Money Purchase Annual Allowance

With effect from 6th April 2015, individuals who are 55 and over will have freedom to do what they like with their money purchase pension savings. They can either take it all in its entirety or take in instalments as income or as a series of lump sums. If they do this they will be subject to income tax at their marginal rate on all amounts other than the tax-free cash sums.

However a reduced level of Annual Allowance called the Money Purchase Annual Allowance (MPAA), has been introduced to ensure that individuals do not use the new flexibility to draw large amounts from their pension assets and use it to fund further pension savings; thus obtaining tax relief on their pension contributions twice.

The MPAA will apply when pensions have been accessed flexibly however it will only be of consequence where total contributions to a money purchase arrangement in a Pension Input Period (PIP) exceed the allowance. A PIP is the period over which one measures the amount of pension savings (i.e. pension input) for a pension arrangement. From 6 April 2016, all existing arrangements will have a 12 month pension input period from 6 April 2016 to 5 April 2017. Any new arrangement that has a first pension input period commencing on or after 6 April 2015, will have a first pension input period that starts on the normal commencement day but which ends on 5 April in the same tax year as the pension input period started. All subsequent pension input periods will be for the period 6 April to 5 April. It will not be possible to vary this pension input period.

The Money Purchase Annual Allowance (MPAA) has been reduced from £10,000 to £4,000 for the tax year commencing 6th April 2017.

Which pension payments trigger the MPAA rules?

The MPAA will apply if one of the following occurs in a tax year, on or after 6th April 2015:

- When an individual starts a new flexi-access drawdown plan or converts their capped drawdown plan to a flexi-access drawdown plan and then subsequently draws income from it;
- When an individual takes a series of lump sums from a pension plan – referred to as an uncrystallised funds pension lump sum;
- When an individual who is already in a capped drawdown plan receives an income above the maximum income limit;
- Where an individual has received a flexible drawdown payment before 6th April 2015, their plan will automatically convert to flexi-access drawdown and the MPAA limit will apply;
- When an individual draws an income from a lifetime annuity where the annual rate of payment can be decreased;
- When an individual who has primary protection with protected tax free cash rights and takes a stand-alone lump sum.

In all the above cases, the annual allowance only applies to Money purchase pension savings.

If the MPAA rules are triggered and the money purchase pension savings exceed the limit in any tax year then the excess will be subject to annual allowance charge.

IMPORTANT NOTE

This brief guide is based on our understanding of current legislation and HMRC guidance as at 6 April 2017. It is a summary and is not intended to cover every situation. You should not take, or refrain from taking, any action based on this information. Tax treatment can change and depends upon your circumstances. Please remember that taking money out of a pension will impact your standard of living later in retirement. This information is not advice and if you are unsure about the suitability of an investment, you should seek Independent Financial Advice.

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