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Pension tax relief: the annual allowance and lifetime allowance

Summary

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In the UK, private pension saving is taxed on an "exempt, exempt, taxed" (EET) model. This means:

- When people and their employers pay into a pension, the contributions are exempt from taxation. Both the saver and any contributing employer receive tax relief, up to set limits.
- If the pension savings grow through investments, this is exempt from taxation.
- When the savings are withdrawn as pension payments, these are taxed like other income. People are allowed access up to 25% of their pension savings as a tax-free lump sum.

What are the limits to pension tax relief?

There are limits on the amount of pensions tax relief someone can receive.

Limits to tax-free contributions

An annual allowance limits the amount someone can pay into pension schemes each year before they must pay tax. It is £60,000 in 2024/25.

A person cannot usually receive tax relief on pension contributions worth more than 100% of their annual earnings. However, people can still contribute £3,600 a year into a pension with tax relief even if they earn less than this.

The annual allowance is tapered (reduced) for higher earners. It is reduced by £1 for every £2 someone earns over £260,000 (including pension contributions). Tapering stops when the annual allowance reaches £10,000.

In defined contribution pension schemes people build up a pot of money that can be used for retirement. In certain circumstances if someone withdraws money from a defined contribution scheme then the amount that they can contribute to these schemes in future – and still receive tax relief - is permanently reduced. The lower allowance, known as the money purchase annual allowance, is set at £10,000 a year.

Abolition of the lifetime allowance

There was a limit on the amount people can build up in pension schemes over their lifetime and still receive tax relief.

At the Spring Budget 2023, the government announced that it would abolish the lifetime allowance. It started this process by removing the tax charge for exceeding the lifetime allowance from 6 April 2023 and abolished the lifetime allowance fully in the Finance Act 2024 from 6 April 2024.

What are the options for reform?

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1 Background

1.1 How are pensions taxed in the UK?

In the UK, private pension saving is taxed on an “exempt, exempt, taxed” (EET) model. This means:

- When people and their employers pay into a pension, the contributions are exempt from taxation. Both the saver and any contributing employer receive tax relief, up to set limits.
- If the pension savings grow through investments, this is exempt from taxation.
- When the savings are withdrawn as pension payments, these are taxed like other income. People are allowed access up to 25% of their pension savings as a tax free lump sum.[1]

Tax relief is often received at someone’s marginal rate of income tax.[2] Employers can also receive tax relief on the contributions they make to registered pension schemes.[3]

A general overview can be found on GOV.UK – Tax on your private pension contributions. There is more detail in HM Revenue & Customs’ Pension Tax Manual.

A summary of the tax treatment of the state pension is available on GOV.UK’s Tax when you get a pension.[4]

1.2 What are the limits on pensions tax relief?

There are limits on the amount of pensions tax relief someone can receive.

1 Pensions Tax Manual, PTM024100 – General principles: overview of pensions taxation: the basics, HM Revenue and Customs, 8 April 2024
2 Exceptions to this are covered in sections 5 and 6 of this paper.
3 HM Revenue and Customs, Pensions Tax Manual, PTM043100 - Contributions: tax relief for employers: introduction, 8 April 2024
4 Guidance is also available for pensioners from Low Incomes Tax Reform Group, Pensioners, 6 April 2023

Limits to tax-free contributions

A person cannot usually receive tax relief on pension contributions worth more than 100% of their annual earnings.[5] However, people can still contribute £3,600 a year into a pension with tax relief even if they earn less than this.[6]

There is also an annual allowance. The annual allowance limits the amount someone can pay into pension schemes each year before they must pay tax. The annual allowance is £60,000 in 2024/25.[7]

The annual allowance is tapered (reduced) for higher earners. The annual allowance is reduced by £1 for every £2 someone earns over £260,000 (including pension contributions). Tapering stops when the annual allowance reaches £10,000.[8]

1 Types of pension scheme in the UK

The way pension tax rules are applied can depend on the type of pension scheme. There are two main types of pension schemes in the UK.

