

# What to do if you need to pay an annual allowance charge



# Understanding the annual allowance charge

The annual allowance is the maximum level of pension contributions that will receive tax relief each tax year. If you go over it, you may have to pay an 'annual allowance charge'.

It is essential to understand how this charge works, especially if you are making substantial contributions to your pension.

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This guide will provide an overview of the steps to be taken to establish if you have an annual allowance charge to pay and how it can be paid.

This guide should be read alongside the following guides which provide more detailed information on these specific topics:

- **Annual allowance guide**
- **Tapered annual allowance guide**
- **Money purchase allowance guide**
- **Carry forward guide**

The information in this guide is correct as at 6 April 2025.



## A five-step checklist for the annual allowance

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The biggest challenge with the annual allowance is that the government makes it **your responsibility** to check whether you have gone over it – and to calculate how much the tax charge is when you do.

This isn't easy, which is why we've created a five-step checklist to help you work out if you may need to pay a charge and if you do, how much it is and how you might be able to do this.

STEP

1

**Work out your annual allowance for the tax year**

STEP

2

**Check if you have exceeded your annual allowance**

STEP

3

**Check if carrying forward unused annual allowance could reduce or even eliminate the excess**

STEP

4

**Calculate what the annual allowance charge will be on any remaining excess**

STEP

5

**Work out how and when to pay the charge**

## Annual allowance basics

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Before we begin, here's a quick reminder about what the annual allowance is:

- It is the maximum level of pension contributions that will receive tax relief each tax year (or, to put it a different way, the maximum level of contributions before you face a tax charge).
- It applies to work-based and personal pensions (sometimes referred to as 'private pensions'), including final salary (defined benefit) and money purchase (defined contribution) accounts.
- It applies to contributions you make, plus those from your employer and any made on your behalf by someone else, such as a partner or parent.
- If you stay within the annual allowance, you benefit from full tax relief (as long as you have not contributed more than 100% of your earnings for the tax year).
- If you go over an annual allowance once all your pension contributions have been added together, you may have to pay a personal tax charge.
- The amount of the charge will depend on the amount you have gone over the combination of the annual allowance for this tax year plus any prior years carried forward, and what is your highest rate of income tax you are paying in the tax year.

Please note that the value of tax benefits from a pension depends on your circumstances, and tax rules may change in the future.

## Work out your annual allowance for the tax year

This guide will walk you through the basics of how to calculate how much annual allowance you have used, if however, you fall into one of the following two scenarios please refer to the indicated guides:

If you earn, or think you are going to earn, over £200,000 in a tax year please refer to the tapered annual allowance guide for details on how to calculate a restricted annual allowance.

If you have taken taxable income from a pension and been notified that you have triggered the money purchase annual allowance (MPAA) please refer to our money purchase annual allowance guide that explains about your reduced allowance of £10,000.

The table on the right summarises the annual allowance limits for the last two tax years. Please see the relevant guides on our website at [fidelity.co.uk/allowances](https://www.fidelity.co.uk/allowances) for further information.

The three (or four) allowances		Limits To 2022/23 tax year	Limits From 2023/24 tax year
1	<b>The standard annual allowance</b> This applies to everyone who isn't affected by the specific rules for allowances 2 and 3 below. Please read our <b>annual allowance guide</b> for more information	£40,000	£60,000
2	<b>The tapered annual allowance</b> For high earners, the annual allowance may reduce depending on your "Adjusted Income"  See our <b>tapered annual allowance guide</b> for full details.	If your "Threshold Income" is £200,000 or more to tax year 2022/23 onwards, your annual allowance will reduce by £1 for every £2 above an "Adjusted Income" of £240,000 or more.  A sliding scale from £40,000 down to £4,000 applies for anyone with an adjusted income of £312,000 or more.	If your "Threshold Income" is £200,000 or more for tax year 2023/24 onwards, your annual allowance will reduce by £1 for every £2 above an "Adjusted Income" of £260,000 or more.  A sliding scale from £60,000 down to £10,000 applies for anyone with an adjusted income of £360,000 or more.
3a	<b>The money purchase annual allowance</b> Once you have taken taxable income from your pension pot using your annual allowance for contributions to money purchase pensions is reduced. Please read our <b>MPAA guide</b> for more information	£4,000	£10,000
3b	<b>The alternative annual allowance</b> If you have triggered the MPAA and you are an active member in a final salary scheme, an alternative annual allowance is available for building up benefits in those schemes. This is because the MPAA only applies to DC pensions. Please note that it may also be affected by the tapered annual allowance. Please speak to your scheme administrator for details.	£36,000	£50,000







## Calculate if you have exceeded the annual allowance

Now you know the annual allowance(s) you need to measure your contributions against, you need to work out how much you have contributed and then compare this against the applicable annual allowance(s):

■ **For money purchase pensions (defined contribution):** You need the total contributions paid during the tax year from you, your employer and anyone else. You can get this by contacting your provider, if contributions are paid close to the tax year start and finish, it's a good idea to ask your provider for a pension savings statement to be sent. If you have several pensions you will need the figures for all of them and will need to combine the values for each applicable tax-year.

