Appendix 1: Technical Information - Pensions

Contributions

- Tax relief on personal gross contributions is restricted to the higher of £3,600 or 100% of relevant UK earnings each pension input period and is capped at an annual allowance of £40,000 (unused allowances can be carried forward from the previous three tax years).
- Technically there is no limit on employer contributions. However, they will only receive corporation tax relief at the discretion of the local Inspector of Taxes.
- Contributions, including those paid by an employer or third party on behalf of the individual, are tested against the individual's annual allowance. Contributions in excess of their available annual allowance will be subject to a tax charge at their marginal rate of income tax.
- If an individual takes benefits from their pension fund in the form of an income via flexi-access drawdown, an uncrystallised pension lump sum, or a flexible income via an annuity then their annual allowance is reduced to £4,000. This is known as the Money Purchase Annual Allowance (MPAA).
- Individuals with adjusted yearly incomes (this is in effect an individual's total income and includes, amongst other things, their pension contributions but minus certain allowances) of more than £240,000 will have their annual allowance reduced by £1 for every £2 of excess income. The maximum reduction is £36,000 for individuals with adjusted yearly incomes of at least £312,000, which results in an annual allowance of £4,000.

Personal contributions to a registered pension scheme receive basic rate tax relief at source. This means for every £80 paid in, the pension fund will receive an additional £20 in tax relief. Higher and additional taxpayers can claim further tax relief through their tax return. No tax relief can be claimed on contributions paid after age 75. However, contributions will continue to benefit from tax-advantaged growth whilst they remain invested in an approved pension scheme.

Retirement ages

The earliest age benefits can be drawn from a pension fund is normally 55. However, benefits may be able to be taken before then if the individual is retiring because of ill-health. There is no maximum retirement age. The minimum retirement age is set to rise to 57 from 2028.

Pension benefits

Benefits can be taken from a pension fund via any combination of the following options:

1. Variable ad-hoc withdrawals known as *flexi-access drawdown*.
2. A single or series of lump sum cash payments known as *uncrystallised fund pension lump sum*.
3. A regular income known as an annuity.
4. A scheme pension.

Benefits are subject to income tax and taxed through PAYE.

Tax-free lump sum

25% of an *uncrystallised money purchase pension fund* can typically be taken as a tax-free lump sum (*Pension Commencement Lump Sum*), although higher amounts are available for some pension plans established prior to 6 April 2006. Withdrawals in excess of the tax-free entitlement are taxed at the individual's marginal rate of income tax.

Death benefits

The money purchase pension fund (up to the *Lifetime Allowance*) of an individual who dies before age 75 can be passed on to any nominated beneficiary free of taxation either as a lump sum or income, irrespective of whether the fund has been *crystallised,* provided payment is made within two years of the scheme administrator being notified of the death of the individual.

If the individual dies on or after their 75th birthday, or they die before age 75 but the funds are not paid out to beneficiaries, then beneficiaries will pay tax at their marginal rate of income tax on both lump sum and income withdrawals. The original beneficiary can also nominate future beneficiaries who can also access the fund as a one-off lump sum or by continuation of income. There are no limits on the age of any beneficiary, so a grandparent may skip generations to leave pension benefits to grandchildren, for example. If the death of the original beneficiary occurs post age 75, the subsequent beneficiary would also pay tax on withdrawals at their marginal rate.

Lifetime Allowance

The lifetime allowance is currently £1,073,100. This is the maximum value of benefits that can be taken from a registered pension scheme before tax charges are applied. Testing of the lifetime allowance is carried out whenever a *benefit crystallisation event* occurs, and a charge is applied to any benefits over the lifetime allowance unless protection has been granted. This charge is currently 25% (in addition to income tax at the individual's marginal rate) if the excess benefits are taken as income, or 55% if they are taken as a lump sum.

The lifetime allowance has been gradually reduced over time and the government has offered transitional protection to help protect individuals with existing large pension pots from a large tax charge. This has resulted in several transitional protection regimes all with their own rules.

State pension age

The state pension age for men and women was equalised at 65 from 6 November 2018. It will subsequently rise to 66 by October 2020. Further increases are planned. In all likelihood, it will then rise to 67 between 2026 and 2028, and to 68 between 2037 and 2039.

New state pension

The new state pension was launched on 6 April 2016 to replace the basic state pension and state second pension. It pays a maximum of £175.20 a week (assuming 35 years of full rate national insurance contributions). The change impacts women born on or after 6th April 1953 and men born on or after 6th April 1951.

Carry forward

Carry forward allows an individual to make use of any annual allowance that they may not have used during the three previous tax years, provided that they have been a member of a registered pension scheme in each of the tax years and they have sufficient relevant UK earnings in the current tax year to match the total contribution being paid.

To use carry forward, the individual must make the maximum allowable contribution in the current tax year. They can then use unused annual allowances from the three previous tax years, starting with the tax year three years ago.

An Individual cannot receive tax relief on contributions in excess of their earnings in a tax year and they only receive higher rate tax relief to the extent that they have paid it.