

Local Government Pension Scheme (LGPS) factsheet

Pensions Taxation - Annual allowance

HM Revenue and Customs (H M R C) imposes two controls on limits the amount of pension savings you can make without having to pay extra tax. These controls are known as the annual allowance and lifetime allowance. This limit is in addition to any income tax you pay on your pension once it is being paid to you.

What is the annual allowance?

The annual allowance (A A) 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 L G P S) is more than the annual allowance, the excess will be taxed as income.

The standard annual allowance increased to £60,000 from 6 April 2023. For the tax years 2016/17 to 2022/23 it was £40,000.

The annual allowance for some members will be lower than the standard annual allowance. You can find more information about when a different annual allowance will apply later in this factsheet.

Will I be affected by the annual allowance?

Most people will not be affected by the annual allowance because the value of their pension savings will not increase in a year by more than the annual allowance limit. When the increase does exceed that limit, they are likely to have unused allowance from previous years that can be carried forward.

You are most likely to be affected if one or more of the statements below applies to you:

- You have membership of the LGPS that was built up in the final salary section and you receive a significant pay increase. Final salary membership is membership built up before 1 April 2014.
- You combine a previous LGPS pension benefit that was built up in the final salary section of the LGPS with your current pension account and your salary (full time equivalent) has increased significantly since you left the Scheme.
- You transfer pension rights into the LGPS from a previous public service pension scheme under the preferential Club transfer rules and your salary (full time equivalent) on joining the LGPS is higher than the salary you earned when you left the previous scheme.

Public service pension schemes are schemes covering civil servants, any scheme in England, Wales or Scotland covering local government workers, teachers, health service workers, fire and rescue workers or members of the police force, or a new public body pension scheme.

- In the past you transferred in membership from another public service pension scheme which retains a final salary link and you receive a significant pay increase.
- You pay a high level of additional contributions.
- You are a higher earner.
- You have accessed flexible benefits on or after 6 April 2015.

If your LGPS pension savings exceed the standard AA in any year ending 5 April, East Sussex Pension Fund will contact you by 6 October to let you know.

The 50/50 section of the LGPS

If you wish to slow down your pension build up to avoid or reduce an AA tax charge, you may wish to consider joining the 50/50 section. In the 50/50 section of the LGPS you pay half your normal contributions and build up half your normal pension, but you retain full life cover and ill health cover. You can find out more about [Paying less – the 50/50 section](#) on the LGPS member website.

Before taking any action to reduce your tax liabilities you should always seek independent financial advice from an FCA registered adviser. For help in choosing an independent financial adviser, visit the [MoneyHelper website](#).

How is the annual allowance calculated?

The increase in the value of your pension savings in the LGPS in a year is calculated by:

- working out the value of your benefits immediately before the start of the ‘pension input period’
- increasing that value by inflation, and
- comparing it with the value of your benefits at the end of the ‘pension input period’.

The ‘pension input period’ (PIP) is the period over which your pension growth is measured. PIPs are aligned with the tax year – 6 April to 5 April.

In the LGPS, the value of your pension benefits is calculated by:

- multiplying the amount of your annual pension by 16
- adding any lump sum you are automatically entitled to from the pension scheme, and
- adding any additional voluntary contributions (AVCs) you or your employer has paid during the year.

If the value of pension benefits at the end of the PIP less the value of your pension benefits immediately before the start of PIP (adjusted for inflation), is more than the AA, you may have to pay a tax charge.

The assessment for the AA covers any pension benefits you have where you have been an active member during the year, not just benefits in the LGPS. For example, if the increase in the value of your LGPS benefits was £50,000 in 2024/25 when the AA was £60,000, but you also had an increase in the value of other pension benefits of £15,000 in the same year, that would mean you had a total increase in pension benefits of £65,000. If you did not have any carry forward, you would be liable for a tax charge on the amount you exceeded the AA by, even though you did not breach the AA in either scheme. You can find out more about carry forward in the next section.