Your provider can also tell you if their records indicate you are subject to the money purchase annual allowance and from which date.

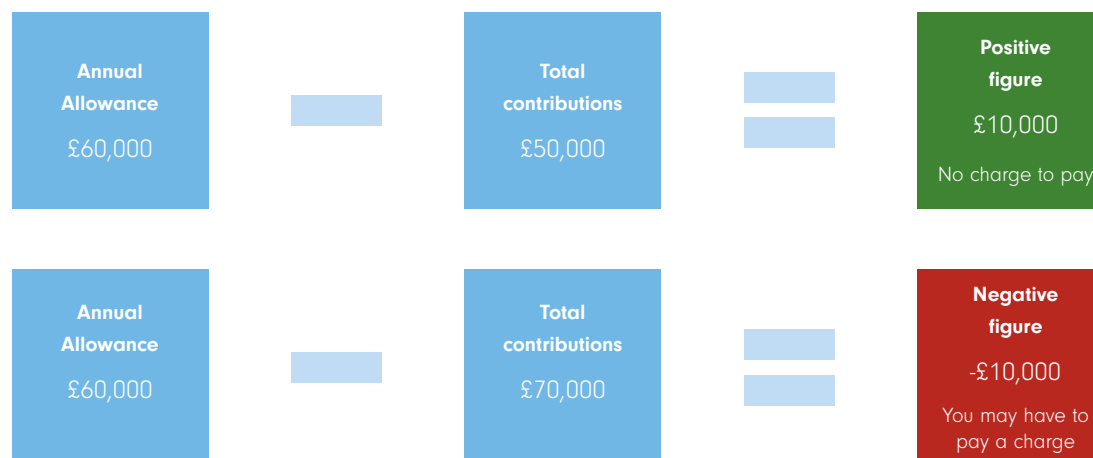
■ **For final salary schemes (defined benefit):** You need to know the value of any increases to benefits. This is more complicated, but your pension provider should be able to give you the information you need.

Note that if you have exceeded the standard and/or money purchase annual allowance in a given arrangement, the scheme administrator will have sent you a pension savings statement automatically.

## Making the calculation for the 2024/2025 tax year

Now just subtract the total contributions in a tax-year from your annual allowance. If you get a positive number, there's no charge to pay. If you get a negative one, go to step 3.

**For example:**



If you're subject to the tapered or money purchase annual allowance, you'll need to subtract from the relevant allowance figure instead. If you have triggered the money purchase annual allowance in the year you are looking at, you need to consider the contributions paid from the trigger date in this calculation.

STEP  
3

## Check if carrying forward unused annual allowance could reduce or even eliminate the excess

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If you have exceeded the standard annual allowance or tapered annual allowance, you can carry forward any unused allowance from the three previous tax years in addition to this year's allowance to reduce or eliminate any charge due. Just make sure your contributions are still within 100% of your earnings for the tax year you are making the calculation. You must use any unused allowance from the earliest year first. For more information, read our **carry forward guide** you can find it at: [retirement.fidelity.co.uk/allowances](https://retirement.fidelity.co.uk/allowances)

**Note that if you have triggered the money purchase annual allowance you cannot use unused allowances from previous tax years.**

If you don't have enough unused annual allowances from previous years to cover your excess contributions for this tax year, you will need to tell HMRC and arrange to pay the annual allowance charge. The excess amount **MUST** be shown on your self-assessment or notified to HM Revenue & Customs (HMRC) directly.

If you have enough unused allowances in previous years to cover excess contributions from the current year, you should record and keep this information for future reference. You are not required to show the excess on your self-assessment.

## Can more than one annual allowance apply?

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Yes. If you take a flexible withdrawal during the tax year, then you may need to measure your contributions against two or three annual allowances, this is explained previously.

HMRC Helpsheet HS345 Pension savings - tax charges provides more detail and can be found on the [gov.uk](https://www.gov.uk) website

STEP  
4

## Work out what the annual allowance charge will be

You should enter the amount by which you have exceeded all your available allowances on your self assessment tax return. The annual allowance charge payable will be at your highest marginal rate of income tax.

