FosterDenovo
Secondsight

Keeping it Brief

Money purchase annual allowance

This explains how accessing your pension pot can potentially impact the amount you can save into pensions in the future. It's helpful to read this note with our separate briefing note 'Keeping it brief… Annual allowance'.

Currently, you can normally access your pension pot from age 55. If you access your pension pot in certain ways, you may see your annual allowance reduced. This is known as the Money purchase annual allowance (MPAA).

The MPAA limits how much can be paid into your money purchase (defined contribution) pensions in any one tax-year without incurring a tax charge. The MPAA is £10,000 for the 2025/26 tax year. Contributions from your employer or anyone else also count towards the MPAA.

When could the MPAA apply?

The main situations when you'll trigger the MPAA are:

- if you take an income from a flexi-access drawdown plan set up since 6 April 2015;
- if you take your entire pension pot as a lump sum or start to take ad hoc lump sums from your pension pot (see small pot lump sums below for exceptions to this);
- if you take an income above the maximum limit from a pre-April 2015 capped drawdown plan;
- if you buy an investment-linked or flexible annuity where your income could go down.

The MPAA won't normally be triggered if:

- you take a tax-free cash lump sum and buy a lifetime annuity that provides a guaranteed income for life that either stays level or increases;
- you take a tax-free cash lump sum and put your pension pot into a flexi-access drawdown plan but don't take any income from it;
- you take income from a capped income drawdown plan that's within the maximum limits;
- you receive a scheme pension from any defined benefit (final salary) pension.

Once the MPAA applies to you, it will continue to apply in all future tax years.

Small pot lump

If you have £10,000 or less in your pension pot and you want to take it all in one go, you may be able to take it as a 'small pot lump sum'. There are different rules depending on what type of pension you have:

- With defined contribution occupational pension pots there is no limit on the number of small pots that can be taken.
- With personal pensions and stakeholder pensions (including workplace pensions) you can take up to 3 small pot lump sums in your lifetime.

Small pot lump sums are normally paid 25% tax free and 75% subject to marginal rate income tax and do not trigger the MPAA.

What do I need to do if the MPAA is triggered?

If you trigger the MPAA your pension provider or scheme administrator will let you know within 31 days. You then have 91 days to inform all the pension plans you contribute to that the MPAA has been triggered. If you start a new pension, you must also let the provider/scheme administrator know that you are subject to the MPAA.

What happens if I exceed the MPAA?

If the MPAA affects you and you exceed this, you may have a tax charge to pay. The amount of contributions paid above the MPAA will be added to your taxable income in that year to calculate how much tax you owe. HMRC will notify you if this happens.

Different rules may apply in the first tax year you trigger the MPAA. For further information on the MPAA, including how to work out if you need to pay a tax charge visit: **www.gov.uk/guidance/work-out-your-allowances-if-youve-flexibly-accessed-your-pension**

If you think that you may be affected, you should consider taking financial advice. You should be aware that an adviser will normally charge for using their services. If this is something you would like to discuss, please contact Secondsight at **enquiries@second-sight.com.**

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.

The tax treatment of pensions in general (and tax implications of pension withdrawals) will be based on individual circumstances, tax legislation and regulation, which are subject to change in the future.

Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits.

You should seek advice to understand your options at retirement.

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