- Defined benefit schemes pay a promised pension based on factors such as salary and length of service. A sponsor, which is usually an employer, guarantees the promised benefits are paid. The pension provides an income for life and may also include a retirement lump sum.
- Defined contribution schemes do not provide a guaranteed pension and instead provide a pot of money that can be used in retirement. The value of the pension pot depends on the amount paid into the scheme and the returns on investment of that amount.

If someone withdraws money from a defined contribution scheme then the amount that they can contribute to defined contribution schemes in future – and still receive tax relief - is permanently reduced. The lower allowance, known as the money purchase annual allowance, is set at £10,000 a year.[9]

Lifetime allowance

There was a limit on the amount people could build up in pension schemes over their lifetime and still receive tax relief.

5 Finance Act 2004, section 190
6 This would be a maximum contribution of £2,880 a year with 20% tax relief of £720 through a relief at source pension scheme. Further details about relief at source schemes are available in section 5 of this paper.
7 Finance Act 2004, section 228 as amended by Finance (No. 2) Act 2023
8 Finance Act 2004, section 228ZA as amended by Finance (No. 2) Act 2023
9 Finance Act 2004, s227ZA as amended by Finance (No. 2) Act 2023

At the Spring Budget 2023, the government announced that it would abolish the lifetime allowance.[10] It started this process by removing the tax charge for exceeding the lifetime allowance from 6 April 2023 and abolished the lifetime allowance fully in the Finance Act 2024 from 6 April 2024.[11]

In 2023/24, the standard lifetime allowance for most people was £1,073,100.[12]

1.3 How much does pension tax relief cost?

In 2021/22, an estimated £68.8 billion of tax relief was provided on pensions. In the same year, £20.5 billion was collected in tax from pension schemes. The overall cost of pension income tax and National Insurance Contributions (NICs) relief was estimated to be £48.3 billion.[13]

The figure for the overall cost of tax relief may not be an appropriate estimate of the cost to the Government. As the Treasury explained in 2015, there can be a significant gap between when they receive tax relief on contributions and pay tax on the pensions they receive. People's tax rates also change over their lifetime – meaning that the relief they receive may not correspond with the amount of tax they ultimately pay.[14]

It should also be noted that these figures do not yet include information after 6 April 2023 when the Government made significant changes to tax relief. The 2023 Budget is covered in more detail in section 4 below.

Table 1: Estimated cost of pension income tax and National Insurance Contributions (NICs) relief

£ m (rounded to the nearest £100m)	2020/21[P]	2021/22[P]
Pension income tax and NICs relief (excluding tax charges)	67,300	68,800
Pension income tax relief	44,100	45,800
Pension NICs relief	23,200	23,000
Pension tax charges	19,100	20,500
Income tax liable on payments from pension schemes	18,300	19,500
Annual Allowance charges	300	600
Lifetime allowance charges	400	500
Pension income tax and NICs relief (including tax charges)	48,300	48,300

p: provisional

Source: HM Revenue & Customs, Private pension statistics, 27 September 2023, Table 6

10 HM Treasury, Spring Budget 2023, 15 March 2023
11 Finance Act 2024, Schedule 9
12 Finance Act 2021, section 28
13 HM Revenue and Customs, Private pension statistics, 27 September 2023, table 6
14 HM Treasury, Strengthening the incentive to save: a consultation on pensions tax relief, Cm 9102, July 2015, para 2.4

2 The annual allowance

2.1 What is the annual allowance?

An annual allowance restricts the amount someone can contribute to a pension and receive tax relief in any given year. It is £60,000 in 2024/25.[15]

It is also the case that someone cannot usually receive tax relief on pension contributions worth more than their annual earnings.[16] However, people can still contribute £3,600 a year into a pension with tax relief even if they earn less than this.[17]

2.2 What is the tapered annual allowance?

The annual allowance is tapered, which means it reduces for higher earners.