You'll need to complete the 'Pension savings tax charges' section. If you don't usually complete a self assessment return you can contact HMRC directly with details of your National Insurance number and the amount by which you have exceeded your available allowances.

HMRC can then work out the charge for you.

### Quick steps to calculate annual allowance charge



Step 1 - My allowance

Step 2 - The amount I have used

Step 3 - My carry forward allowance

Step 4 - My overall position (1-2+3)

My tax rate

My charge = overall position (4) x tax rate



### Here's a quick example

Mike and his employer put £80,000 in his workplace pension during the 2023/24 tax year. He has the standard annual allowance of £60,000 available and has no unused allowance to carry forward from previous years. This means he must pay an annual allowance charge on £20,000.

His total taxable income for the year is £70,000. To calculate the charge, he adds £20,000 to this figure – making his taxable income £90,000 for the 2023/24 tax year.

This means all £20,000 is over the threshold for higher-rate taxable income (£37,700 in the 2023/24 tax year), so the annual allowance charge is £8,000 (£20,000 x 40%).

Care needs to be taken if the excess amount takes you over one of the tax bands as tax at different rates will apply to different sections on the excess amount.

The example above is based on UK tax rates applying. Rates for Scottish and Welsh tax payers may differ.



## Check how to pay the charge

If you are facing a charge, the last step is to pay it. There may be two ways you can do this:

- You may pay the charge yourself, usually as part of your self-assessment return.
- It may be possible for you to pay the charge from your pension account. This is known as Scheme Pays. It can help, as the charge is paid from untaxed money, rather than money you have already paid tax on. However, there will be less in the pension to grow over the years to your retirement. It may not be possible to pay from your pension drawdown account.

There are two types of Scheme Pays. You should discuss which options are available to you with your pension provider.

- **Mandatory Scheme Pays:** As long as you meet certain conditions, your scheme must offer this option and it will be jointly and severally liable with you for the charge. However, this option is available in a limited number of circumstances.
- **Voluntary Scheme Pays:** Your pension scheme is **not obliged** to offer this option, but if it does, you may find it a more appropriate way of paying a charge. However, you remain liable for the charge until it is paid.



The deadlines for each type are very different and must be strictly adhered to. Voluntary Scheme Pays is subject to the criteria we set and may not be processed if received after the deadline. Exact details are shown on the following pages.

Mandatory Scheme Pays

Your scheme must offer this option if:

- Your total annual allowance charge for the tax-year is over £2,000\* and
- Your pension contributions exceed £60,000 during the tax year.

It does not apply when:

- You have gone over the tapered annual allowance or the money purchase annual allowance but have not exceeded £60,000 in pension contributions.

It partially applies when:

- You have exceeded the tapered annual allowance or the money purchase allowance but have contributed more than £60,000. In this case it will only apply to the contributions in excess of £60,000.

For our example, imagine Peter has a tapered annual allowance (TAA) of £15,000 and has put £80,000 in his pension. Although he has gone over the TAA by £65,000, he is only £20,000 over the standard annual allowance. This means the maximum his scheme must pay is the charge on the excess, (£20,000 in this example) above the standard annual allowance. The scheme does not have to pay the charge on the other £45,000, Peter must pay this himself. He can choose to pay all or part of the charge on the excess (£20,000) over the standard annual allowance or utilise Mandatory Scheme Pays to cover the charge.

	Contributions		Payment Options
Excess over the Standard Annual Allowance	£20,000	Total amount (ignoring any available carry forward) on which a charge is due	Peter/ Mandatory Scheme Pays
Standard Annual Allowance	£45,000		Peter
Standard Annual Allowance £60,000	£15,000	TAA	No charge

If you want to use Mandatory Scheme Pays with Fidelity:

- **You must submit a request by 31 July** in the year after the tax year when the charge became due. So, if you exceed the standard annual allowance in the 2023/24 tax year, you have until the 31 July 2025 for the transaction to be completed. Where the deadline is missed then mandatory scheme pays no longer applies, however a late payment under voluntary scheme pays maybe considered, however this will be subject to HMRC interest and penalties.

Voluntary Scheme Pays

You will need to **check** with your pension provider to see if this option is available. If it is, you can elect for the charge to be paid from your pension account, as long as you have contributed to the pension in the relevant tax year and the excess arises in it.

This can be used for charges of any size. Equally, it can be used whether or not you exceed the standard annual allowance while exceeding the tapered annual allowance or money purchase annual allowance.

