

Keeping it Brief

The annual allowance

This explains the maximum that can be saved into pensions free of tax each year and how this may change if you start to draw your benefits.

The annual allowance (AA) is a limit on the amount of pension contributions that can be paid each tax year before a tax charge applies. This is usually £60,000 and includes contributions made by you and anyone else (including your employer) to all registered pension schemes. You can make personal contributions of up to 100% of earnings, or £3,600 if higher, into a pension and receive tax relief. However, anything in excess of the AA would incur a tax charge.

Your AA may be less than £60,000 if:

- You are a high earner - see our separate **'Keeping it brief... Tapered Annual Allowance'**
- You draw your pension benefits in certain ways – see the money purchase annual allowance section

Tax charge

Contributions in excess of the AA may incur a tax charge of up to 45% (48% if you are a Scottish taxpayer) depending upon your total taxable income.

Carry forward

Carry forward potentially enables you to offset any tax charges you may incur as a result of exceeding your AA. It allows you to utilise previous years' unused AA and 'carry forward' that amount to the current tax year. Please see our separate **'Keeping it brief... Carry forward'** for further details.

Money purchase annual allowance

If you take benefits flexibly from a defined contribution pension plan and continue to make contributions, you may have a reduced AA of £10,000 for any further defined contribution pension savings you make. This is known as the money purchase annual allowance. You should seek further information on this point if you think you may be affected.

Please see our separate **'Keeping it brief... Money Purchase Annual Allowance'** for further details.

Important Information

1. Personal contributions (depending on the type of pension scheme) may be treated as paid on the date they are received by the provider (rather than when deducted from pay).
2. Subject to certain conditions, the AA tax charge may be paid from your pension scheme. In these circumstances, the tax charge would be deducted from your pension fund.
3. The rules for calculating the tapered annual allowance and carry forward are complex and you should seek further information from your accountant or financial adviser if you think you may be affected.

Please note:

This briefing note gives an overview only. It does not provide specific advice. It is based on our understanding of tax regulations for the 2025/26 tax year which may change in the future.

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Pension income can also be affected by interest rates at the time benefits are taken. Pension savings are at risk of being eroded by inflation.

When investing your capital is at risk.

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