Money purchase annual allowance and alternative annual allowance

The **Finance (No.2) Act 2017** has reached Royal Assent and legislates for the reduced money purchase annual allowance (MPAA) limit. Here are two examples which illustrate the operation of the reduced MPAA limit and its impact on the alternative annual allowance. The tapered annual allowance is not affected.

The main study text content will be updated in the next edition.

Be aware

For 2015/16 and 2016/17 the MPAA was £10,000 per annum, but from 6 April 2017 the MPAA has been reduced to £4,000 per annum. Where the MPAA rules are triggered the member will have a reduced annual allowance imposed for money purchase savings. Once the MPAA has been triggered, it will apply in all subsequent tax years.

The reduction of the MPAA to £4,000 reduces the alternative annual allowance to £36,000. The tapered annual allowance is not affected and will still be subject to a minimum of £10,000.

Example 1:

MPAA rules are triggered and the subsequent pension input into a money purchase scheme is less than or equal to £4,000

Freddie, aged 60, is a member of a money purchase arrangement and an employer-sponsored defined benefit scheme. On 6 April 2017 he elects to take an uncrystallised funds pension lump sum (UFPLS) from his money purchase arrangement. Freddie is not subject to the tapered annual allowance in 2017/18 and has fully utilised his annual allowance in the previous three tax years.

In the 2017/18 pension input period Freddie contributes £3,000 to the money purchase arrangement. The pension input in respect of his defined benefit scheme is calculated as £33,500.

As Freddie has taken an UFPLS he has triggered the MPAA rules. However, as the input into the money purchase arrangement is less than £4,000 there is no test needed against the MPAA. Instead, his pension input in respect of both schemes is tested against the £40,000 annual allowance for 2017/18.

Freddie's total pension input is £3,000 + £33,500 = £36,500, so there is no annual allowance tax charge in 2017/18.

Where the input into the money purchase scheme exceeds the MPAA, there will be an annual allowance tax charge to pay. In order to calculate the tax charge, we must first establish the chargeable amount. This is the **higher** of the default chargeable amount and the alternative chargeable amount:

Default chargeable amount	=	total pension input into both defined benefit and money purchase schemes	less	(the annual allowance for the current tax year* plus any carry forward available)
Alternative chargeable amount	=	input into defined benefit schemes *less* (the alternative annual allowance* plus any carry forward available)	plus	(input into money purchase schemes *less* the money purchase annual allowance available)

* The amount of annual allowance will be £40,000 for 2017/18, unless the tapered annual allowance applies in which case it will be a figure between £10,000 and £40,000. The amount of the alternative annual allowance will be £36,000 for 2017/18, unless the tapered annual allowance applies, in which case it will be lower than £36,000, down to a minimum of £6,000 (reduced annual allowance for the year of £10,000 less the MPAA for the year, which for 2017/18 will be £4,000).

If any of the calculations in the boxes above result in an answer that is negative, the resulting figure will be set to £0.

Example 2:

MPAA rules are triggered and the subsequent pension input into a money purchase scheme is greater than £4,000

Aanya, aged 58, is a member of a money purchase arrangement and a defined benefit scheme. On 6 April 2017 she accessed her money purchase arrangement and used part of the fund to provide an UFPLS. Aanya has no available carry forward and is not subject to the tapered annual allowance in 2017/18.

In 2017/18 Aanya pays £7,000 into her money purchase scheme and the pension input into her defined benefit scheme is calculated as £25,000.

Aanya's default chargeable amount is £0. This is because:

- Her total pension input in respect of her money purchase arrangement and defined benefit scheme is £7,000 + £25,000 = £32,000.
- As her total pension input in respect of both schemes was less than her annual allowance of £40,000 the default chargeable amount is £0.

Aanya's alternative chargeable amount is £3,000. This is because:

- Her pension input in respect of the defined benefit scheme is less than the alternative annual allowance of £36,000, so her alternative chargeable amount in respect of her defined benefit scheme is £0.
- We then need to add on £3,000 in respect of her money purchase arrangement (as her input is £7,000 less the MPAA of £4,000).

Aanya must pay an annual allowance tax charge on the higher of the default chargeable amount (£0) and the alternative chargeable amount (£3,000) and so will pay an annual allowance tax charge on £3,000.

The tax charge will be calculated using her marginal rate of tax.