Money Purchase Annual Allowance

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Introduction

The Money Purchase Annual Allowance (MPAA) was introduced as an anti-avoidance measure to prevent wide-spread abuse of the new pensions flexibility from 6 April 2015.

It's intended to discourage individuals from diverting their salary into their pension with tax relief and then immediately withdrawing 25% tax-free.

The MPAA applies only to money purchase contributions and, since 6 April 2023, is set at £10,000. The MPAA was previously £4,000 for tax years 2017/18 to 2022/23 and £10,000 for tax years 2015/16 and 2016/17.

What are the trigger events?

The MPAA is triggered by certain events, including the following:

- When income is taken from flexi-access drawdown arrangement (including receiving payments from a short-term annuity provided from a flexi-access drawdown arrangement).
- When a capped drawdown arrangement is converted to a flexi-access drawdown arrangement and income is subsequently taken.
- When income above 150% GAD is taken post 5 April 2015 from a capped drawdown arrangement (note: the capped drawdown arrangement would automatically become a flexi-access drawdown arrangement to prevent the unauthorised payment rules applying).
- When an Uncrystallised Funds Pension Lump Sum (UFPLS) is taken.
- Where an individual had a 'flexible drawdown' arrangement prior to 6 April 2015 (note: such arrangements automatically became flexi-access drawdown arrangements on 6 April 2015).
- When a payment from a new style 'flexible' lifetime annuity is taken.

When the MPAA is triggered, the individual needs to tell any other money purchase arrangements that they have flexibly accessed their pension savings. If they fail to do this within 91 days, they will face a fine from HMRC.

What events don't trigger the MPAA?

The MPAA will not be triggered by any of the following payments:

- Taking only the Pension Commencement Lump Sum (PCLS) from a flexi-access drawdown arrangement (i.e. no income taken)
- A trivial commutation lump sum
- Small pots commutation lump sum
- Receipt of a scheme pension
- Receipt of a conventional lifetime annuity
- After 6 April 2015, where an individual takes no more than 150% GAD from a pre-6 April 2015 capped drawdown arrangement.

Triggering the MPAA

Where an individual triggers the MPAA rules, they will have a reduced annual allowance for money purchase pension savings. How their other pension savings are impacted (essentially, any accrual under defined benefit schemes) depends on whether or not the MPAA has been exceeded.

Where an individual exceeds the MPAA in any tax year:

- they will be subject to the annual allowance charge on the excess
- they will have a reduced annual allowance (referred to as an 'alternative annual allowance') of £50,000 (i.e. £60,000 - £10,000 MPAA) for any non-money purchase pension savings (essentially, any pension input amount for defined benefit schemes). Any unused annual allowance may also be carried forward from the three previous tax years to increase their 'alternative annual allowance'. To ensure that the same savings are not subject to the annual allowance twice, any pension savings tested against the MPAA will not be tested against their reduced 'alternative annual allowance' and
- carry forward cannot be used to increase the MPAA.

Where an individual does not exceed the MPAA in the tax year concerned:

- their total annual allowance, across both money purchase and defined benefit schemes, will continue to be the standard annual allowance (£60,000 from 6 April 2023 unless reduced under the Tapered Annual Allowance rules) plus any unused annual allowance carried forward from the three previous tax years
- carry forward cannot be used to increase the MPAA but can still be used to increase the annual allowance for defined benefit schemes, and
- they will not be able to carry forward any unused MPAA.

MPAA charge

The MPAA will apply from the day after the trigger event has occurred. In the first tax year that the MPAA rules apply, any money purchase savings that have been made by, or on behalf of, the individual prior to triggering the rules will not be subject to the MPAA.

Contributions over the MPAA will be subject to an annual allowance charge at the individual's marginal rate of income tax for earned income.

It may be possible for the individual to elect for the relevant pension scheme to pay the charge on their behalf using their pension benefits. This is known as 'Scheme Pays'.

Transitional Rules

Pre and Post Alignment Tax Year 2015/16

Under transitional rules that were put in place to align pension input periods with the tax year by 6 April 2016, the 2015/16 tax year was split into two periods;

- the pre-alignment tax year, 6 April 2015 to 8 July 2015 which had a MPAA of £20,000, and
- the post-alignment tax year, 9 July 2015 to 5 April 2016, which had a MPAA of nil but had the ability to carry forward up to £10,000 of unused MPAA from the pre-alignment tax year.

This was the only situation where carry forward was available for the MPAA.

Key Point Summary

If an individual triggers the MPAA, their annual allowance for money purchase savings will reduce. Anyone who needs to contribute more than this annually will have limited options, thereby compromising their long-term savings plans and restricting future access to long-term income.

This represents Zurich's understanding of HMRC regulations governing the money purchase annual allowance (MPAA). This is subject to change and Zurich does not accept responsibility for any action taken or refrained from, by any person relying on this information.

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