



HM Treasury

Guidance

Pension Tax Allowance Explainer

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1. What is the Pension Tax Allowance?

- The Pension Tax Allowance is a tax reduction for people who are above State Pension age, or those who reach State Pension age within the tax year.
- From April 2027, if your total income is no more than the full annual value of the new State Pension, you will receive the full Pension Tax Allowance and will not be brought into paying tax because of State Pension uprating in this Parliament.
- This applies regardless of where your income comes from, whether that is the State Pension, a private pension, earnings from work, self-employment income, savings, property or dividend income, or a combination of these.
- If your total income is slightly higher than the full annual value of the new State Pension, you may still receive an income tax reduction and pay less income tax than you otherwise would. The value of your Pension Tax Allowance will gradually reduce as your income increases until it is fully withdrawn. For every £3 of income above the full level of the new State Pension, your Pension Tax Allowance will reduce by £1.
- You will not need to contact HMRC or make a claim for the Pension Tax Allowance. HMRC will use information it holds on your State Pension age and income to apply the Pension Tax Allowance automatically when calculating your income tax.
- From the tax year beginning 6 April 2027, the full annual value of the new State Pension will increase to £13,036.40:
 - If your total income is below the Personal Allowance (£12,570) you are not liable for any tax.
 - If your total income is between £12,570 and £13,037, you will receive the full Pension Tax Allowance (worth up to £94).
 - If your total income is between £13,037 and £13,319, you will receive some Pension Tax Allowance and pay less income tax than you otherwise would.
 - If your total income is £13,319 or more, you will not receive any Pension Tax Allowance.
- For tax years 2028-29 and 2029-30, the value of the Pension Tax Allowance will be uprated in line with the full annual value of the new State Pension.

2. Why is the Government doing this?

- The Government is introducing the Pension Tax Allowance to reduce the administrative burden for some pensioners who would otherwise have a

small amount of tax to pay.

- In 2027-28, people above State Pension age with income up to the full annual value of the new State Pension (£13,036.40) will receive the Pension Tax Allowance.
- Most pensioners already pay tax on their income, including their State Pension where applicable. In many cases, any tax due is collected through PAYE or Self-Assessment.
- From 2027-28, the full new State Pension will rise above the Personal Allowance. For some pensioners, this would mean receiving a letter and having to pay a relatively small amount of tax to HMRC for the first time. The Government recognises that the administrative burden involved could be disproportionate to the amount of income tax due.
- In 2027-28, the Pension Tax Allowance will mean that around 290,000 pensioners will not pay any tax because of the Pension Tax Allowance, with around 500,000 in total benefitting from a tax reduction. By the end of this Parliament, around 1 million pensioners will benefit from the Pension Tax Allowance.
- The Government will keep the Pension Tax Allowance under review and will consider any arrangements beyond April 2030 in the usual way.

Examples (in 2027-28)

Income below the tax-free Personal Allowance

Tom receives the basic State Pension and some Additional State Pension. His total income is £10,300. As this is below the Personal Allowance (£12,570), Tom is not liable to pay income tax and therefore does not need the Pension Tax Allowance. Tom does not need to contact HMRC about this unless HMRC asks him to, or his income or circumstances change.

Full new State Pension only

Steph's only source of income is the full annual value of the new State Pension without any increments. Her total income is £13,036.40. As this is above the Personal Allowance (£12,570) she would have £93.28 of income tax to pay. However, as Steph's income is equal to the full annual value of the new State Pension, she will receive the full Pension Tax Allowance, removing her £93.28 income tax liability. Steph does not need to contact HMRC about this unless HMRC asks her to, or her income, or circumstances change. The Pension Tax Allowance will be applied automatically.

Examples (in 2027-28)

Income from the State Pension and another source

Anne is not entitled to the full new State Pension. She receives a partial new State Pension and a small private pension. Her total income is £12,970. As this is above the Personal Allowance of £12,570, she would otherwise have £80 of income tax to pay.

However, as her total income is below the full annual value of the new State Pension, she is eligible for the Pension Tax Allowance, which will remove her £80 of income tax liability.

Anne does not need to contact HMRC about this unless HMRC asks her to, or her income, or circumstances change. The Pension Tax Allowance will be applied automatically.

Income above the full new State Pension

Jonathan has deferred his pension. His £13,186.40 income comes from his part-time salary and a small amount of property income. As his income exceeds the Personal Allowance, he is liable for income tax.

His income also exceeds the full annual value of the new State Pension so he cannot receive the full Pension Tax Allowance. His income is, however, within the Pension Tax Allowance withdrawal range (£13,037 to £13,319) so he will receive some reduction in income tax.

His Pension Tax Allowance will be £44, meaning he will pay £44 less income tax than he otherwise would.

Jonathan does not need to contact HMRC about this unless HMRC asks him to, or his income or circumstances change. The Pension Tax Allowance will be applied automatically. Any remaining tax will be collected in the usual way, e.g. through PAYE for his part-time work.

Income above the Pension Tax Allowance limit

Nadia's income comes from her private pension and some savings income. Her total income is £13,400. As her income is above the Personal Allowance, she is liable for £166 income tax.

As her income is above £13,319 she will not receive any income tax reduction from the Pension Tax Allowance.

After paying £166 in income tax, Nadia will have £13,234 remaining. She will still have more income than someone with income of £13,036.40 who receives the full Pension Tax Allowance and pays no income tax.

