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SPOTLIGHT ON:

Pension allowances

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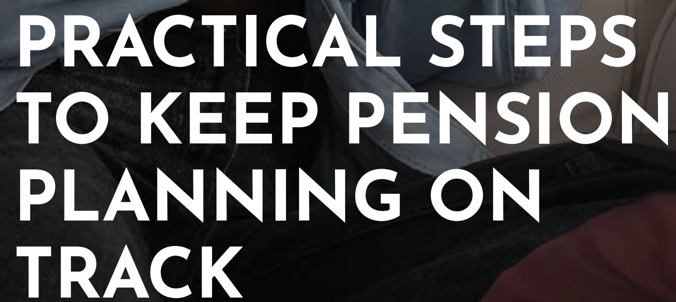


PRACTICAL STEPS TO KEEP PENSION PLANNING ON TRACK

Pensions remain one of the most tax-efficient ways to save for the long term. They can help reduce taxable income, support business owners' extraction planning, and build retirement wealth in a structured way. Problems usually arise when contributions are made without first checking the rules. That is when an otherwise sensible pension contribution can trigger an unexpected tax charge.

The good news is that most surprise tax bills come from a relatively short list of issues. The main ones are the annual allowance, the tapered annual allowance for higher earners, the money purchase annual allowance after flexibly accessing benefits, and missed carry-forward checks. For the 2025/26 tax year, the standard pension annual allowance is **£60,000**, but it can be as low as **£10,000** in some cases.

This guide sets out the main allowance checks to make, where tax charges tend to arise, and how to build a simple review process before contributions are paid.

START WITH THE STANDARD ANNUAL ALLOWANCE

For most people, the first check is the standard annual allowance. For the 2025/26 tax year:

- the standard annual allowance is **£60,000**
- it applies across all of your pensions combined, not to each pension separately
- going above it can trigger an annual allowance tax charge if you do not have enough carry forward available.

That sounds straightforward, but the key point is that the test is not based solely on the cash you personally paid in. Depending on the type of pension, the relevant figure may include:

- personal contributions
- employer contributions
- contributions made by someone else on your behalf
- pension growth measured under defined benefit rules, not just cash paid into a pot.

This is one reason people can be caught out. They assume they are safely below the limit because their own monthly contributions look modest, but the real pension input amount for tax purposes is higher.

REMEMBER THAT TAX RELIEF AND ANNUAL ALLOWANCE ARE NOT THE SAME THING

A common misunderstanding is treating the annual allowance as the same as the amount you can personally contribute and still receive tax relief. They are linked, but they are not identical.

- In broad terms:
- the **annual allowance** is the pension saving limit before an annual allowance tax charge may arise
- **tax relief on personal contributions** is usually limited to **100% of your relevant UK earnings** in the tax year
- employer contributions work differently and are not limited by your personal earnings in the same way, although other tax rules still need to be considered.

This matters for directors and business owners in particular. Someone with a low salary may assume they cannot build pension funding efficiently, but employer contributions may still be a valid route. The reverse also applies: someone can stay within their earnings-based personal tax relief limit and still face an annual allowance issue if total pension input is too high.

CHECK WHETHER THE TAPERED ANNUAL ALLOWANCE APPLIES

Higher earners need to take a second look, because the standard **£60,000** annual allowance does not apply in every case.

HMRC says the annual allowance is reduced for some high-income individuals. Under the current rules, tapering starts to matter where:

- **threshold income** is over **£200,000**
- **adjusted income** is over **£260,000**.

Where the taper applies:

- the annual allowance is reduced by **£1 for every £2** of adjusted income above **£260,000**
- the minimum tapered annual allowance is **£10,000**.

This is one of the main sources of surprise tax bills because it often affects people whose income varies. Bonuses, dividends, partnership profits and employer pension contributions can all alter the position. A contribution that looked fine based on last year's income can become more problematic if profits or total remuneration rise sharply.