Carry forward

You may be subject to an annual allowance tax charge if the value of your pension savings for a year increases by more than the annual allowance for that year. However, a three year carry forward rule allows you to carry forward unused AA from the previous three years. This means that, even if the value of your pension savings increases by more than the AA in a year, you may not have to pay an AA tax charge.

For example, the value of your pension savings in 2024/25 increased by £70,000 (ie by £10,000 more than the AA) but in the three previous years had increased by £35,000, £28,000 and £30,000. The amount by which the increase in your pension savings fell short of the AA for those three years would more than offset the £10,000 excess pension saving in the 2024/25 year. You would not have to pay an AA tax charge.

To carry forward unused AA from an earlier year, you must have been a member of a tax registered pension scheme in that year.

1. The Tapered annual allowance for higher earners

The AA is tapered for high earning individuals. The AA will be reduced if your 'Threshold Income' and 'Adjusted Income' exceed the limits in a year. For every £2 that your Adjusted Income exceeds the limit, your AA is tapered down by £1. Your AA cannot be reduced below the minimum that applies. The Government has changed these limits since they were first introduced.

Table 2 shows the limits that apply.

Table 1 – tapered annual allowance limits

	Definition	Limit 2016/17 to 2019/20	Limit 2020/21 to 2022/23	Limit 2023/24 onwards
Threshold Income	Broadly your taxable income after the deduction of your pension contributions (including AVCs)	£110,000	£200,000	£200,000
Adjusted Income	Broadly your threshold income plus pensions savings built up over the tax year	£150,000	£240,000	£260,000
Minimum AA	If your AA is tapered, the minimum AA that can apply	£10,000	£4,000	£10,000

Threshold income includes income from all sources that is taxable eg property income, savings income, dividend income, pension income, social security income (where taxable), state pension income etc.

You are not allowed to deduct from taxable income any amount of employment income given up for pension provision as a result of any salary sacrifice made on or after 9 July 2015.

How does the taper work?

From the 2023/24 year, the taper reduces the AA by £1 for every £2 of adjusted income received over £260,000, until a minimum AA of £10,000 is reached. The AA that applies for high earners from 6th April 2023 is shown in table 3.

Table 3 - The tapered AA from 2023/24 onwards

Adjusted Income	Annual Allowance
£260,000 or below	£60,000
£280,000	£50,000
£300,000	£40,000
£320,000	£30,000
£340,000	£20,000
£360,000 or above	£10,000

Tables 4 and 5 show the effect of the tapered annual allowance in the years up to 2022/23.

Table 4 – The tapered AA from 2020/21 to 2022/23

Adjusted Income	Annual Allowance
£150,000 or below	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or above	£10,000

Table 5 – The tapered AA from 2016/17 to 2019/20

Adjusted Income	Annual Allowance
£150,000 or below	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or above	£10,000

Example 1 – Cerys: annual allowance charge in 2022/23

Gross salary 2022/23	£220,000
Less employee pension contributions (12.5%)	£27,500
Threshold income 2022/23	£192,500
Pension savings in the year	£71,837

Cerys's Threshold income is less than £200,000. Her AA was not tapered in 2022/23. Cerys's pension savings were measured against the standard AA of £40,000.

Standard AA	£40,000
Pension savings in excess of AA	£31,837
AA tax charge at marginal rate	£14,327 (marginal rate of 45% assumed)

Example 2 – Huang: tapered annual allowance in 2024/25

Gross salary 2024/25	£230,000
Less employee pension contributions (12.5%)	£28,750
Plus taxable income from property	£38,000
Threshold income 2024/25	£239,250
Plus pension saving in the year	£75,102
Adjusted income 2024/25	£314,352

Huang's Threshold income is more than £200,000 and her Adjusted income is more than £260,000. Her AA was tapered for the 2024/25 year.