In 2024/25 someone's annual allowance is tapered (reduced) if:

- their income before tax is above £200,000; and
- their income including pension contributions (adjusted income) is above £260,000.[18]

Someone's annual allowance is reduced by £1 for every £2 of adjusted income they earn above £260,000.[19]

Tapering stops when someone's annual allowance reaches £10,000.[20]

15 Finance Act 2004, section 228 as amended by Finance (No. 2) Act 2023
16 Finance Act 2004, section 190
17 This would be a maximum contribution of £2,880 a year with 20% tax relief of £720 through a relief at source pension scheme. Further details about relief at source schemes are available in section 5 of this paper.
18 HM Revenue and Customs, Pensions Tax Manual, PTM051100 – Annual allowance: essential principles, 8 April 2024
19 Finance Act 2020, part 1 section 22
20 As above

2.3 How are annual allowance contributions calculated?

Contributions to the annual allowance are calculated differently for defined contribution and defined benefit schemes.

The calculation for defined contribution schemes

Defined contribution schemes provide a saving pot. Any contribution to a defined contribution scheme which receives tax relief is counted towards someone's annual allowance.[21]

The calculation for defined benefit schemes

The calculation for defined benefit schemes is more complicated.[22]

Defined benefit schemes pay a promised pension based on factors such as salary and length of service. Defined benefit schemes usually pay an income and may also pay a promised lump sum at retirement.

The amount that a defined benefit pension contributes towards someone's annual allowance is calculated by:

- The change in the value of any lump sum
- Plus 16 times the value of the annual pension

This is then adjusted for inflation as measured by the consumer prices index.

2.4 What is the Money Purchase Annual Allowance?

The pension freedoms, which were introduced in April 2015, gave people more flexibility about how they accessed their defined contribution pension schemes. Before April 2015, most people had to buy an annuity which provided a guaranteed income for life. Now people can withdraw money from their pensions while leaving the rest of it invested.[23]

Defined contribution schemes are sometimes known as money purchase schemes. The money purchase allowance is intended to prevent people using the pension freedoms to avoid tax on their employment income. Without the

21 Finance Act 2004, sections 230 to 233
22 The calculation is set out in the Finance Act 2004, sections 234 to 236
23 HM Treasury, Budget 2014, 19 March 2014, para 1.156-66

money purchase annual allowance, people could place their income into a defined contribution scheme (up to the annual allowance) before immediately withdrawing 25% of it tax free. The remainder could also be withdrawn and taxed the same as other income.[24]

To avoid the pension freedoms being used this way, once someone accesses a defined contribution pension, the amount that they can contribute to defined contribution schemes in future without paying tax is permanently reduced. In 2023/24 someone who has withdrawn money previously from a defined contribution scheme has a money purchase annual allowance of £10,000.[25]

2.5 What happens if someone exceeds the annual allowance?

If someone contributes more than their annual allowance into pension schemes, then they may need to pay tax on those contributions. But there are options to support them.

Carry forward

If someone has not used all of their annual allowance in one year, they may be able to use it in a future year. Carry forward allows someone to make use of any unused annual allowance from three previous tax years.[26]

Carry forward was introduced in October 2010 to stop people who typically contributed below the annual allowance from facing a tax charge as a result of exceeding it in a single year.[27]

Scheme pays

Scheme pays was also introduced for people with a tax charge for exceeding the annual allowance who may have difficulty paying the charge directly from their current income.[28] It allows people who have exceeded their annual allowance and have a tax charge of more than £2,000 to choose for the charge to be paid for from their pension savings.[29]

24 HM Treasury, Freedom and choice in pensions: Government response to consultation, Cm 8901, July 2014, para 2.27

25 HM Revenue and Customs, Policy Paper: Pension Tax Limits, 15 March 2023

26 The relevant legislation is sections 228A, 228B and 228C of the Finance Act 2004. These sections were introduced by schedule 17 of the Finance Act 2011.

