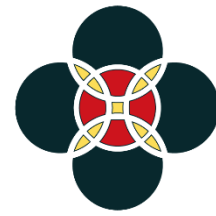


lgps

Local Government
Pension Scheme



Cronfa Bensiynau
CLWYD
Pension Fund

Local Government Pension Scheme Pensions Taxation: Annual Allowance May 2025

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Introduction

HM Revenue & Customs limits the amount of pension savings you can make without having to pay extra tax. 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 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 LGPS) is more than the annual allowance, the excess will be taxed as income.

The standard annual allowance increased to £60,000 from 6th April 2023. For the tax years 2016/2017 to 2022/2023 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 go over that limit, they will probably 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 LGPS membership that was built up in the final salary section and you receive a significant pay increase. Final salary membership is membership built up before 1st 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 record and your salary (full-time equivalent) has increased significantly since you left the scheme
- You transfer pensions 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 has 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 6th April 2015

If your LGPS pension savings go over the standard annual allowance in any year ending 5th April, the Clwyd Pension Fund will contact you by 6th October to let you know.

The 50:50 section of the LGPS or opting out

If you wish to slow down your pension build up to avoid or reduce an annual allowance tax charge, you may wish to think about 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 keep full life cover and ill health cover. You can find out more about [Paying less – the 50:50 section](#) on the LGPS member website.

Alternatively, if you decide to opt out of paying LGPS contributions, this will give you a deferred benefit in the scheme. You will not be able to combine your benefits if you start to pay LGPS contributions again in the future.

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

You will be responsible for any costs if you ask for independent financial advice.

How is the annual allowance worked out?

The increase in the value of your pension savings in the LGPS in a year is worked out 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 in line with the tax year 6th April to 5th April.

In the LGPS, the value of your pension benefits is worked out 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 your pension benefits at the end of the PIP, less the value of your pension benefits immediately before the start of the PIP (adjusted for inflation), is more than the annual allowance, you may have to pay a tax charge.

The annual allowance assessment covers any pension benefits you have where you have paid pension contributions 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 2024/2025 when the annual allowance 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 had gone over the annual allowance by, even though you did not go over the annual allowance in either scheme. You can find out more about carry forward in the next section.

Carry forward

You may have 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 annual allowance from the previous three years. This means that, even if the value of your pension savings increases by more than the annual allowance in a year, you may not have to pay an annual allowance tax charge.

For example, the value of your pension savings in 2024/2025 increased by £70,000 (that is to say, by £10,000 more than the annual allowance) 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 annual allowance for those three years would more than cover the £10,000 excess pension saving in the 2024/2025 year. You would not have to pay an annual allowance tax charge.

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

The tapered annual allowance for higher earners

The annual allowance is tapered for high earners. The annual allowance will be reduced if your 'threshold income' and 'adjusted income' go over the limits in a year. For every £2 that your adjusted income goes over the limit, your annual allowance is tapered down by £1. Your annual allowance cannot be reduced below the minimum that applies. The Government has changed these limits since they were first introduced. Table 1 shows the limits that apply.

Table 1: Tapered annual allowance limits

	Definition	Limit 2016/2017 to 2019/2020	Limit 2020/2021 to 2022/2023	Limit 2023/2024 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 Annual Allowance	If your annual allowance is tapered, the minimum annual allowance that can apply	£10,000	£4,000	£10,000

Threshold income includes income from all sources that is taxable. For example, 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 9th July 2015.

How does the taper work?

From the 2023/2024 year, the taper reduces the annual allowance by £1 for every £2 of adjusted income received over £260,000, until a minimum annual allowance of £10,000 is reached. The annual allowance that applies for high earners from 6th April 2023 is shown in table 2.

Table 2: The tapered annual allowance from 2023/2024 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 3 and 4 show the effect of the tapered annual allowance in the years up to 2022/2023.