In Peter’s example below, Voluntary Scheme Pays may be available to meet the charge on the excess over the tapered annual allowance (in this example £25,000).

	Contributions		Payment Options
Excess over the Standard Annual Allowance	£20,000	Total amount (ignoring any available carry forward) on which a charge is due	Peter/ Mandatory Scheme Pays
Standard Annual Allowance	£45,000		Peter/ Voluntary Scheme Pays
Standard Annual Allowance £60,000	£15,000	TAA	No charge

If you want to use Voluntary Scheme Pays with Fidelity:

- **You must submit a request by 15 December** in the same year when the charge becomes due. So, if you exceed an annual allowance in the 2024/25 tax year, you have until the 15 December 2025 to get in touch with us. This will allow us to take the money out of your pension and pay the charge (within the periods that pension schemes must abide to) before the deadline for self-assessment. Where the deadline is missed it may still be possible to make a payment, however you will be liable for HMRC interest and penalties on late payment.

In certain circumstances you may need to request both types of payment, you may have to request both Mandatory and Voluntary (if available) Scheme Pays to pay the respective amounts of your total annual allowance charge.

\* Based on contributions paid to a defined contribution plan or increases in benefits in a defined benefit (including final salary and career average) scheme you are still an active member of.









## Timeline for Annual Allowance Tax Charge



**1**

### Annual allowance excess for 2024/25 identified

You will need to do this yourself if you have contributed to more than one arrangement or are subject to a tapered annual allowance.

**2**

### Deadline for submitting a request for mandatory scheme pays for the 2023/24 tax year

**3**

### Deadline for submitting a request for voluntary scheme pays for the 2024/25 tax year

**15 December is a specific deadline** that ensures there is enough time to review and agree to payment of the charge before you submit your self-assessment return – where we will confirm the amount of the annual allowance tax charge that the scheme will pay. If we receive a voluntary scheme pays request **after this deadline, it will not be possible to process** it in time for it to be included in the pension schemes' tax return (that are subject to different reporting periods) that must be completed before the deadline for self-assessment to avoid HMRC late payment interest and penalties. As a result the request may be declined.



4

31 January 2026

5

5 April 2026

31 July 2026

6

2025/26 Tax Year

4

**Deadline for submitting self-assessment returns for the 2024/25 tax year**

If you're intending to use **voluntary scheme pays**, you should wait to receive confirmation that the scheme is prepared to pay the tax charge **before** you submit your self-assessment. If you're intending to use **mandatory scheme pays**, you **will not** need to have received confirmation that the scheme will pay the tax charge **before** you submit your self-assessment as where **the conditions are met**, the scheme is obliged to pay the tax charge.

5

**Annual allowance excess for 2025/26 identified**

You will need to do this yourself if you have contributed to more than one arrangement or are subject to a tapered annual allowance.

6

**Deadline for submitting a request for mandatory scheme pays for the 2024/25 tax year**

## Next steps

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- If you have not already received one, request a Pension Savings Statement for the respective tax-year, from all of your pension providers.
- If contributions have been made to your Fidelity plan and you wish to use Scheme Pays, and are within the relevant deadline to pay an annual allowance charge with Fidelity, please ask us for a Scheme Pays form. Note that a separate form will be required for each scheme pays type for each specific charge amount.
- Once you have filled in and returned your Scheme Pays form, we will review your request and confirm if it is available through your plan.
- If the pension arrangement agrees to pay the charge, you will still need to complete the relevant sections of your self-assessment form or notify HMRC directly.
- If you need further information after reading this guide, please do contact us. However, your tax affairs are your responsibility and we cannot provide you with specific advice or calculate your annual allowance charge for you. As this can be a complex topic, you may wish to take advice from an appropriately qualified adviser.

For information about your pension account, please contact the Workplace Investing Service Centre on **0800 3686868** between 8.30am and 5.30pm Monday to Friday. For those that hold an International Retirement Savings Plan, please contact us on **(+44) 01737 838 585** between 8am and 5:30pm.

Alternatively, you can email the Pension Service Centre at **pensions.service@fil.com**. You can also view your pension account by logging into PlanViewer at **fidelitypensions.co.uk**



# HOW CAN FIDELITY HELP?

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If you would like to talk about your pension account, please call our Workplace Investing Service Centre on 0800 368 6868. If you're calling from outside the UK, please dial +44 (0)1737 838 585.

You can also visit [fidelitypensions.co.uk](https://fidelitypensions.co.uk) or speak to an authorised financial adviser.

## Workplace Investing



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