

Annex H – Notes on pension growth

Annual allowance

This is the amount your pension can increase by during the tax year without giving rise to a tax charge (although you can carry over three years' previous unused allowance to offset the charge). Most people will not be affected, but if you have been contributing to the pension scheme for many years or have transferred in a large amount from a previous pension provider and are promoted and your pay increases, you may be affected.

- Standard annual allowance
The standard annual allowance for 2020-21 is £40,000.
- Tapered annual allowance
If you have taxable income of over £200,000, a tapered annual allowance of between £40,000 and £4,000 may apply.

To calculate your annual allowance for the scheme year, you must multiply your pension growth by 16.

Example

Annual pension at 6 April 2017 = £35,000

Annual pension at 5 April 2018 = £38,000

Pension growth = £38,000 - £35,000 = £3,000 x 16 = £48,000

For the purposes of this statement your pension growth has been calculated using your pensionable pay at 31 March. If this amount is near to the £40,000 standard allowance or within £5000 of your individual tapered allowance, you should ask for a calculation of your pension input period amount, using your pay as at 5 April.

You can find more information, including an annual allowance checking tool, on the Government's website www.gov.uk/tax-on-your-private-pension/annual-allowance

An [annual allowance factsheet](#) is also available.

Lifetime allowance

The lifetime allowance is the maximum amount of pension savings you can have before a tax charge is made. To calculate how much of your lifetime allowance you have used, multiply your annual pension by 20, divide this by the lifetime allowance and multiply by 100.

The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2020 have amended the lifetime allowance limit to £ 1,073,100 from 6 April 2020.

Example

- Lifetime allowance 2015/2016 = £1.25 million
Annual pension at 31 March 2016 = £35,000 x 20 = £700,000 ÷ £1,250,000 x 100 = 56% of lifetime allowance used.
- Lifetime allowance 2017/2018 = £1 million
To show the effect of the lifetime allowance reducing to £1 million from April 2017, the same pension figure would change the lifetime allowance used, as follows.

Annual pension = £35,000 x 20 = £700,000 ÷ £1,000,000 x 100 = 70% of lifetime allowance used.

You may choose to protect your lifetime allowance if it was £1 million or more at 5 April 2016 by taking Individual Protection 2016 (IP 2016). For more information, you should get independent financial advice.

Please see the [lifetime allowance factsheet](#) for more information.