

How does the annual allowance work?

Pensions are a tax-efficient way to save for your retirement but the amount of tax relief you receive on your contributions each year is generally restricted to your earnings and the annual allowance.

In this guide we cover:

- What the annual allowance is and how it works
- How to check your contributions towards the allowance
- What happens if you exceed it
- How you may be able to make higher tax efficient pension contributions in this tax year



The annual allowance and how it works

There is no limit on the amount you can save into your pension each year but there are limits on:

- the amount you can save into your pension and claim back tax
- the amounts you can save into your pension before you have to pay tax

If you are under the age of 75 and have not started to access your pension savings, the amount you can save into your pension each year and claim back tax is the highest of the following three amounts that is relevant to you:

- £60,000
- 100% of your earnings if you earn less than £60,000
- £3,600 if you have very low or no earnings

The £60,000 limit is known as the annual allowance. Contributions made by you, by your employer or made on your behalf by someone else all count towards this allowance which for the current tax year is £60,000 for most people.

Typically, any annual allowances you don't use in one tax year can be carried forward for up to three tax years. It's your responsibility to check that the contributions you make are within these allowances and therefore eligible for tax relief. This is important as an additional tax charge applies to any contributions that aren't covered by your available annual allowances.

Special circumstances may apply if you have already taken money from your pension savings. Additionally, if you are likely to earn more than £200,000 your annual allowance may be lower.

Note: Tax treatment depends on individual circumstances and all tax and pension rules may change in the future. The minimum age you can normally access your pension savings is currently 55, but this is due to rise to 57 on 6th April 2028.

Checking your contributions against the annual allowance

When working out how much of your annual allowance you have used for a particular tax year, you need to include all contributions made by you, your current employer or someone else to any pension plans or schemes you belong to.

This includes:

- Payments made by you from your monthly salary or directly to a current workplace pension
- Payments made by your current employer to a current workplace pension
- Payments made by you or anyone else to any other pension plan belonging to you
- Payments or increases in benefits to any defined benefit pension in your name

You should include any tax relief that is added by your pension provider on your behalf: the information needed to do this should be clear from pension savings statements.

The tax year runs from 6 April to 5 April each year and you should include all amounts paid between these dates.

For more information on pension allowances, please visit our website.

Salary related schemes

If you belong or have belonged in the past to a defined benefit (also known as a salary-related or final salary) scheme you should contact the pension provider for that scheme for details of any amounts (known as pension input amounts) that count as contributions for annual allowance purposes.

What doesn't count as a contribution?

Transferring your contribution from one pension to another is not usually considered as a contribution towards your annual allowance. However, the contributions made into the pension in the relevant tax year before it was transferred would still need to be counted for annual allowance purposes.

Building up benefits in the state pension scheme does not count towards your annual allowance.

Similarly, any investment return received by a pension scheme doesn't count towards your annual allowance.

What happens if I exceed the annual allowance?

If your contributions are more than the limits set out on page 2 you might have to pay tax on the amount above the limit that applies to you.

If you earn more than £200,000 in this tax year, or if you have previously taken money from your pension savings, it's important that you check whether the tapered annual allowance or money purchase allowances apply as these will reduce the annual allowance available to you.

If you think you have exceeded your annual allowance you can check to see whether unused annual allowance from prior years can be used to cover the excess.

If you've exceeded your annual allowance for the current tax year, and you've used all available allowances for previous years, you must declare this on your self-assessment tax return and pay the annual allowance charge yourself unless your pension provider will allow the charge to be deducted from your pension savings.

Please remember that it is your responsibility to check your annual allowances and to notify HMRC if you think you have paid contributions that exceed your available allowances.

If you pay more than £60,000 into your pension savings with Fidelity, we will send you a letter highlighting this: we're required to do this by law but we can't take any action on your behalf.

For more information on pension allowances, please visit our website. The information in this guide is correct as at 6 April 2025.



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