

# Annual allowance and lifetime allowance

Factsheet for individuals: 2021/22

## What you need to know

### Annual allowance

- For tax year 2021-22 the standard annual allowance (AA) is £40,000, but it reduces if your adjusted income is more than £240,000.
- The minimum AA is £4,000 if your adjusted income is £312,000 or more.
- If you exceed the AA (and you have no unused AA from previous tax years), the excess will be taxed at your marginal rate of income tax.

### Lifetime allowance

- The lifetime allowance (LTA) for tax year 2021-22 is £1,073,100. The LTA will remain frozen at this level until April 2026.

# Annual allowance

## What is the AA?

The AA is the maximum benefit value you can accrue in your pension arrangements in one tax year without incurring a tax charge.

The standard AA is currently £40,000, but this reduces to as low as £4,000 for individuals with high levels of taxable income.

The AA for contributions to a DC scheme also reduces for individuals who draw an income under the flexible options. This is referred to as the MPAA. For tax year 2021-22 the MPAA is £4,000. This is not considered further in this document.

## How is my AA benefit value measured?

The way your benefits are valued and tested against the AA depends on the type of pension scheme:

- **Defined contribution (DC) schemes:** the total gross contributions paid by you and on your behalf over the tax year
- **Defined benefit (DB) schemes:** 16 times the increase in your DB pension built up over the tax year in excess of an allowance for inflation

## When is the AA reduced due to high income?

If your *adjusted income* in tax year 2021-22 is more than £240,000, you will have an AA of less than £40,000.

## Who is excluded?

If your *threshold income* is £200,000 or less, even if your adjusted income is over £240,000, you will still have an AA of £40,000.

## What does threshold income include?

Threshold income includes all taxable income less your pension contributions, other than those paid by a new salary sacrifice arrangement effective after 8 July 2015.

## What does adjusted income include?

Adjusted income refers to all UK taxable income before any deductions are made. This includes your pension contributions (including those made by salary sacrifice), contributions paid by your employer to a DC scheme and your employer's share of the AA benefit value of your DB pension accrual (measured as the AA benefit value less your contributions to the DB scheme).

## What does taxable income include?

Taxable income includes all sources of income such as salary, bonus, benefits-in-kind, commission, rental income, dividends and interest on savings, less certain reliefs such as charitable donations. Please note that this list is not exhaustive.

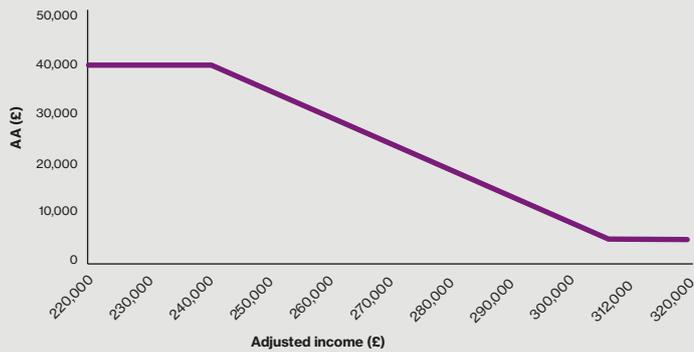
## How is the AA tapered if you have an adjusted income of more than £240,000?

The £40,000 AA is reduced by 50 pence for each £1 of adjusted income above £240,000, until it reaches £4,000 for adjusted incomes of £312,000 and above.

## What do I need to do?

Consider your expected income and AA benefit values for 2021-22. If you exceed your AA in a tax year, you can use any unused AA from the previous three tax years. You should check whether you have any unused AA.

Figure 1. How the AA is tapered



**Example: The AA will be £30,000 for someone with an adjusted income of £260,000, and reduced to a minimum of £4,000 for someone with an adjusted income of £312,000 or more (applicable from tax year 2020-21).**

## What happens if I exceed the AA?

If you exceed the AA in a tax year and you have no unused AA from the previous three tax years to cover the excess, you will have to declare this on your Self-Assessment tax return and pay income tax on the excess at your marginal rate.

## How do I calculate my Annual Allowance and carry forward from the previous 3 tax years?

You can calculate your Annual Allowance for tax year 2020/21 using the same approach as set out above for tax year 2021/22.

For the tax years 2019/20 and 2018/19, the Threshold Income and Adjusted Income amounts were lower. If you had Threshold Income of more than £110,000 for the tax year and Adjusted Income of more than £150,000, your Annual Allowance was tapered down for the relevant tax year. The £40,000 AA was reduced by 50p for each £1 of Adjusted Income above £150,000. In addition the minimum Tapered Annual Allowance was set at £10,000 such that your Annual Allowance for the relevant tax year will be £10,000 if your Adjusted Income exceeded £210,000 for that year.

You will need to use these previous rules to work out any carry forward you have remaining from the tax years 2018/19 or 2019/20.

# Lifetime allowance

## What is the LTA?

The LTA is the maximum value of pension benefits you can build up without incurring an additional tax charge. The LTA for tax year 2015/16 was £1.25 million, before reducing to £1 million for tax years 2016-17 and 2017-2018.

The LTA for tax year 2021-22 is £1,073,100. The LTA will be frozen at this level until April 2026.

## What happens if I exceed the LTA?

You will pay a tax charge on the value of any benefits in excess of the LTA at the time you take them. The excess over the LTA is taxed at 25% if drawn as a pension (which is then subject to income tax) or 55% if drawn as a cash lump sum.

## Will the LTA affect me?

You will need to consider whether the total combined value of your pension savings may exceed the LTA when you take your benefits. This will include your benefits in both DB and DC arrangements.

## How do I value my benefits for comparison to the LTA?

The way your benefits are valued and tested against the LTA depends on the type of pension scheme:

- **Defined contribution (DC) schemes:** the combined total value of all of your pension funds when you take your benefits
- **Defined benefit (DB) schemes:** the starting level of your annual pension multiplied by 20, plus any tax-free lump sum

## Can I protect a higher LTA?

There are two forms of LTA protection in respect of the reduction in the LTA from £1.25 to £1 million from 6 April 2016:

### Individual Protection 2016

- Available only if the value of your benefits at 5 April 2016 was greater than £1 million
- Your protected LTA will be the value of your benefits at 5 April 2016 capped at £1.25 million
- You can continue to make pension savings after 5 April 2016

### Fixed Protection 2016

- Available only if you stopped all pension savings by 6 April 2016
- Your protected LTA will be £1.25 million

## Free AA IncomeCalc App

Willis Towers Watson has developed an app to help you estimate your threshold and adjusted income. It's available for Apple or Android™ devices. Just visit the App Store or Google Play and search for AA IncomeCalc, or use the QR codes below.



## Where can I go for more information?

To view further details about the current AA and LTA please go to the government website at: <https://www.gov.uk/tax-on-your-private-pension/overview>.

For further information on applying for LTA protection go to: <https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>.

Important note: This summary is based on current legislation and is subject to change. This information is not and should not be taken as financial advice. If you are unsure please seek financial advice. Please visit <https://www.moneyadviceservice.org.uk/en/articles/choosing-a-financial-adviser> for help on finding an adviser.

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