

Pensions: Reduction in money purchase annual allowance

Personal tax

01 April 2017

LITRG raised concerns about the possible impacts of the planned reduction in the pension money purchase annual allowance (MPAA)

The pension flexibilities introduced in April 2015 gave savers the ability to access defined contribution pensions as best suits their needs. The MPAA restricts tax-relieved contributions to a pension when someone has already accessed their pension savings and wishes to make further payments to a defined contribution scheme. The MPAA reduction from £10,000 down to £4,000 from 6 April 2017 is designed to limit the extent to which individuals who have already accessed pension savings can recycle this cash back into pensions and thereby benefit from tax relief for a second time.

Given that it is too soon to predict what impact pension freedoms and the Lifetime ISA will have on savings patterns, the Treasury consultation document's view that a MPAA of £4,000 will affect fewer than three per cent of savers may not be accurate in the future. Therefore, LITRG recommended that the £4,000 limit must be reviewed at least every three years.

Maintaining a reduced MPAA is preferable to an absolute prohibition on any reinvestment into a pension. But reducing it to £4,000 from April 2017, which equates to savings of £333 a month, is very likely to catch out people of limited means who, for example, may have taken a pension lump sum to repay their mortgage or debts, then reinvest their new-found disposable income towards their retirement.

LITRG recommended that where the MPAA is exceeded there should be an option to pay the tax due from the fund. This will prevent those that do mistakenly exceed the MPAA from being caused financial hardship. Currently, paying the tax due from the

fund is only permitted where the standard annual allowance applies and the tax charge is at least £2,000.

The group also warned that people might not understand the MPAA and how to comply with it because of inadequate information, with government guidance currently being scattered across various websites – GOV.UK, The Pensions Advisory Service and Pensionwise. LITRG urged that this is reviewed as a priority, before the reduction in MPAA from April 2017; and that it is kept under review as the programme of change for public financial guidance develops.

The consultation document can be found on [GOV.UK](https://www.gov.uk).

LITRG's recent submission to the Treasury can be viewed on the [group's website](#).

The Spring Budget documents published on 8 March confirmed that the reduction in the MPAA will go ahead from 6 April 2017 and that a full response to the consultation will be published on 20 March (which is after the time of writing)