

**ROTHERHAM TAYLOR**  
LIMITED  
Chartered Accountants & Registered Auditors

# PENSIONS OUR GUIDE TO THE PENSION ALLOWANCES

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THINKING ADVISERS

# PENSION ALLOWANCES

**Since 6 April 2024, the Lifetime Allowance – the amount of money which could be put into a pension fund during a person’s life – has been effectively abolished.**

Currently, the annual allowance - the amount of money that can be paid into pension schemes each year - is £60,000.

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

The Money Purchase Annual Allowance is a tax relief for those who start to take money from a defined contribution pension pot. Anyone triggering this will be able to take £10,000 in yearly tax-free pensions.

Anyone with a current pension can improve the amount of money they can contribute to their pension fund each year, and during their lifetime, without worrying about facing tax penalties.



# PERSONAL TAX

The implications of these changes to Personal Tax are fairly apparent, but it is worth considering how the new allowances can help you to manage your annual tax bill.

The tax-free allowances afforded to pension contributions have long been a method for taxpayers to manage and maintain the rate of tax they pay.

By paying more into a pension each year you can take more of your taxable income out of higher tax bands. This is because tax relief is available on your pension contributions at the highest rate of income tax that you pay.

- Basic-rate taxpayers get 20 per cent pension tax relief.
- Higher-rate taxpayers get 40 per cent pension tax relief.
- Additional-rate taxpayers get 45 per cent pension tax relief.

How pension tax relief is applied to your tax position depends on the type of pension scheme you belong to:

- **Net Pay Arrangement:**

Our pension contribution is taken out before calculating the tax on your earnings – resulting in immediate tax relief.

- **Relief at Source:**

The pension contribution is deducted after tax has been calculated, and HMRC subsequently sends the basic rate tax relief amount to the pension scheme. Higher or additional rate relief is received by claiming through a Tax Return or included in a PAYE code.

In either case, the additional allowance afforded under the changes allows you to keep more of the money you earn after tax.

This is even more important given the cuts to the Dividend Allowance and the reduction in the additional rate tax threshold.

From 6 April 2024, the tax-free allowance for dividend income (Dividend Allowance) was reduced from £1,000 to £500 for individuals who receive dividend income.

Additional rate taxpayers pay 45 per cent on any income above £125,140.

# INHERITANCE TAX

**Inheritance Tax (IHT) is a tax applied to the estate of a deceased person, which includes their property, money, possessions and pensions.**

IHT is not due if the estate's value is below the £325,000 threshold. However, you may still need to report the estate's value even if it's below the threshold. Above this threshold, the estate is taxed at 40 per cent. However, there are exceptions and reliefs available, such as the transferable nil-rate band between spouses or civil partners and the residence nil-rate band.

Together, these can drastically increase a couple's tax-free IHT allowance up to £1 million where a main property is passed to a direct descendant.

In general, a private pension can be passed on or inherited without being subject to Inheritance Tax (IHT), as payments are not typically considered part of the deceased's estate for tax purposes. The removal of the Lifetime Allowance has further strengthened pensions as an ideal vehicle for passing on wealth, allowing individuals to maintain their standard of living while also minimising IHT implications.

However, starting from 2027, pension pots within defined contribution schemes will be included in IHT calculations. This means that, upon an individual's death, the value of their pension pot will be counted alongside property and other assets like shares, potentially pushing the estate's value above the IHT threshold. Importantly, exemptions for spouses and civil partners will continue to apply even after this change.

In situations where the pension scheme does not grant trustees discretion over who receives the death benefits, payments may also be subject to IHT. Here, the pension payments would be treated as part of the deceased's estate and could attract IHT if the estate's value exceeds the applicable threshold.

If the deceased was over 75 at the time of death, any remaining payments from the pension would be treated as income for tax purposes and could be subject to Income Tax at the recipient's marginal rate.

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