

ADVISER GUIDE

Money Purchase Annual Allowance (MPAA) guide

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This information is based on current understanding of pension tax rules. Tax rules depend on personal circumstances, and can be subject to change. This guide is provided for professional advisers’ use only.

What is the MPAA?

The MPAA was introduced alongside pension freedoms on 6 April 2015. It limits the maximum amount of pension savings an individual can make each year to 'money purchase' pension schemes with the benefit of tax relief. It only applies to people who have 'flexibly accessed' their pension and includes pension savings made by someone else on their behalf – for example their employer.

Once triggered, the MPAA will apply in all future tax years, even if the individual stops taking pension income.

'Money purchase' or defined contribution pension schemes will include all personal pensions, such as SIPP, group PPs and stakeholder plans, as well as some occupational schemes (but not defined benefit schemes such as final salary or career average schemes).

When the MPAA was introduced in the 2015/16 tax year, it was originally set at £10,000. Between the 2017/18 and 2022/23 tax years, it was reduced to £4,000. From the 2023/24 tax year onwards it returned to £10,000. It was introduced to reduce the ability to recycle income taken under pension freedoms back into pensions to get further tax relief and tax-free cash.

What does 'flexibly accessed' mean?

The MPAA applies to an individual who takes any of the following on or after 6 April 2015:

- any income from a flexi-access drawdown fund;*
- any payment of a short-term annuity purchased with funds from a flexi-access drawdown fund;*
- any payment from a capped drawdown fund that causes the fund to convert to a flexi-access drawdown fund (i.e. because the cap is exceeded);
- any payment from a previously capped drawdown fund where the member has notified the scheme administrator to convert it to a flexi-access drawdown fund;
- an uncrystallised funds pension lump sum payment (UFPLS);
- any payment from a lifetime annuity that can decrease in amount (a flexible annuity);
- a stand-alone lump sum from a money purchase scheme where the individual has primary protection and a protected tax-free lump sum of more than £375,000; or
- a scheme pension payment from a money purchase scheme with fewer than 11 other pensioner members, where the entitlement arose on or after 6 April 2015.

*The MPAA is not triggered on these events if the flexi-access drawdown funds are attributable to a disqualifying pension credit following pension sharing on divorce.

The following events are NOT trigger events:

- taking a pension commencement lump sum (PCLS);
- taking income from a capped drawdown fund that does not exceed the cap;
- any payment from a lifetime annuity that cannot decrease in amount;
- payment of a scheme pension from a defined benefit scheme; or
- taking a beneficiary's flexi-access drawdown payment.

MPAA and carry-forward

Once the MPAA has been triggered, it is no longer possible to use carry-forward in relation to money purchase contributions made after the trigger date. It is, however, still possible to use carry-forward to reduce or eliminate the tax charge arising from defined benefit pension inputs, and in relation to money purchase contributions in the tax year of the trigger, as long as it is before the trigger date itself.

It may be appropriate for those without any defined benefits (or no need to use carry-forward in relation to defined benefits) to mop up any unused carry-forward immediately before they flexibly access their benefits, as it is a case of 'use it or lose it'.

How does the annual allowance test work in the year the MPAA is triggered?

When someone triggers the MPAA, it is only contributions after the trigger event that are subject to the MPAA. The full annual allowance of £60,000 still applies over the tax year in question (as long as they are not impacted by the tapered annual allowance (TAA)). Where the MPAA is not exceeded, a tax charge will only arise in the usual way if the annual allowance has been exceeded.

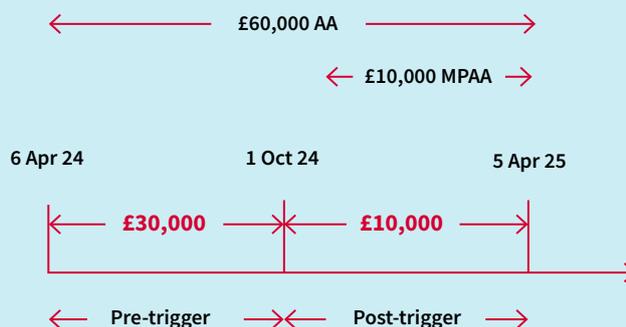
Case study 1 – Harry – within AA and MPAA

- One-off employer contribution of £30,000 on 6 April 2025
- Flexibly accesses benefits on 1 October 2025
- A personal contribution of £10,000 (£8,000 net) on 6 April 2026

His total contributions (£30,000 + £10,000) are tested against the AA.

