



THE MONEY PURCHASE ANNUAL ALLOWANCE (MPAA)

The introduction in April 2015 of pension legislation which allowed pension savers to access their pension pots flexibly, also brought in measures to prevent savers recycling their tax-free cash. From 6 April 2015 there is restriction on the annual allowance for people who have accessed their pots flexibly, this is called the money purchase annual allowance.

What are the MPAA rules?

Once the MPAA is triggered, the contributions which you can pay without incurring a charge are restricted. Whilst total contributions to all pension funds remains at £40,000, the maximum that can be contributed to a money purchase scheme is £4,000.

You are unable to carry forward any unused MPAA from the previous three tax years to money purchase schemes (normal annual allowance rules allow this).

When is the MPAA triggered?

The MPAA rules may affect you if you were either:

1) In flexible drawdown prior to April 2015

If you took pension benefits prior to 6 April 2015 under the flexible drawdown rules you are now deemed to be in flexi-access. Previously in flexible drawdown you were not able to make pension contributions; however, you can now make pension contributions to a money purchase scheme of up to £4,000 per tax year.

2) Have accessed income flexibly since April 2015

If you have taken any pension income using flexi-access drawdown since 6 April 2015, or if you have taken a pension policy as a lump sum since April 2015, you will also be subject to the new MPAA allowance rules.

However, you may have taken benefits from a pension policy since 6 April 2015 and not be affected by the new MPAA.

How will I know if I am subject to the MPAA rules?

When you first access pension benefits post-April 2015 under the flexi-access rules, the scheme administrator has to notify you within 31 days that you have accessed your benefits flexibly. The notification will also cover the fact that you now fall under the MPAA rules for all future money purchase arrangements.

How will Taylor Patterson know that I am restricted to the MPAA?

Once you have received notification that you have accessed funds flexibly and are governed by the MPAA rules, you have a responsibility to make a report to all your pension providers.

You have 91 days to inform all other pension schemes that you belong to that you are now subject to the MPAA. This only covers schemes where pension contributions are being paid on a money purchase basis either personally or by another party, or a scheme where you are accruing benefits under a cash balance or hybrid scheme.

If in the future you start or join another pension scheme, you have 91 days from the date of benefits accruing to notify all other schemes that you are now subject to the MPAA rules.

If you transfer any pension benefits away from Taylor Patterson, we are required to notify the receiving scheme if we believe you have ever flexibly accessed pension rights (either in the transferring scheme or in another scheme). This must be completed within 31 days.

There are penalties for non-compliance with these reporting requirements. Charges start at £300, plus £60 per day for late information. If the information is incorrect, the penalty for fraudulent or negligent information can be up to £3,000.

What if I go over the MPAA?

If you exceed your annual allowance, there will be an 'annual allowance charge' on the excess, based on your marginal rate of income tax. You will need to declare this on your self-assessment tax return.

Will the scheme provide additional information?

If you are subject to the new MPAA rules, the scheme will provide an annual allowance pension savings statement for each tax year in which your pension accrual exceeds £4,000.

If you think you may be affected by the MPAA rules or require any additional information, please contact either your financial adviser, or contact Taylor Patterson using the contact details below to discuss this further.

In 2017 policy provision were introduced with the intention of using the Finance Bill 2017 to reduce the money purchase annual allowance to £4,000 with effect from 6 April 2017. However this change to tax legislation (along with other provisions) were withdrawn from the Bill after the calling of the general election. The Government confirmed at the point they were withdrawn that there was no policy change and that these provisions would be legislated for at the first opportunity in the new Parliament.

On 13th July 2017 the government confirmed that it expects to introduce a Finance Bill as soon as possible after the summer recess which will contain the withdrawn provisions. This will include the proposed changes to the MPAA, with the intention that the changes will be backdated to April 2017.

Therefore, we strongly advise that if you feel you will be affected by the money purchase annual allowance rules you speak with your adviser before making a contribution.