WATCH FOR THE MONEY PURCHASE ANNUAL ALLOWANCE

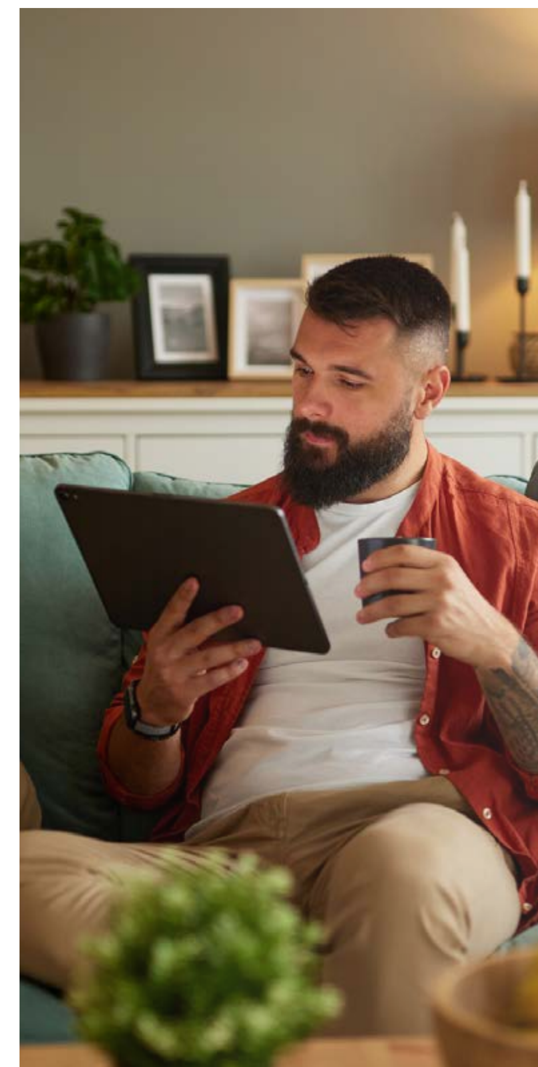
Another major trap is the money purchase annual allowance, often shortened to MPAA.

For the current tax year, the MPAA is **£10,000**. It can apply if you have flexibly accessed money from a defined contribution pension. Once triggered, it reduces the annual allowance for money purchase pension contributions and can limit future pension funding more sharply than many people expect.

In practice, this catches people who:

- took taxable income from a pension
- thought the access was a one-off event with no future impact
- later wanted to restart or increase contributions
- assumed the standard **£60,000** allowance still applied.

If you have taken money from a pension, do not assume future contributions can be planned in the normal way. Check whether the MPAA has been triggered before making further contributions.



DO NOT OVERLOOK CARRY FORWARD

Carry forward is often the difference between an efficient contribution and a tax charge.

HMRC says unused annual allowance from the **previous three tax years** can potentially be carried forward to the current tax year, subject to the rules. The individual must have been a member of a registered pension scheme in those earlier years.

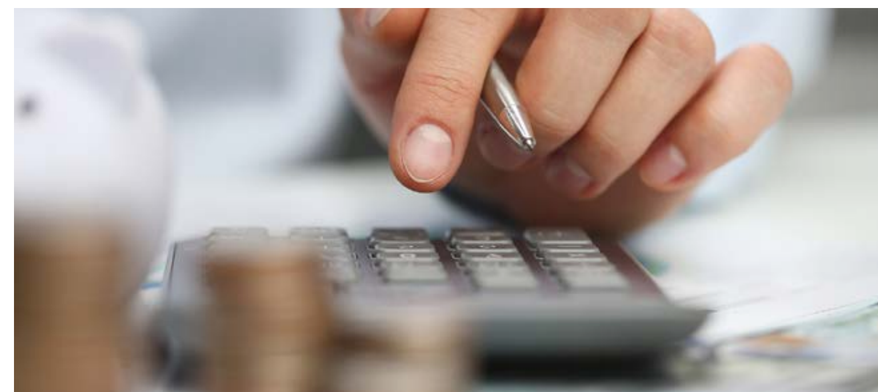
Carry forward can be useful where:

- profits rise sharply in one year
- a business wants to make a larger employer contribution
- retirement planning has been delayed and needs catching up
- earlier allowances were not fully used
- a large bonus is being paid.

But carry forward is also an area where people make assumptions too quickly. Check the following.

- Were you a member of a registered pension scheme in each year you want to carry forward from?
- What was your actual annual allowance in those years?
- Did tapering apply in any of them?
- Has the MPAA affected the position?
- What pension input was already used?

Carry forward is powerful, but only when the numbers have been checked properly.



KNOW WHERE SURPRISE TAX BILLS USUALLY COME FROM

Unexpected pension tax charges rarely come from the pension itself. They usually come from weak planning around it. The most common causes are:

- assuming the annual allowance is always **£60,000**
- missing that tapering applies for higher earners
- forgetting that the MPAA was triggered
- ignoring employer contributions when adding up total pension input
- failing to review defined benefit accrual properly
- relying on carry forward without calculating unused allowance accurately
- making year-end contributions in a rush without checking income first.