His contributions since the trigger event (£10,000) are tested against the MPAA.

Neither allowance has been exceeded so no tax charge arises.



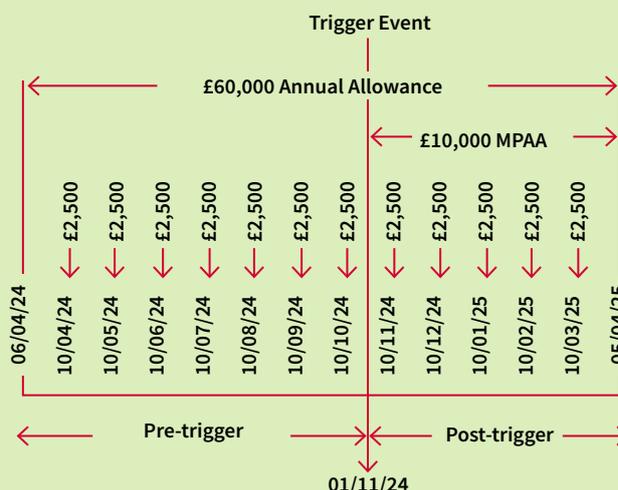
Case study 2 – Daisy – within AA but MPAA exceeded

- Regular personal contributions of £2,500 a month (gross) paid on 10th of the month
- Flexibly accesses benefits on 1 November 2024

Her total contributions (£17,500) are tested against the AA.

She has 5 x £2,500 contributions after the trigger event (November 2024 – March 2025 inclusive) that are tested against the MPAA.

She has exceeded the MPAA by £2,500, so the annual allowance charge will apply to this excess. This could be avoided if she had waited until 11 November to access her benefits, or if the last contribution was stopped.



What about those who have DB accrual as well?

Anyone who has triggered and exceeded the MPAA will have an 'alternative' annual allowance (Alternative AA) for any other pension input amount – i.e. for DB accrual. To make sure the same pension input amounts are not subject to a double annual allowance charge, any pension inputs tested against the MPAA are not tested against the Alternative AA.

For most people, the Alternative AA will be £50,000 (£60,000 AA less £10,000 MPAA), but for those who are subject to the taper it will be lower (TAA less £10,000 MPAA). For the very highest earners it could be zero (those with an adjusted income of above £360,000 whose TAA is at the minimum of £10,000).

If the MPAA has been exceeded, then the amount over the £10,000 MPAA is added to any other pension input amounts for the year (i.e. DB accrual) that exceed the available Alternative AA, taking into account any unused carry-forward from the previous three tax years. This gives an amount known as 'the alternative chargeable amount'.

The total pension input amount is also tested against the available AA – for most people, this will be £60,000, plus carry-forward of any unused annual allowance, unless they are subject to the taper. This gives the 'default chargeable amount'.

The greater of the alternative chargeable amount and the default chargeable amount will be the amount that is subject to the annual allowance charge.

Case study – Ms Jackson – MPAA triggered – default chargeable amount subject to tax charge

- Money purchase contributions £20,000
- DB accrual £45,000
- No carry-forward available
- Not subject to the TAA

Therefore:

- MPAA is exceeded by £10,000 (£20,000 - £10,000 MPAA)
- AAA is not exceeded (£45,000 < £50,000 AAA)
- Alternative chargeable amount is £10,000 (£10,000 + £0)
- Default chargeable amount is £5,000 (£65,000 - £60,000 AA)

Ms Jackson will be subject to the annual allowance charge on the alternative chargeable amount of £10,000, as this is higher than the default chargeable amount.

Case study – Mr White – MPAA triggered – alternative chargeable amount subject to tax charge

- Money purchase contributions £12,000
- DB accrual £59,000
- No carry-forward available
- Not subject to the TAA

Therefore:

- MPAA is exceeded by £2,000 (£12,000 - £10,000 MPAA)
- AAA is exceeded by £9,000 (£59,000 - £50,000 AAA)
- Alternative chargeable amount is £11,000 (£2,000 + £9,000)
- Default chargeable amount is £11,000 (£71,000 - £60,000 AA)

Mr White will be subject to the annual allowance charge on £11,000 as the default and alternative chargeable amounts are the same and he cannot be charged both.