Table 3: The tapered annual allowance from 2020/2021 to 2022/2023

Adjusted Income	Annual Allowance
£240,000 or below	£40,000
£250,000	£35,000
£260,000	£30,000
£270,000	£25,000
£280,000	£20,000
£290,000	£15,000
£300,000	£10,000
£312,000 or above	£4,000

Table 4: The tapered annual allowance from 2016/2017 to 2019/2020

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 2022/2023)

Gross salary 2022/2023	£220,000
Less employee pension contributions (12.5%)	£27,500
Threshold income 2022/2023	£192,500
Pension savings in the year	£71,837
Cerys's threshold income is less than £200,000. Her annual allowance was not tapered in 2022/2023. Cerys's pension savings were measured against the standard annual allowance of £40,000.	
Standard annual allowance	£40,000
Pension savings in excess of annual allowance	£31,837
Annual allowance tax charge at marginal rate	£14,327 (marginal rate of 45% assumed)

Example 2: Huang (annual allowance charge in 2024/2025)

Gross salary 2024/2025	£230,000
Less employee pension contributions (12.5%)	£28,750
Plus taxable income from property	£38,000
Threshold income 2024/2025	£239,250
Plus pension savings in the year	£75,102
Adjusted income 2024/2025	£314,352
Huang's threshold income is more than £200,000 and her adjusted income is more than £260,000. Her annual allowance was tapered for the 2024/2025 year.	
Tapered annual allowance	£32,824*
In excess of annual allowance	£42,278
Annual allowance tax charge at marginal rate	£19,025 (marginal rate of 45% assumed)
*Taper = £314,352 - £260,000 = £54,352 ÷ 2 = £27,176	
Standard annual allowance £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 6th 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 is more than the MPAA.

Generally, if you have flexibly accessed any benefits in a money purchase arrangement on or after 6th April 2015, any further contributions you make to a money purchase scheme in future tax years will be tested against the MPAA. If your contributions go over the MPAA, your defined benefit pension (LGPS) savings will be tested against the alternative annual allowance and you will pay a tax charge on any of your money purchase savings that is more than the MPAA.

Table 5: The Money Purchase Annual Allowance (MPAA)

Tax Year	MPAA	Alternative annual allowance if MPAA is exceeded
2016/2017	£10,000	£30,000
2017/2018 to 2022/2023	£4,000	£36,000
2023/2024 onwards	£10,000	£50,000

If you access flexible benefits, you will be given a flexible access statement; **you should provide the Clwyd 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
- buying 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 before 6th 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 go over the annual allowance in any year, you are responsible for reporting this to HM Revenue & Customs on your self-assessment tax return.

The Clwyd Pension Fund must tell you if your pension savings in the LGPS (plus the amount of any AVCs you have paid) have gone over the standard annual allowance in a year, or if they believe you have gone over the MPAA in a year. They must let you know by no later

than the 6th October which follows the end of the PIP. The Clwyd Pension Fund does not have to let you know if you go over the tapered annual allowance.

If you have an annual allowance 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 annual allowance, you may be able to choose 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. Please see the 'scheme pays' factsheet for more information.

If you want the LGPS to pay some or all of an annual allowance tax charge on your behalf, you must let the Clwyd Pension Fund know by no later than 31st July in the year following the end of the year to which the annual allowance charge relates. However, if you are retiring (and 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 those benefits are paid to you.

Am I affected?

If you think you are affected by annual allowance, you can find more information about [pension tax and the annual allowance](#) on the Government's website. If you are not sure if you will be affected by the annual allowance, use the [annual allowance quick check tool](#) on the LGPS member website.

Contacting the Clwyd Pension Fund

This factsheet gives general guidance only. If you need more information or you have any questions about your LGPS membership or benefits, please contact the Clwyd Pension Fund:

Phone: 01352 702981

Email: pensions@flintshire.gov.uk

Address: Clwyd Pension Fund, Tŷ Dewi Sant, St. Davids Park, Ewloe, Flintshire, CH5 3FF

Website: <https://clwydpensionfund.org.uk>

Disclaimer

This factsheet gives an overview of annual allowance rules at May 2025. It should not be treated as a complete and authoritative statement of the law. The rules governing annual allowance can be complex and are subject to change. If you are not sure what to do next, you are advised to get independent financial advice. For help in choosing an independent financial advisor, visit the [MoneyHelper](#) website.



clwydpensionfund.org.uk

Clwyd Pension Fund, Tŷ Dewi Sant, St. Davids Park, Ewloe, Flintshire, CH5 3FF

Please note that Flintshire County Council is the administrative authority of the Clwyd Pension Fund and we use your personal data in accordance with Data Protection legislation to provide you with a pension administration service. For more information about how we use your data, who we share it with and what rights you have in relation to your data, please visit the Privacy Notice on our website.