27 HM Treasury. Restricting pensions tax relief through existing allowances: a summary of the discussion document responses (PDF), October 2010

28 HM Treasury, Options to meet high annual allowance charges from pension benefits: a discussion document, November 2010, para 1.7

29 HM Revenue and Customs, HC Deb, 3 March 2011, c31-32WS and Pensions Tax Manual – Annual allowance: tax charge: scheme pays: general, 8 April 2024

Scheme pays involves the scheme effectively making a loan to pay the charge, which is repaid with interest.

2.6 Pension taxes for public officials

Constituents sometimes ask whether these rules apply to MPs and other high-earning public servants, such as senior civil servants and judges. The answer is that the rules apply to registered pension schemes, which includes the MPs' Pension Scheme and the Civil Service Pension Scheme.[30]

Some pension schemes for judges however are de-registered for tax purposes, which means income tax is paid on contributions.[31] However contributions to these do not attract tax relief and the lifetime allowance or annual allowance do not apply.

For more detail, see the Commons Library briefing Judges Pension Schemes.

30 Explanatory Memorandum to SI 2006 No. 920, para 7.1; MPs' CARE Pension Scheme – PCPF - Guide for scheme members (May 2015); Civil Service Pensions, Your alpha benefits explained

31 Judicial Pension Scheme 1993 – scheme guide (PDF), November 2014, p4

3 The abolition of the lifetime allowance

The lifetime allowance was introduced in 2006 as part of the simplification to the pension tax regime.[32] It was the maximum amount of pension savings someone could usually receive tax relief on. Someone with pension savings above the lifetime allowance would pay a tax charge on this amount. In 2023/24 the lifetime allowance was £1,073,100.[33]

At the Spring Budget 2023, the government announced that it would abolish the lifetime allowance.[34] It started this process by removing the tax charge for exceeding the lifetime allowance from 6 April 2023 and abolished the lifetime allowance fully in the Finance Act 2024 from 6 April 2024.[35]

3.1 What was the lifetime allowance?

The lifetime allowance is the amount someone can usually build up in a pension without paying tax. The standard lifetime allowance was £1,073,000 in 2023/24.[36] People with certain protections may retain a higher lifetime allowance (covered in section 3.4 below).

To determine if someone had exceeded their lifetime allowance a check was carried out when certain events occur. This was typically when someone:

- First received money from a pension scheme
- Transferred a pension overseas before age 75
- Reached the age 75 or dies before this without accessing their pension.[37]

The lifetime allowance was checked against the value of all of someone's pensions.

32 For more information see Commons Library research briefing SN 02984, Pension tax simplification
33 Finance Act 2021, section 28
34 HM Treasury, Spring Budget 2023, 15 March 2023
35 Finance Act 2024, Schedule 9
36 HM Revenue and Customs, PTM081000 - The lifetime allowance and the lifetime allowance charge: essential principles of the lifetime allowance, 8 April 2024
37 HM Revenue and Customs, Pensions Tax Manual, PTM081000 - The lifetime allowance and the lifetime allowance charge: essential principles of the lifetime allowance, 8 April 2024

3.2 What happened if someone exceeded the lifetime allowance?

Before April 2023 if someone's pensions were worth more than the lifetime allowance when a lifetime allowance check was carried out, then a tax charge would be due. A breach of the lifetime allowance led to a lifetime allowance charge on the difference (excess) between the lifetime allowance and the amount received:

- If the excess was a regular pension, 25% of the excess.
- If the excess was a lump sum, 55% of the excess.

Responsibility for paying was shared between the scheme administrator and individual.[38]

3.3 Tax-free lump sums

When someone becomes entitled to certain pension benefits, the scheme may pay them a tax-free lump sum. This can be worth up to the lower of:

- 25% of the value of a pension; or
- 25% of the lifetime allowance.

Before 6 April 2024, those subject to the standard lifetime allowance of £1,073,100 could receive a maximum lump sum of £268,275 tax-free.

