,000 applies (down to a minimum of £10,000 if high income triggers the tapering rule), but UK Relevant Earnings are now irrelevant.

A different test applies, with contributions needing to be 'wholly and exclusively' for the purposes of the business. This means that contributions should be for those that generate profit for the business as part of the wider remuneration for the business, and contributions should not be excessive.

This is somewhat vague, and only assessed by a local tax inspector, so it is prudent to confirm this with your accountant at MHA before contributions are made.







## **Abolition of the Lifetime Allowance - what are the new allowances?**

The Lifetime Allowance (LTA), which was abolished from 6 April 2024, was the maximum total amount a person could accrue within their pension plans without having to pay an additional tax charge.

Since 6 April 2023 no-one has faced an LTA charge irrespective of the level of their pension benefits. Although the LTA was abolished completely on 6 April 2024, the level of a person's LTA determines the level of their new allowances.

The standard LTA has been replaced with the two mainstream allowances being:

- **Lump Sum Allowance (LSA)**  
This limits the amount a person can take as tax-free lump sums during their lifetime, currently £268,275 or higher if LTA protections apply.
- **Lump Sum and Death Benefit Allowance (LSDBA)**  
This limits the amount that a person can take as tax-free lump sums during their lifetime, as serious ill-health lump sums before age 75 and by their beneficiaries as lump sum death benefits on the member's death before age 75, currently £1073,100 or higher if LTA protections apply.

The taxation of remaining pension benefits for the owner of the scheme or future beneficiaries will depend on many variables and circumstances will vary. Your Financial Adviser will help clarify your individual situation.

## **I no longer work; can I still pay into a pension?**

Yes, contributions with no UK Relevant Earnings are restricted to £3,600 a year. While this is a relatively small amount, you can still receive tax relief on contributions.

## **I've taken money out of my pension before, can I still pay in?**

You can, but it is limited to the 'Money Purchase Annual Allowance' of £10,000, triggered when you first withdraw a taxable sum from a pension under flexi-access rules. You must still have the required UK Relevant earnings for contributions. Having taken funds from a pension, you must also be careful when reinvesting funds back in, as you cannot recycle pension withdrawals into new contributions to accrue more tax relief.

## **I'm over the age of 75, can I still pay into a pension?**

You will not receive tax relief on contributions post-75, with some pension providers unwilling to accept contributions. However, pension rules do not dictate that this cannot be done.

## **What about Inheritance Tax?**

Historically, pensions were not included in your estate for IHT calculations, but from April 2027 this is expected to be the case. While pension funding is one of the more efficient ways to save for retirement, other considerations may well now need to be made when considering estate planning.

## Risk Considerations

Past performance is no guarantee of future returns.

The price of units and the income from them can fall as well as rise.

This investment is intended as a long-term investment and under current HM Revenue & Customs' practice it's not normally possible to access the fund(s) prior to the age of 55. The minimum age will increase to 57 from 2028 with further increases expected as the State Pension Age goes up.

Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.

Tax rules are subject to change.



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