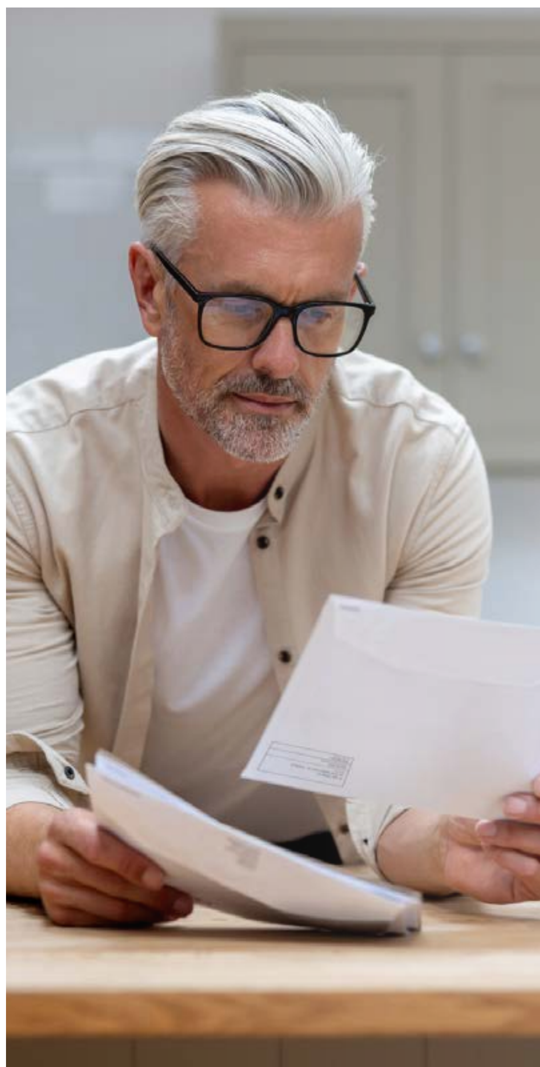
Most of these are avoidable with a short annual review.

BE ESPECIALLY CAREFUL IF INCOME CHANGES YEAR TO YEAR

People with steady salaries often find pension allowance planning easier than those with variable income. Extra care is usually needed if you are:

- a company director taking salary and dividends
- a business owner making employer contributions
- a partner with changing profit allocations
- someone receiving bonuses or irregular earnings
- approaching retirement and adjusting contribution levels
- taking ad hoc pension withdrawals while still contributing elsewhere.

These situations do not make pension planning unsuitable. They simply mean the allowance checks need to be done in the actual tax year, not based on assumptions.



KEEP A SIMPLE CONTRIBUTION REVIEW PROCESS

The safest approach is to review pension funding before the end of the tax year, not after a contribution has already gone in. A sensible review should cover:

- total expected pension input for the current tax year
- whether the standard annual allowance applies in full
- whether threshold income and adjusted income bring tapering into play
- whether the MPAA has been triggered
- how much unused carry forward is available
- whether personal contributions are within earnings limits for tax relief
- whether employer contributions would be more efficient in your case.

This review does not need to be complicated, but it does need to happen before a large contribution is paid.

KEEP AN EYE ON OTHER PENSION TAX LIMITS TOO

The annual allowance is the main issue for avoiding surprise tax bills from contributions, but it is not the only pension tax measure worth knowing about.

- HMRC's current pension scheme rates show that for 2025/26:
- the standard individual lump sum allowance is **£268,275**
- the standard individual lump sum and death benefit allowance is **£1,073,100**.

These are less likely to create an immediate contribution surprise for most people than the annual allowance rules, but they still matter for wider retirement planning and benefit access.

A PRACTICAL CHECKLIST BEFORE MAKING PENSION CONTRIBUTIONS

Use this checklist before increasing pension funding.

CONFIRM THE BASIC LIMIT

- Start with the standard annual allowance of **£60,000** for 2025/26.

ADD UP ALL PENSION INPUT

- Include personal contributions.
- Include employer contributions.
- Include all pension arrangements, not just one scheme.

CHECK WHETHER TAPERING APPLIES

- Review threshold income.
- Review adjusted income.
- Do not assume higher income automatically means tapering, but do not ignore the test either.

CHECK WHETHER THE MPAA APPLIES

- Have you flexibly accessed a defined contribution pension?
- If yes, confirm whether the **£10,000** MPAA is now the working limit.

REVIEW CARRY FORWARD

- Check the previous three tax years.
- Confirm unused allowance rather than estimating it.
- Make sure you were a member of a registered pension scheme in those years.

