MONEY PURCHASE ANNUAL ALLOWANCE | FACT SHEET

The money purchase annual allowance (MPAA)

The introduction in April 2015 of pension legislation that allowed you to access your money purchase (also known as defined contribution) pension pots flexibly, also brought in measures to prevent you from recycling your tax-free cash. From April 2015 there is restriction on the annual allowance where you have accessed your pots flexibly, this is called the money purchase annual allowance (MPAA).

What are the MPAA rules?

Once you have triggered the MPAA, the contributions that can be received without incurring a charge are restricted. While total contributions to all pension pots remain at £60,000.00 per tax year, the maximum that can be contributed to a money purchase scheme is £10,000 per tax year from 2023/2024 (previously £4,000).

Individuals governed by the MPAA rules are unable to carry forward any unused reliefs from previous tax years to money purchase schemes (normal annual allowance rules allow this).

When is the MPAA triggered?

Triggering the MPAA is achieved by flexibly accessing benefits, this includes:

- Accessing income under flexi-access*.
- Taking capped drawdown income above the maximum or converting pre-April 2015 drawdown funds into flexi-access funds.
- Taking out a flexible annuity.
- Taking scheme pension where there are less than 12 members in the scheme.
- Taking uncrystallised fund pension lump sum (UFPLS)
- Standalone lump sum (in some circumstances where a standalone lump sum is paid out from April 2015 the MPAA will apply).
- The payment of one of the type of benefits mentioned above from an overseas pension scheme which has benefited from tax relief.

*If you took pension benefits prior to April 2015 under the flexible drawdown rules, you are now deemed to be in flexi-access drawdown. Previously in flexible drawdown you were not able to make pension contributions. Now you can make pension contributions to a money purchase scheme of up to £10,000 in a tax year.

You may however, have taken benefits from another pension policy since April 2015 and not be affected by the MPAA.

The following do not trigger the MPAA:

- Scheme pension under a defined benefit scheme.
- Non-flexible/standard annuity.
- Taking the tax-free pension commencement lump sum but not taking income.
- Taking income flexibly as a dependant or beneficiary.
- Small lump sums or defined benefits triviality payment – subject to eligibility three pots of up to £10,000 to be withdrawn from non-occupational defined contribution (DC) pension funds. There is no limit on the number of small pots that can be taken from occupational DC pension funds.
- Taking income from a fund wholly attributable to disqualifying pension credits (i.e. on divorce).
- Entitlement to a scheme pension under a money purchase arrangement where at least 11 other individuals are receiving a scheme pension or dependents' scheme pension.

How will I know if I am subject to the MPAA rules?

When you first access pension benefits post-April 2015 under the flexi-access rules, the scheme administrator has to notify you within 31 days that you have accessed your benefits flexibly. The notification will also cover the fact that you now fall under the MPAA rules for all future defined contribution pension contributions.

Will my pension scheme know that I am restricted to the MPAA?

Once you have received notification that you have accessed funds flexibly and are governed by the MPAA rules, you have a responsibility to make a report to all your pension providers.

You have **91 days** to inform all other pension schemes that you belong to that you are now subject to the MPAA. This covers schemes where pension contributions are being paid on a money purchase basis either personally or by another party, or a scheme where you are accruing benefits under a cash balance or hybrid scheme.

If in the future you start or join another pension scheme, you have **91 days** from the date of benefits accruing to notify all other schemes that you are now subject to the MPAA rules.

If you transfer any pension benefits away from any existing pension scheme, the provider is required to notify the receiving scheme if they believe you have ever flexibly accessed pension rights (either in the transferring scheme or in another scheme). This must be completed within 31 days.

The pension provider does not need to provide evidence, as it will still be the member's responsibility to notify the new scheme within **91 days** of joining.

There are penalties for non-compliance with these reporting requirements. Charges start at £300, plus £60 per day for late information. If the information is incorrect, the penalty for fraudulent or negligent information can be up to £3,000.

What if I go over the MPAA?

If you exceed your annual allowance, there will be an 'annual allowance charge' on the excess, based on your marginal rate of income tax. You will need to declare this on your self-assessment tax return.

Will the scheme provide additional information?

If you are subject to the new MPAA rules, the scheme will provide an annual allowance pension savings statement for each tax year in which your pension accrual exceeds £10,000.

MPAA and the alternative annual allowance

Defined benefit (DB) schemes are not affected by the MPAA and retain a normal annual allowance, currently £60,000 (unless tapered). The allowance for a member of a DB scheme does not automatically reduce as a result of triggering the MPAA; however, it is **reduced by any contributions paid to a defined contributions (DC) scheme, up to the MPAA level.**

The **alternative annual allowance** applies to scheme members of a DB scheme who have:

- Pension savings in both defined benefits and defined contribution arrangements; and
- Flexibly accessed their money purchase pension benefits and made money purchase pension savings **in excess** of the money purchase annual allowance.

This ensures that if an individual makes excessive contributions to a DC scheme, it does not affect the pension input position of the DB scheme. The alternative annual allowance is therefore £50,000 for an individual not subject to tapering.

From 2020/21, the alternative annual allowance for a tax year where the maximum taper provisions apply will be nil (in 2023/2024 an individual subject to the full tapering would be tapered to £10,000 and this would be reduced by any contributions paid to a DC scheme up to the MPAA level (in previous tax years the full tapering would have been to £4,000 and the MPAA was £4,000. Between 2016/17 and 2019/20 the alternative allowance for an individual that was fully tapered would have been £6,000 – an individual subject to the full tapering in these tax years would be tapered to £10,000 and this would be reduced by any contributions paid to a DC scheme up to–the MPAA level).

If you think you may be affected by the MPAA rules or require any additional information, please contact us.

This fact sheet covers the position that applies if an individual allowance has been exceeded. It does not reflect the position as to whether or not tax relief, either personal or corporation, would be provided at the point that the pension payment is made.

The information provided in this document is for general information purposes only and based upon the author's interpretation of prevailing legislation and HMRC practice at the time of writing, which are subject to change. Mattioli Woods plc accepts no responsibility for any errors of fact or opinion and assumes no obligation to provide you with any changes to their assumptions. The information in this document does not constitute advice, individual circumstances should be considered, and advice should be sought where necessary.