The Money Purchase Annual Allowance (MPAA)

The introduction in April 2015 of pension legislation that allowed you to access your 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 £40,000, the maximum that can be contributed to a money purchase scheme is £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?

The MPAA rules may affect you if you were either:

- In flexible drawdown prior to April 2015

If you took pension benefits prior to April 2015 under the flexible drawdown rules, you are now deemed to be in flexi-access. 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 £4,000 in a tax year.

- Have accessed income via flexi-access drawdown

If you have taken any pension income using flexi-access since April 2015, or if you have surrendered a pension policy as a lump sum since April 2015, you will also be subject to the new MPAA allowance rules.

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

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 £4,000.

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

This factsheet 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.