

Tax controls on pensions

There are controls on the total amount of contributions you can make into all pension arrangements and receive tax relief on, and on the pension savings you can have before you become subject to a tax charge. This is in addition to any income tax you pay on your pension once it is in payment.

Most people will be able to save as much as they wish as their pension savings will be less than the allowances.

Are there any limits on how much you can pay in contributions?

At the present time there is no overall limit on the amount of contributions you can pay, although there is a limit of £7,194 on the extra LGPS pension you can buy by paying Additional Pension Contributions (APCs). Although there is no overall limit on the amount of contributions you can pay to all schemes, tax relief will only be given on contributions up to a total of 100% of your taxable earnings in a tax year (or, if greater, £3,600 to a 'tax relief at source' arrangement, such as a personal pension or stakeholder pension scheme).

What are the tax controls on your pension savings?

There are two controls - the Annual Allowance and the Lifetime Allowance.

What is the Annual Allowance?

The Annual Allowance (AA) is the amount by which the value of your pension benefits may increase in a year without you having to pay a tax charge.

If the value of your pension savings in a year (including pension savings outside of the LGPS) are more than the annual allowance, the excess will be taxed as income.

The Government reduced the AA from £255,000 to £50,000 from 6 April 2011, and then reduced it again to £40,000 from 6 April 2014. Further changes to the AA were made for higher earners from 6 April 2016.

What is the Lifetime Allowance?

The Lifetime Allowance (LTA) is the total value of all pension benefits you can have without triggering an excess benefits tax charge.

If the value of your pension benefits when you take them (not including any state retirement pension, state pension credit or any partner's or dependant's pension you are entitled to) is more than the LTA, or more than any protections you may have, you will have to pay tax on the excess benefits.

The LTA covers any pension benefits you have in all tax-registered pension arrangements - not just the LGPS.