When someone dies a lump sum might be paid from their pension to their beneficiaries. The amount of tax paid on the lump sum will depend on the age the person was when they died:

- If they die before the age of 75 then normally no tax is paid. If the lifetime allowance has been exceeded then there will be a lifetime allowance tax charge.
- If someone dies after the age of 75 (or they die before the age of 75 and the pension has not been paid within two years of the death) then anyone who inherits the pension will be taxed on payments at their marginal rate of income tax.[39]

38 HM Revenue and Customs, Pension Tax Manual, The lifetime allowance and lifetime allowance charge, 8 April 2024

39 HM Revenue and Customs, Pensions Tax Manual, PTM073100 - Death benefits: lump sums: defined benefits lump sum death benefit, 8 April 2024

Since the removal of the lifetime allowance, lump-sums are be tested against a new threshold – the lump sum allowance. The lump sum allowance set at the same amount as someone could previously receive without paying tax, £268,275, which is 25% of the lifetime allowance in 2023/24. Any lump sums above this level are taxed at an individual's marginal rate of income tax.[40]

3.4 Protections

The original lifetime allowance was £1.5m when it was introduced in 2006.[41] This increased annually until it reached its highest level in April 2010 at £1.8m. Over the following years it was reduced to £1m by April 2016.[42]

Protections were put in place for those who already exceeded the newer lower limits.[43] The lifetime allowance was increased in line with inflation between 2017 and 2020 to bring it to its current level of £1,073,100.[44]

Primary protection

People who already had pension rights which would exceed the lifetime allowance when it was introduced in 2006 could register for primary protection.[45] This allowed them to maintain their lifetime allowance at the same percentage above the lifetime allowance – accounting for any future increases.

Enhanced protection

Anyone with a pension before 6 April 2006 could register for enhanced protection, providing they stopped contributing to any tax-relieved pension scheme.[46] All subsequent increases to the value of the pension would be protected from the lifetime allowance charge.

Fixed protection

Each time the lifetime allowance was decreased (in 2012, 2014 and 2016) individuals could apply for fixed protection. This allowed individuals to keep

40 HM Revenue and Customs, Pensions Tax Manual, PTM171000 - Lump sum allowance and lump sum and death benefit allowance: lump sum allowance, 8 April 2024

41 The Finance Act 2004

42 A summary of the changes is available in section 7 of this paper. HM Revenue and Customs, Rates and Allowance – Pension Schemes, 2 November 2009; HM Revenue and Customs, Pension scheme rates, 6 April 2024

43 HM Revenue and Customs, Pensions Tax Manual, PTM09100 - Protection from the lifetime allowance charge essential principles, 6 October 2023

44 HM Revenue and Customs, Pensions Tax Manual, PTM081000 - The lifetime allowance and the lifetime allowance charge: essential principles of the lifetime allowance, 6 October 2023

45 HM Revenue and Customs, Pensions Tax Manual, PTM09100 - Protection from the lifetime allowance charge essential principles, 6 October 2023

46 As above

the higher level of lifetime allowance.[47] However, they would only have very limited opportunity to build up further pension benefits. These protections could be lost in a number of circumstances.

Individual protection

Individual protection was available for the decreases to the lifetime allowance in 2014 and 2016.[48] It offers more flexibility than fixed protection and does not restrict future pension savings. Instead, individuals gain a personalised lifetime allowance equal to the value of their pension savings on the day before the lower lifetime allowance was introduced.

47 HM Revenue and Customs, Pensions Tax Manual, PTM09100 - Protection from the lifetime allowance charge essential principles, 6 October 2023

48 As above

4 Administering pensions tax relief

4.1 What are net pay and relief at source arrangements?

There are two ways for employers to administer tax relief on pension contributions:

- Net pay: pension contributions are deducted from earnings before any tax has been paid. This means that tax relief is automatically given at the person's marginal rate of income tax.[49]
- Relief at source: pension contributions are made after tax has been paid. Tax relief is then claimed by the pension scheme at the basic rate of income tax (20%).[50]

4.2 How do the ways tax relief is paid affect different taxpayers?

Broadly, people paying the basic rate of income tax (20%) will receive the same tax relief under both arrangements. However, depending on the arrangement they are in, people who do not pay income tax and people who pay a higher rate of income tax may receive less tax relief than they are entitled to receive.

