



# Money Purchase Annual Allowance

April 2023

**You have a limit on how much you can earn or save in a pension tax-free, each tax year. This is called your Annual Allowance.** If you take money 'flexibly' from a defined contribution pension, you trigger the Money Purchase Annual Allowance (MPAA) and you have new limits on how much you can save or earn tax-free.

## What is Annual Allowance?

Currently you can earn or save up to £60,000 each tax year (or 100% of your taxable earnings if this is less than £60,000) into a pension and get tax relief.

If you start to take money 'flexibly' from a defined contribution pension, the amount you can pay into a pension and still get tax relief reduces. This is called your Money Purchase Annual Allowance, or MPAA.

There are two types of pension you can pay or save with. If you trigger MPAA, the amount you can save each tax year before paying tax is:

- £10,000 with defined contribution schemes
- £50,000 with defined benefit schemes

Contact us



[pensions@churchofengland.org](mailto:pensions@churchofengland.org)



020 7898 1802



PO Box 2026, Pershore, WR10 9BW

These limits apply to all your pensions combined, not just pensions you have with us.

If your taxable earnings from all sources are above £260,000 your defined benefit scheme annual allowance might be less than £50,000.

Read our **Tapered Annual Allowance leaflet** to find out more.

### How do I trigger MPAA?

Your pension provider will let you know if you trigger MPAA. They will send you a statement telling you why you have triggered it and what to do next.

You need to send a copy of this statement to any other pensions you have not taken yet.

As a guide, here is whether you will trigger MPAA or not:

Action	Trigger
take an entire pension pot in one go	✓
start to take lump sums from a pension pot	✓
take a flexible income from your pension - called drawdown	✓
buy a guaranteed income that could go down	✓
take a tax-free lump sum and use the rest to buy a guaranteed income that stays level or increases	✗
take a tax-free lump sum and put the rest into drawdown, but do not take any income from it	✗
your pension pot is less than £10,000	✗

### How will I know if I go over my MPAA?

If you trigger MPAA it is good practice to keep track of how much you pay or save into your pensions.

We cannot keep track of how much you pay or save with us and tell you when you are getting close to your MPAA limit or gone over it. Your other pension providers might not tell you either. It is down to you to check how much Annual Allowance you use.

### Will I have to pay a tax charge?

If you go over your MPAA you will have to pay tax on the amount you exceed it by.

For example, if you trigger MPAA you can only save £10,000 in a defined contribution pension. If you save £12,000, you only need to pay tax on the £2,000 you go over it by. The charge is added to your taxable income.

You can pay the charge by completing a self-assessment tax return and filling in the 'Pension savings tax charges' section. It is your responsibility to pay this. Fill out a return at [gov.uk/self-assessment-tax-returns](https://www.gov.uk/self-assessment-tax-returns)

You can ask us to pay your tax charge for you, but there are some conditions you need to meet first. Find out more about this in our **Scheme Pays leaflet**.

### Using your 'carry forward'

You cannot use any unused Annual Allowance from previous years to reduce or even get rid of your defined contribution tax charge.

So, if you pay or save more than £10,000 over the tax year in a defined contribution pension, you must pay tax on the excess.

If you pay or save more than £50,000 in a defined benefit pension you can still use your carry forward for any tax charge you have with this type of pension. Working

out your carry forward is not straightforward. Ask us to do this for you.

***This leaflet reflects our understanding of current legislation and practice. You should always talk to a financial or legal adviser if you need specific guidance or advice.***

