Another pension annual allowance cut

The Autumn Statement revealed plans for another annual allowance cut.

When pensions flexibility was announced in March 2014, it did not take long for tax planners to realise that it offered an interesting opportunity to “pay” the over-55s. The idea was that, instead of pay which is subject to national insurance contributions (NICs) and full income tax, contributions to a pension could be made from which the employee immediately drew benefits. As a result, NICs would disappear and income tax would be reduced by a quarter because of the tax-free lump sum.

Before pension flexibility became reality, the Treasury acted to limit the scope for such creative remuneration by introducing a £10,000 money purchase annual allowance (MPAA) to apply in such cases. In the Autumn Statement, the Chancellor announced another turn of the MPAA screw: from 2017/18 it will be reduced to just £4,000, saving the government an estimated £70m a year.

The rules for triggering the MPAA mean that once you become subject to it, there is no escape. However, it is possible to extract money from your pension in a way that does not bring the MPAA into play. This can be particularly useful if you are a private company shareholder planning a gradual retirement. Please talk to us for more details.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.