People who pay more than the 20% basic rate of income tax

People who pay more than 20% income tax still receive 20% tax relief in a relief at source arrangement. The additional tax relief they are entitled to can

49 Tax will be paid at the marginal rate, which is the rate of tax which would be paid on an additional pound of earnings.

50 The relevant rate of income tax is either the basic rate, the Scottish basic rate or the Welsh basic rate, all of which were 20% in 2022/23. For Scottish taxpayers paying no more than the Scottish starter rate HM Revenue and Customs does not recover the difference between the rate of income tax they pay (19%) and the relief they receive (20%). This is covered further in Pensions Tax Manual, PTM044220 – Contributions: tax relief for members: methods: relief at source, HM Revenue and Customs, 28 February 2022

be claimed through a self-assessment tax return.[51] In a net pay arrangement, people who pay more than 20% income tax automatically receive tax relief at the correct rate of income tax.

People who pay less than the 20% basic rate of income tax

In a relief at source arrangement, someone who pays less than the basic rate of income tax will still receive 20% tax relief on their pension contributions.[52] For example, in a relief at source scheme someone who does not pay income tax could contribute £100 to a pension scheme by contributing £80 from their earnings and the scheme would claim a further £20 from HMRC.

In a net pay arrangement, someone who does not pay income tax would receive no tax relief. To contribute £100 to a pension scheme through a net pay arrangement, a person who does not pay income tax would contribute the full £100 themself.

In a 2019 report, the Work and Pensions Committee recommended resolving the net pay and relief at source tax relief arrangements as "a matter of urgency" explaining that not doing so "risks damaging faith in the system, by perpetuating arrangements which cause individuals to lose significant sums through decisions they did not make".[53]

4.3 Changes to the administration of tax relief for low earners

The Government has legislated to address the difference between the two tax relief arrangements from the 2024/25 tax year.[54] HMRC has a duty to make top-up payments to people in net pay arrangements where their income is below the personal allowance.

HMRC will notify eligible individuals, who would need to provide the necessary details to receive the top-up payment into their bank account. This means that from 2024/25 someone who does not pay income tax contributing £100 to a pension scheme through a net pay arrangement would pay the full £100 themselves, then they would receive a £20 payment to their bank account from HMRC the following tax year.[55]

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51 Tax on your private pension contributions, Gov.uk (accessed 29 March 2022)
52 Finance Act 2004, section 190 and section 192
53 Work and Pensions Committee, Pension costs and transparency, 24 July 2019, HC 1476 2017-19, paras 134-135
54 Finance (No. 2) Act 2023, s25
55 HM Revenue and Customs, Pensions relief relating to net pay arrangements, 15 March 2023

5 Devolution and pension tax relief

The Scotland Act 2012 introduced the Scottish rate of income tax from April 2016, and the Wales Act 2014 introduced the Welsh rate of income tax from 6 April 2019.[56] In Scotland, income tax rates now differ from those in the rest of the UK, which means that the pension tax relief received by Scottish taxpayers may also differ. The table below sets out the rates of income tax in 2024/25:

Table 2: Income tax rates 2024/25

Scotland			England, Wales and Northern Ireland		
	Band	Rate		Band	Rate
Starter	£12,571 to £14,876	19%	Basic	£12,571 to £50,270	20%
Basic	£14,877 to £26,561	20%	Higher	£50,271 to £125,140	40%
Intermediate	£26,562 to £43,662	21%	Additional	Over £125,140	45%
Higher	£42,663 to £75,000	42%			
Advanced	£75,000 to £125,140	45%			
Top	Over £125,140	48%			

Sources: Gov.uk, Income tax

There are additional differences in Scotland between the tax relief provided through net pay arrangements, where pension contributions are made before income tax, and relief at source arrangements, where income tax is paid on contributions and is claimed back by the pension scheme afterwards.