Exchange of information when the MPAA is triggered

When the member first flexibly accesses their benefits, the scheme administrator must send them a 'flexible access' statement within 31 days of the trigger event. No statements are issued for subsequent events, or where the member has previously told the scheme administrator that they have flexibly accessed benefits elsewhere.

The statement must tell the member:

- they have flexibly accessed their pension savings;
- the date of the relevant trigger event;
- that if they make contributions in excess of £10,000 to money purchase arrangements, they will be liable to an annual allowance charge on the excess; and
- that they must tell other pension scheme administrators that they have flexibly accessed their benefits.

The member is then responsible for passing on information to other money purchase and hybrid arrangements they are accruing benefits under within 91 days (13 weeks) of receiving the statement. If they later join another scheme, then they must tell the new scheme administrator within 91 days.

Penalties for failing to provide information

If the party responsible for providing the information fails to do so within the time limits, they may be liable to a penalty. This doesn't just apply to scheme administrators failing to tell the members about the MPAA and what it means, but also applies to members who fail to pass the relevant information on to other scheme administrators that they are accruing benefits with. In practice, we are not aware of members being subject to fines, but the rules certainly permit HMRC to charge them.

There is a potential penalty of up to £300 for failure to provide the required information on time, plus an additional penalty of £60 for every day it remains outstanding.

Calculating the tax charge

The annual allowance tax charge reduces the tax relief on any pension savings over the applicable annual allowance. It is not a fixed rate, but is added to income and charged appropriately. This principal is the same regardless of which of the annual allowances has been exceeded.

Once the chargeable amount has been calculated, it is added to taxable income for the year (the actual amount an individual pays income on after the personal allowance – defined as 'reduced net income' in legislation and for self-

assessment calculations). It is important to note that making a personal contribution using relief at source (RAS) increases both the basic rate limit and higher rate limit by the amount of the gross contribution. (Gift Aid donations also work in the same way.) This does not apply to contributions under net pay schemes.

As an example, Joe and Wendy both have salaries of £60,000 and pay £15,000 contributions to their pension schemes. Joe pays his via his employer to a net pay scheme so his taxable income for the year is £32,430 (£60,000 salary less £15,000 contribution less £12,570 personal allowance).

Wendy pays her contribution to a personal pension that uses relief at source. Her taxable income for the year will be £47,430 (£60,000 salary less £12,570 personal allowance), but her basic rate limit is increased from £37,700 to £52,700.

If both Joe and Wendy have triggered the MPAA and have a chargeable amount of £11,000, this is added to their taxable income for the year and tax is charged accordingly.

For Joe this means the £11,000 is added to his £32,430 income, so he is taxed on £43,430.

As he has the standard basic rate limit of £37,700, the £5,730 above this will fall into the higher rate tax bracket so will be charged at 40% (£2,292) and the remaining £5,270 charged at 20% (£1,054). Joe has an annual allowance charge of £3,346.

For Wendy the £11,000 is added to her £47,430 income, so she is taxed on £58,430. Wendy's basic rate limit has been extended by the value of her contribution to £52,700 (£37,700 plus £15,000), so the top £5,730 above this will be taxed at 40% (£2,292) and the remaining £5,270 will be taxed at 20% (£1,054). Wendy's annual allowance charge will therefore be £3,346.

It is also worth noting that Joe will have received full tax relief under his net pay scheme, whereas Wendy will claim the higher rate relief via her self-assessment, which will offset some of the tax charge.

Paying the tax charge

Any tax charge arising from exceeding the MPAA is usually paid by the individual via their self-assessment tax return.

However, it may be possible for the charge to be paid by the pension scheme, if the scheme offers 'voluntary scheme pays'. It is not possible to compel a scheme to pay an annual allowance charge relating to the MPAA (compulsory scheme pays is only available when the annual allowance has been exceeded) and, even when the scheme offers the facility to pay, the member retains the liability until the payment is made. For more information, please see our [Guide to scheme pays](#).