Pension tax explained

Separate contribution tax relief, annual allowance and withdrawal limits.

2026/27 rule	Standard position
Personal contribution tax relief	Normally limited to relevant UK earnings; eligible non-earners under 75 can generally pay £2,880 net / £3,600 gross
Annual allowance	£60,000 pension input across all schemes, including employer input; taper or MPAA may restrict it
Money purchase annual allowance	£10,000 after specified flexible-access triggers
Lump sum allowance	£268,275 across relevant tax-free lump sums; protections/transitional rules can change it
Lump sum and death benefit allowance	£1,073,100 standard; separate rules govern use
Normal minimum access age	Generally 55 now, rising to 57 on 6 April 2028; protected ages and ill-health exceptions may apply

Two contribution tests, not one

A personal contribution can be within the annual allowance but exceed the earnings limit for tax relief. Conversely, personal and employer input can receive contribution relief yet exceed the annual allowance and create a charge. Relevant earnings generally include employment and self-employed trading earnings, not dividends, most rental income or pension income. Employer contributions are not capped by the employee's relevant earnings, but annual allowance and business tax rules still matter. [1-3]

Worked example: a £10,000 gross personal contribution

Under relief at source, an eligible member pays **£8,000** and the provider adds **£2,000**. If all £10,000 qualifies for relief at 40%, a further £2,000 can normally be reclaimed, giving an eventual net cost of **£6,000**. Higher effective relief may occur when an allowance is restored. Scottish rates differ. Do not reclaim basic relief again if it has already been added. [1]

DB pensions use a different input measure

For a defined contribution scheme, pension input normally means gross contributions, including the employer's. A defined benefit scheme uses the statutory value of benefit growth, not simply the contributions deducted from pay. Salary changes and accrued benefit changes can therefore create an annual allowance issue even when your own contributions are modest. Ask for pension savings statements. [2,5]

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01793 261626 | info@matherandmurray.co.uk | matherandmurray.co.uk

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Taper, carry forward and MPAA

Which allowance applies before you commit a contribution?

The high-income taper

Both tests must be met: threshold income **over £200,000** and adjusted income **over £260,000**. The £60,000 annual allowance then reduces by £1 for every £2 of adjusted income above £260,000, to a £10,000 minimum. At adjusted income £300,000 the allowance is £40,000 if the threshold test is met. Salary alone is not the statutory income measure; employer input and DB growth can affect the calculation. [3,5]

Carry-forward illustration: up to £105,000 pension input

Assume a £60,000 current allowance, no taper/MPAA, qualifying scheme membership in all relevant years and verified unused allowance: **£10,000 from 2023/24**, **£15,000 from 2024/25**, **£20,000 from 2025/26**. Total 2026/27 capacity is £60,000 + £45,000 = **£105,000**. Use the current year first, then the oldest available year. This is aggregate annual-allowance capacity, not a promise that £105,000 of personal contributions qualifies for relief without sufficient current earnings. [4]

Carry forward has conditions

Use the allowance that actually applied in the earlier year, allowing for any high-income taper and pension input already made. Membership is required, but contributions did not necessarily have to be paid in that year. Current contributions cannot be backdated; carry forward uses earlier unused capacity for input made now. Do not confuse this with EIS carry back or a refund of tax on past income. [4]

Flexible pension income can permanently restrict saving

Taking taxable flexi-access drawdown income or an uncrystallised funds pension lump sum (UFPLS) normally triggers the **£10,000 MPAA** for relevant future money purchase input. Taking only a pension commencement tax-free lump sum, with no taxable drawdown income, normally does not. Certain small-pot payments are exceptions. Carry forward cannot increase the MPAA; DB input and the alternative allowance need separate tests. Part-year trigger dates matter. [6]

If an allowance is exceeded

An annual allowance tax charge can apply to excess input. Your personal tax position determines the charge. Reporting and any scheme-pays election have their own conditions and deadlines; employer payroll deductions do not necessarily settle it. Gather input statements across all schemes, including previous employers, before assuming an excess is taxable. [2,4]

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Taking pension benefits tax-efficiently

The amount taken, the route used and other income all affect the bill.

Tax-free cash is not unlimited

You can usually take up to 25% of eligible benefits as tax-free cash, subject to your available lump sum allowance and scheme rules. The standard £268,275 limit is across relevant pensions, not a fresh allowance for each policy. The lifetime allowance was abolished from 6 April 2024, but lump sum limits, protections and pre-2024 benefit records remain relevant. A transitional tax-free amount certificate may help some people and normally needs addressing before the relevant new benefit event. [7,8]

Worked example: a £20,000 UFPLS

Assume sufficient uncrystallised funds and allowances, eligibility for the standard 25% tax-free element, £35,000 other employment income and no other income/reliefs, in England, Wales or Northern Ireland. Of the £20,000, **£5,000 is tax-free** and **£15,000 taxable**. Total taxable income after the £12,570 Personal Allowance is £37,430, within the £37,700 basic band. Extra Income Tax is £15,000 × 20% = **£3,000**; net pension cash is **£17,000**. A UFPLS normally triggers the MPAA. Emergency PAYE can differ from final annual tax. [6,7]

A different route can produce a different tax result

A drawdown withdrawal from funds whose tax-free cash was already taken is normally wholly taxable. A conventional pension annuity or DB pension is usually taxable pension income. Combining staged pension benefits with ISA withdrawals can help manage tax bands, but spending and investment sustainability come first. Avoid taking a large taxable amount solely to reinvest it elsewhere without comparing the immediate bill and loss of pension shelter. [7]

Pension and estate planning need coordinating

From 6 April 2027 most unused pension funds and pension death benefits are due to enter the IHT estate. Beneficiary Income Tax can be a separate issue, particularly for deaths at 75 or over. Do not multiply headline rates without checking exemptions, liability rules and who receives the benefits. Review nominations, family circumstances and retirement cash needs together. [10]

Before paying in or taking money out

Bring pension input and benefit statements, income forecasts, contribution methods, any previous flexible withdrawals and protection certificates. Check both current and future access needs. An unused allowance is an opportunity to assess, not a requirement to contribute.

Primary sources | Checked 24 November 2026

1 Pension contribution relief
2 Annual allowance
3 2026/27 pension figures
4 Carry forward
5 High-income taper
6 Money purchase allowance
7 Tax-free pension benefits
8 Lump sum allowance
9 Pension access ages
10 Pensions and IHT changes

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