Personal Pension and Self Invested Personal Pension (SIPP) Factsheet 2025/2026

What is a personal pension?

- A tax efficient wrapper for retirement savings which can be drawn from age 55, increasing to age 57 from 2028. You will not incur any Capital Gains Tax on the growth achieved.
- Regular contributions or lump sums can be paid in offering basic rate tax relief at source and higher rate tax relief via your tax return.
- Generally, 25% of the pension fund can be drawn out tax free (restricted to a maximum of £268,275) with the balance being taxed as income at your marginal rate.

How much can I contribute each year?

- Maximum contributions in order to claim tax relief for individuals each tax year are limited to the greater of £3,600 (gross) and 100% of UK relevant earnings up to £60,000 (gross).
- Maximum contributions by your employer are not limited however they still contribute towards the employee's annual allowance (including carry forward) and if exceeded there would be an Annual Allowance Tax Charge. They are also subject to the 'wholly and exclusively test' to qualify for tax relief and if there is a non-trade purpose, tax relief may be restricted or not allowed.
- Unused allowances from the previous three years may be carried forward but you cannot contribute personally more than you earn in any one tax year under carry forward.
- Once you start drawing income benefits from your plan, the Money Purchase Annual Allowance (MPAA) may be triggered which restricts tax relief on future pension contributions to £10,000 p.a.
- The Annual Allowance can be tapered for higher earners. The standard annual allowance for the 2025/26 tax year is £60,000. However, this allowance is tapered for individuals with higher earnings and may reduce to between £10,000 and £60,000 where income exceeds £200,000. The taper applies when an individual's threshold income exceeds £200,000 and their adjusted income exceeds £260,000. In such cases, the annual allowance is reduced by £1 for every £2 of adjusted income above £260,000.

Self-Invested Personal Pension

Key Facts

There are fewer restrictions in relation to the investment of your pension funds, provided the investment is approved by HMRC. SIPPs offer more freedom and control over how your pension funds are invested.

The tax benefits are the same as for a personal pension.

Particularly beneficial for those investors wanting to hold commercial property within their pension fund.

With our recommended SIPP provider, the wrapper is split into a cash holding and an investment holding. This is particularly important for when you start drawing income as we can hold an element of your fund in cash to meet your withdrawals (we typically recommend 2-3 years' income payments). This removes the need to regularly disinvest from funds, perhaps saving on transaction charges and mitigating the impact of market downturns.

Pension Lump Sum Allowances

- Both the Lifetime Allowance Tax Charge (LATC) and the LTA have been abolished. However, there is now a new regime which tests an individual's tax free lump sum allowances with a **maximum** £268,275 available as tax free cash (LSA) and £1,073,100 on death (LSDBA).

Pension Plan Income Options:

1. Annuity - The fund could be exchanged for a guaranteed income for life, known as an annuity. How much you receive will depend on the rate offered by the annuity provider and the features incorporated into the plan.

2. Flexi-Access Drawdown – This enables you to draw as much or as little from your pension fund as you wish at your chosen frequency. The funds can remain invested in the market, so you can still potentially benefit from investment growth. Any income drawn in excess of your tax-free cash entitlement may be subject to income tax, depending on your circumstances.

3. Uncrystallised Funds Pension Lump Sum (UFPLS) – This allows for one off lump sum payments to be drawn from your pension plan of which 25% is tax free (up to a maximum of £268,275) with the balance taxed as income.

What happens to your pension on death under current legislation? (prior to proposed changes in April 2027)

- Pension plans are not included as part of your estate on your demise and can be left Inheritance Tax free to your nominated beneficiaries.
- On death before age 75, the full value of any residual pension fund can be paid **both inheritance tax free and income tax free** to your beneficiaries as **income**. They can choose to receive a lump sum payment however, this will only be tax free up to a maximum of £1,073,100, less any previous tax free lump sums. The beneficiaries do not need to have reached pension age to access the funds.

- On death after age 75, the fund can be paid inheritance tax free to your nominated beneficiaries, however they will pay income tax at their marginal rate on any income, whether drawn as a lump sum or regular payments. Again, the beneficiaries do not need to have reached pension age to access the funds.

Please note that during the Autumn Budget 2024 the government announced that unused pension funds and death benefits payable from a pension plan will form part of a person's estate for inheritance tax purposes from 6th April 2027. The necessary amendments to current legislation are being finalised.

Risk Warnings

Information is based on our current understanding of taxation legislation and regulations. Any levels, bases of and reliefs from taxation are subject to change.

Your pension plan fund value can go down as well as up. Past performance is no guarantee of future performance.

You may not get back the amount originally invested.

A Pension Plan is a long term investment the fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

The full product particulars supplied by the insurer or investment house should be read for specific details as this is only a summary.