Scottish taxpayers paying no more than the Scottish starter rate would receive 19% tax relief in a net pay arrangement and 20% in a relief at source scheme. For those in relief at source arrangements, HMRC has said it does not recover the 1% difference between the rate of income tax (19%) and the rate of relief (20%).[57]

Like other people who pay more than 20% income tax, people paying the Scottish intermediate rate still receive 20% tax relief in a relief at source arrangement. They can claim the additional 1% they are entitled to through a self-assessment tax return.[58] In a net pay arrangement, people paying the Scottish intermediate rate automatically receive tax relief at the correct rate.

56 Scotland Act 2012, sections 25-27, and Wales Act 2014, sections 8-11

57 HM Revenue and Customs, Pensions Tax Manual, PTM044220 – Contributions: tax relief for members: methods: relief at source, 28 February 2022

58 Gov.uk, Tax on your private pension contributions, (accessed 29 March 2022)

6 Changes to pension tax relief since 2006

6.1 Summary of changes

The table below shows the levels of the main pension tax relief allowances and the levels of income for tapering of the annual allowance (section 2.2 of this paper) since introduction:

Table 3 Pension tax relief allowances (£)

	Standard lifetime allowance	Standard annual allowance	Tapered annual allowance (minimum)	AA tapering threshold income	AA tapering adjusted income	Money purchase annual allowance
2006/07	1,500,000	215,000	-	-	-	-
2007/08	1,600,000	225,000	-	-	-	-
2008/09	1,650,000	235,000	-	-	-	-
2009/10	1,750,000	245,000	-	-	-	-
2010/11	1,800,000	255,000	-	-	-	-
2011/12	1,800,000	50,000	-	-	-	-
2012/13	1,500,000	50,000	-	-	-	-
2013/14	1,500,000	50,000	-	-	-	-
2014/15	1,250,000	40,000	-	-	-	10,000
2015/16	1,250,000	40,000	-	-	-	10,000
2016/17	1,000,000	40,000	10,000	110,000	150,000	10,000
2017/18	1,000,000	40,000	10,000	110,000	150,000	4,000
2018/19	1,030,000	40,000	10,000	110,000	150,000	4,000
2019/20	1,055,000	40,000	10,000	110,000	150,000	4,000
2020/21	1,073,100	40,000	4,000	200,000	240,000	4,000
2021/22	1,073,100	40,000	4,000	200,000	240,000	4,000
2022/23	1,073,100	40,000	4,000	200,000	240,000	4,000
2023/24	1,073,100 [a]	60,000	10,000	200,000	260,000	10,000
2024/25	-	60,000	10,000	200,000	260,000	10,000

a) The lifetime allowance charge for exceeding the lifetime allowance was removed for the 2023/24 tax year.

Source: Finance Acts 2004 onwards

6.2 Pension tax simplification 2006

The pension tax simplification regime was a major reform to the pension tax relief system from 6 April 2006 – known as "A-day".[59] This replaced eight different tax regimes governing pensions with a single set of rules applying across pension schemes. This aimed to simplify the system and put people in a better position to make informed choices about pension saving.[60]

Previously, there had been a range of limits on annual contributions and final benefits in pension schemes. The 2006 reforms replaced these with annual and lifetime limits, applying across pension schemes, on the amount of savings eligible for tax relief.[61]

The two limits introduced by the Finance Act 2004 were the annual and lifetime allowances.

Further detail on these changes is covered in the Commons Library briefing Pension tax simplification.

59 Finance Act 2004
60 HM Treasury, Simplifying the taxation of pensions, December 2002
61 As above