CHECK PERSONAL TAX RELIEF SCOPE

- Make sure personal contributions fit within relevant UK earnings if you are relying on personal tax relief.

AVOID RUSHED YEAR-END DECISIONS

- Large late-March contributions often create the most avoidable errors.
- Review the numbers while there is still time to adjust.

FREQUENTLY ASKED QUESTIONS

WHAT IS THE PENSION ANNUAL ALLOWANCE FOR 2025/26?

The standard annual allowance is **£60,000** for the 2025/26 tax year. It covers total pension saving across all your pensions, not each pension separately.

WHAT IS THE MINIMUM TAPERED ANNUAL ALLOWANCE?

The tapered annual allowance can reduce the annual allowance down to **£10,000** for some high-income individuals.

WHAT IS THE MONEY PURCHASE ANNUAL ALLOWANCE?

The MPAA is **£10,000** for the current tax year and can apply after flexibly accessing money from a defined contribution pension.

CAN UNUSED PENSION ALLOWANCE BE CARRIED FORWARD?

Potentially, yes. HMRC says unused annual allowance from the previous three tax years can be carried forward to the current tax year, subject to the rules.

WHY DO PEOPLE GET CAUGHT OUT?

Usually because they assume the standard annual allowance applies without checking tapering, MPAA, total pension input or carry forward properly.

HOW WE CAN HELP

Pension planning works best when contribution decisions are checked before money goes into the scheme. The fastest wins usually come from confirming the real annual allowance position, checking for taper or MPAA issues, and making sure carry forward has been calculated properly.

We can help you:

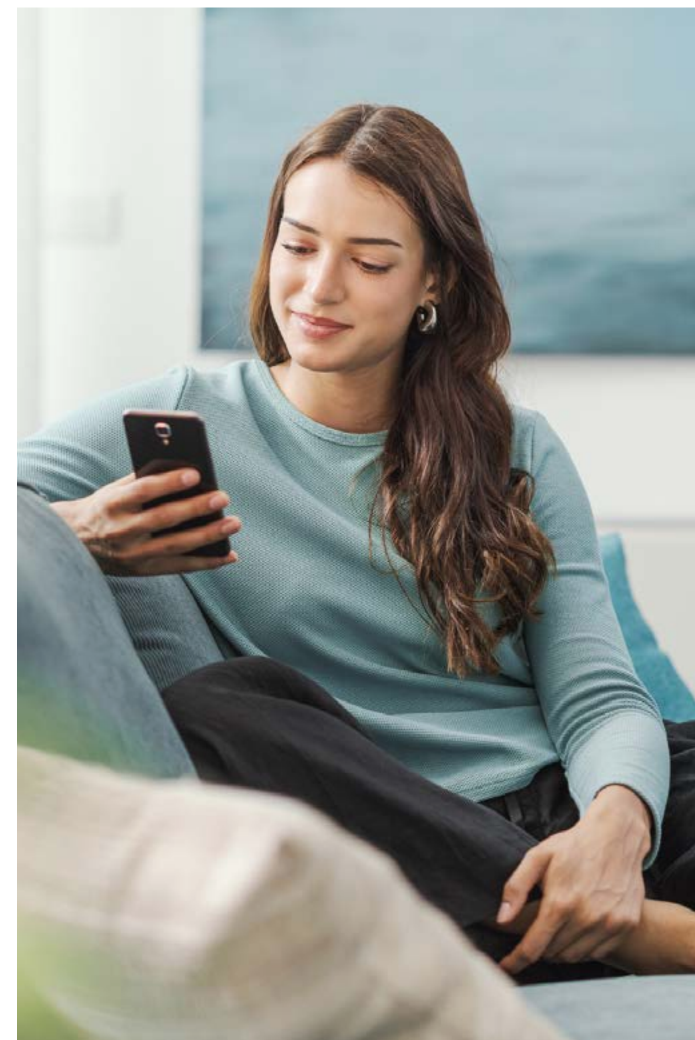
- review how much pension input has already been used this tax year
- check whether tapering may reduce the standard annual allowance
- confirm whether the MPAA has been triggered
- assess carry forward from earlier years
- compare personal and employer contribution routes
- help structure pension funding without creating an avoidable tax charge.

LOOKING AHEAD

Pensions still offer strong tax advantages, but the rules are not always as simple as the headline allowance suggests. For many people, the best way to avoid surprise tax bills is not to contribute less, but to check more carefully before contributing.

A short review each tax year is usually enough to spot the main risks. If income is changing, retirement plans are shifting, or pension withdrawals have already started, that review becomes even more important.

Speak to us for further pension planning advice.



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