

ANNUAL ALLOWANCE

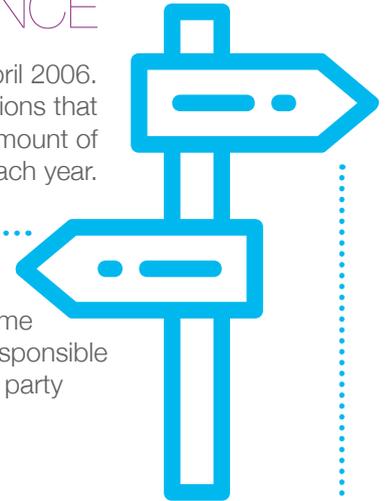


This infographic examines the different allowances available for individuals contributing to UK registered pension schemes.

STANDARD ANNUAL ALLOWANCE

The pension annual allowance was first introduced in April 2006. It refers to a limit on the total amount, for tax relief purposes, of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that can be built up in defined benefit pension schemes each year.

Currently increases in pension benefits must not exceed the annual allowance of £40,000; otherwise a tax charge will apply on any excess, which has the effect of clawing back any income tax relief given on that amount. If the annual allowance is breached, it is the member who is responsible for the annual allowance charge on any tax-relievable contributions made by an employer/third party (as well as on their own contributions).



MONEY PURCHASE ALLOWANCE

In addition to the standard annual allowance, there is now a further consideration for those who have accessed their pension flexibly. Where this has been done under the new flexible pension rules, the newly introduced money purchase annual allowance (MPAA) rules will also apply. The MPAA is designed to discourage abuse of the new flexible pension rules by introducing a lower annual allowance where flexibility has been accessed. The MPAA was originally £10,000 but has since been reduced to £4,000.

The MPAA can be triggered by:



Drawing an income from a flexi-access drawdown fund



Taking more than the permitted maximum from a 'capped drawdown' fund



Taking an uncrystallised funds pension lump sum

- Converting a pre 6th April 2015 'capped drawdown' to a flexi-access drawdown and then drawing an income
- Receiving a standalone lump sum when entitled to primary protection with lump sum protection that exceeds £375,000
- Receiving a payment from a lifetime annuity which has the option to decrease the income received other than in permitted circumstances
- Receiving a scheme pension directly from a defined contribution fund, where the scheme is paying scheme pensions to fewer than 11 members (including dependants)

Even where the MPAA applies, benefits may still be accrued in a defined benefit scheme, subject to an 'alternative annual allowance' which is equivalent to the standard annual allowance less the MPAA.



CARRIED FORWARD ANNUAL ALLOWANCE

Carry forward relief may be available where the £40,000 annual allowance has already been used in the current tax year and where, in any of the three previous tax years, starting with the oldest year first, contributions were less than the annual allowances in those tax years. You can use carry forward if you were a member of any registered pension scheme in the tax years from which you wish to carry forward the unused annual allowance.

Carry forward can therefore be used to avoid the annual allowance tax charge for contributions made by you or on your behalf that will exceed the current annual allowance. You will need to check if you have any unused allowance by looking back at your respective pension contribution history to your current and previous pension plans by reference to their pension input periods which ended in the preceding three tax years. If any annual allowance in these tax years was not used, it can be carried forward and used against contributions which exceed the current annual allowance.

TAPERED ANNUAL ALLOWANCE

From 6th April 2016, an additional type of annual allowance applies to 'high-income' individuals, which reduces the standard annual allowance by tapering the amount allowable as income rises. In very broad terms, this could apply to anyone whose income exceeds £110,000 pa.

For affected individuals, every £2 of adjusted income above £150,000 will reduce their standard annual allowance by £1 up to a maximum reduction of £30,000. Therefore, an individual with adjusted income of £210,000 or above will have an annual allowance of only £10,000



If you would like to find out how you could make the most of your annual allowance, please read our Guide to Pensions - <http://www.bloomsburywealth.co.uk/guide-to-pensions> or get in touch <https://www.bloomsburywealth.co.uk/get-in-touch>

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