Pension Tax Limits Guide

When reading this Guide remember it's your personal responsibility to understand your pension(s) and the tax rules that apply – if you're unsure you should seek help from a financial adviser or a chartered tax accountant. We can only provide information - not tax or financial advice.

This guide covers:
- Lump Sum Allowance
- Lump Sum and Death Benefit Allowance
- Annual Allowance
- Money Purchase Annual Allowance

If you are tax resident in the Isle of Man, then the Lump Sum Allowance and Lump Sum and Death Benefits Allowance rules apply to you but the Annual Allowance rules don't.

From 6 April 2024, any tax-free benefits paid to you or your beneficiaries from a UK pension scheme will be tested against these allowances:
- Lump Sum Allowance: **£268,275**
- Lump Sum and Death Benefits Allowance: **£1,073,100**

Lump Sum Allowance
The Lump Sum Allowance was introduced from 6 April 2024, replacing the previous Lifetime Allowance regime. Now it is only the tax-free part of your benefits that are tested against the Lump Sum Allowance.

The tax-free part of your benefits will be tested against the Lump Sum Allowance when:
- You take a pension commencement lump sum, also known as the tax-free lump sum at retirement.
- You take an Uncrystallised Funds Pension Lump Sum, also known as UFPLS.

The Lump Sum Allowance is set at £268,275. It applies to all your pension benefits, not each scheme separately. For example, if you take benefits from one scheme with a total tax-free amount of £100,000, your remaining Lump Sum Allowance will be £168,275 (£268,275 - £100,000).

Any benefits over your Lump Sum Allowance will be taxable at your marginal rate.

If you have protection from the old Lifetime Allowance regime, you might have a higher Lump Sum Allowance.

Lump Sum Death Benefit Allowance
The Lump Sum and Death Benefits Allowance was also introduced from 6 April 2024 and, like the Lump Sum Allowance, tests only the tax-free part of your benefits against the new Lump Sum and Death Benefits Allowance.

Your benefits will be tested against the Lump Sum and Death Benefits Allowance when:
- You take a tax-free lump sum.
- Payment of a serious ill health lump sum.
- Most authorised tax-free death benefit lump sums (exceptions include charity lump sum death benefits and trivial commutation lump sum death benefits).

The Lump Sum and Death Benefits Allowance is set at £1,073,100. It applies to all your benefits, not each scheme separately.

Any benefits over your Lump Sum and Death Benefits Allowance will be taxed at the marginal rate of the person who receives these benefits. It's important to note that the benefits will be tested against your Lump Sum and Death Benefits Allowance even if you're not the one receiving the benefits or paying the tax.

If you have protection from the old Lifetime Allowance regime, you might have a higher Lump Sum and Death Benefits Allowance.

Annual Allowance

The Annual Allowance is the amount you can build up in your pension in a single tax year before a tax charge may apply. Since April 2023 this limit has been £60,000.

You may need to be aware of the Annual Allowance if:

- You are employed by Zurich, have final salary benefits in the Scheme and receive a promotional pay rise.
- Your total income is over £200,000 a year. At this level you might be affected by the tapering rules which reduce the AA for high earners.

If you are no longer employed by Zurich then this limit does not apply to you for the ZPen scheme, but it may apply to other pension schemes you contribute to.

The Annual Allowance is tested against your pension input, which looks at:

- Contributions to the Scheme by Zurich as your employer and you (salary sacrifice or APCs).
- Any increase in your final salary pension arising from the link to your final salary.

If you exceed the Annual Allowance (£60,000 or the tapered allowance), you may be able to carry forward unused allowance from the previous 3 years. If you still exceed the Annual Allowance, the excess will be taxed at your marginal rate and must be declared on your self-assessment tax form. You can choose for the scheme to pay this by reducing your benefits to pay the tax.

We must notify you if your pension input in a tax year was more than £60,000. We may also contact you if your pension input was less than £60,000 but we think tapering rules might apply. Because the Annual Allowance rules apply to your total income, not just your Zurich salary, it is up to you to know your Annual Allowance and whether you may have exceeded it.

If you incur an Annual Allowance tax charge and wish to use your ZCashBuilder benefits to pay it, we'll discuss your options with you.

If you are a high earner and want to reduce the contribution paid by Zurich, you might be able to take a Savings Allowance instead. If you're eligible we'll write to you each February.

Money Purchase Allowance

The Money Purchase Annual Allowance is a reduced annual allowance of £10,000 which applies to those who have taken taxable money from a defined contribution (DC) pension arrangement, like ZCashBuilder. This will apply if you've started to drawdown from a DC pension arrangement or taken taxable cash.

If you start taking benefits that trigger the Money Purchase Annual Allowance the scheme, or pension provider, is required to tell you. You'll then need to inform any pension scheme you're still contributing to. So let us know if another pension provider informs you that you're now subject to the Money Purchase Annual Allowance.