Tapered AA	£32,824*
In excess of AA	£42,278
AA tax charge at marginal rate	£19,025 (marginal rate of 45% assumed)

* Taper = £314,352 - £260,000 = £54,352 ÷ 2 = £27,176

Standard AA £60,000 - £27,176 = £32,824

We have made no allowance for any carry forward in the examples above. In working out the pension savings in the year we have assumed:

- inflation adjustment of zero
- the members have no final salary benefits in the LGPS, and
- the members are not paying any additional contributions.

Annual Allowance ‘Flexible Benefit’ access

If you have benefits in a money purchase (defined contribution) pension arrangement which you have flexibly accessed on or after 6 April 2015, then the Money Purchase Annual Allowance (MPAA) rules may apply. The MPAA will only apply if your total contributions to a money purchase arrangement in a PIP exceed the MPAA.

Generally, if you have flexibly accessed any benefits in a money purchase arrangement on or after 6 April 2015, any further contributions you make to a money purchase scheme in subsequent tax years will be tested against the MPAA. If your contributions exceed the MPAA, your defined benefit pension (LGPS) savings will be tested against the alternative AA and you will pay a tax charge in respect of your money purchase saving in excess of the MPAA.

Table 5: The Money Purchase Annual Allowance (MPAA)

Tax Year	MPAA	Alternative annual allowance If MPAA is exceeded
2016/17	£10,000	£30,000
2017/18 to 2022/23	£4,000	£36,000
2023/24 onwards	£10,000	£50,000

If you access flexible benefits, you will be provided with a flexible access statement; you should provide East Sussex Pension Fund with a copy of this statement.

Flexible access means:

- taking a cash amount over the tax-free lump sum from a flexi-access drawdown account
- taking an uncrystallised funds pension lump sum
- purchasing a flexible annuity
- taking a scheme pension from a defined contribution scheme with fewer than 12 pensioner members, or
- taking a stand-alone lump sum if you have primary but not enhanced protection. A stand-alone lump sum is a lump sum relating to pre 6 April 2006 where the whole amount can be taken as a lump sum without a connected pension.

How would I pay an annual allowance tax charge?

If you exceed the AA in any year, you are responsible for reporting this to HMRC on your self-assessment tax return.

Your pension fund must notify you if your pension savings in the LGPS (plus the amount of any AVCs you have paid) exceed the standard AA in a year, or if they believe you have exceeded the MPAA in a year. They must inform you by no later than the 6 October which follows the end of the PIP. Your pension fund is not obliged to inform you if you exceed the tapered annual allowance.

If you have an AA tax charge that is more than £2,000 and your pension savings in the LGPS alone have increased in the year by more than the standard AA, you may be able to opt for the LGPS to pay some or all of the tax charge on your behalf. The tax charge would then be recovered from your pension.

If you want the LGPS to pay some or all of an AA tax charge on your behalf, you must notify your pension fund no later than 31 July in the year following the end of the year to which the AA charge relates. However, if you are retiring (taking all of your benefits from the LGPS) and you want the LGPS to pay some or all of the tax charge on your behalf from your benefits, you must tell your pension fund before you become entitled to those benefits.

Your pension fund, at their discretion, may also agree to pay some or all of an annual allowance charge on your behalf in other circumstances, eg where your pension savings are not in excess of the standard AA but are in excess of the tapered or money purchase AA, or where part of the charge relates to pension savings outside of the LGPS. [Contact your pension fund](#) for more information.

Am I affected?

If you think you are affected by the AA, you can find more information about [pension tax and the annual allowance](#) on the Government's website. If you are unsure if you will be affected by the AA, use the [AA quick check tool](#) on the LGPS member website.

More information

If you have any questions about your LGPS membership or benefits, please contact East Sussex Pension Fund.

By phone: 0300 200 1022

By email: pensions@eastsussex.gov.uk

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Disclaimer

This factsheet provides an overview of the AA rules at May 2025. It should not be treated as a complete and authoritative statement of the law. The rules governing AA can be complex and are subject to change; if you are unsure how to proceed you are advised to obtain independent financial advice. For help in choosing an independent financial advisor, visit the [MoneyHelper website](#).