Nadia does not need to contact HMRC about this unless

Examples (in 2027-28)

HMRC asks her to, or her income or circumstances change.

3. FAQ

FAQ

Why is pension income taxed?

It has always been the case that pension income, including the State Pension and private pensions, is taxable and contributes to funding vital public services. The vast majority of pensioners already pay tax on their income. Depending on individual circumstances, tax can be collected through PAYE, Self Assessment or Simple Assessment.

Who is eligible for the Pension Tax Allowance?

From April 2027, UK taxpayers will receive the full Pension Tax Allowance if they are above State Pension age (or reach State Pension age within the tax year) and have a total income up to and including the value of the new State Pension (£13,036.40 in 2027-28).

If your income is above this, you may receive an income tax reduction. The reduction will gradually reduce as your income increases until it is fully withdrawn. If your income is at or above £13,319 in 2027-28 you will not receive any Pension Tax Allowance.

How does the Pension Tax Allowance affect my tax-free Personal Allowance?

The Pension Tax Allowance does not change your Personal Allowance.

What if I have savings, dividends or property income?

The Pension Tax Allowance is calculated based on your total income, regardless of your source of income. Provided your income is at or under the full annual value of the new State Pension or your income is within the withdrawal range, you will be eligible for the Pension Tax Allowance.

Savings, dividend and property income will count

FAQ

	towards your total income when working out whether you qualify for the Pension Tax Allowance. You will also continue to benefit from any separate tax-free allowances that may apply to that income. These allowances are taken into account before the tax reduction is applied to your remaining income tax bill.
Does this permanently exempt the State Pension from tax?	No. The State Pension remains taxable income. The Pension Tax Allowance will apply from April 2027 for tax years 2027-28, 2028-29 and 2029-30. The Government will keep the Pension Tax Allowance under review and consider any arrangements beyond 2030 in the usual way.
Will the Pension Tax Allowance increase alongside the State Pension rises?	Yes, the eligibility threshold for the Personal Tax Allowance will increase each year to align with the new State Pension to ensure that no-one with income up to and including the value of the new State Pension will be brought into paying tax due to State Pension uprating in this Parliament.
If I receive income from other sources, will I be able to benefit from the Pension Tax Allowance?	If you receive income from the following sources, provided that the total from all of these sources is less than the full annual value of the new State Pension (£13,036.40 in 2027-28), you will receive the full Pension Tax Allowance reduction: • new State Pension • old State Pension • Additional increments on your State Pension, including additional State Pension, Protected Payments, extra payments on deferral or inherited pension • Occupational or private pension • Income from part-time employment or self-employment • Property rental income • Interest on savings, investments and dividends (not including ISAs) • Certain state benefits which are a replacement for earnings
I have a small additional private pension/do not receive the State	Eligibility for the Pension Tax Allowance is based on total income, regardless of the source of that income. You do not need to receive the State Pension to be eligible. This includes pensioners

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Pension, will I still benefit?	in receipt of the basic or new State Pension, other State Pension increments, an occupational or private pension, or income from part-time work or self-employment.
I have a small additional private pension/do not receive the State Pension, will I still benefit?	Eligibility for the Pension Tax Allowance is based on total income, regardless of the source of that income. You do not need to receive the State Pension to be eligible. This includes pensioners in receipt of the basic or new State Pension, additional State Pension increments, an occupational or private pension, or income from part-time work or self-employment.
What if I continue working after I reach State Pension Age?	If you continue working after reaching State Pension Age, you can still receive the Pension Tax Allowance. Your eligibility will depend on your total income, regardless of where that income comes from. If your total income is £13,037 or less in tax year 2027-28, you will receive the full allowance. You may be entitled to a partial allowance if your income is below £13,319 in 2027/28.
What if I defer my State Pension?	You can still qualify if you defer your State Pension, provided you are above State Pension age and meet the income conditions. Pension income, including deferred amounts when received, will count towards your total income.
I receive income from my ISA, will I still benefit from the Pension Tax Allowance?	Income generated within an ISA is tax exempt, and does not count towards your total income.
What if my savings income is all within the Starting Rate for Savings or the Personal Savings Allowance?	As savings income is taxable, it counts towards your total income for the purposes of the Pension Tax Allowance. However, you will have no tax to pay on savings income as it is covered by the Starting Rate for Savings or the Personal Savings Allowance, though there may be tax to pay on other forms of income.
At what point will I no longer receive the	If your total income exceeds the full annual value of the new State Pension, you will no longer

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Pension Tax Allowance?

receive the full Pension Tax Allowance, but you may still receive part of it. For every £3 of income above the full annual value of the new State Pension, your income tax reduction will reduce by £1. Once your total income reaches £13,319 in 2027/28, you will no longer receive the Pension Tax Allowance.

Why will people with income over £13,319 not receive any Pension Tax Allowance in 2027–28?

The Pension Tax Allowance is designed to reduce the need for some individuals to deal with Simple Assessment to pay relatively small amounts of income tax. Those with income above £13,319 will not receive any income tax reduction. Any tax due will continue to be collected through the existing tax collection route that applies to your circumstances, which could include PAYE (e.g. if you have a private pension), Self Assessment (e.g. if you earn income from property or self-employment) or Simple Assessment.

Do I need to contact HMRC to receive the Pension Tax Allowance?

You do not need to contact HMRC or make a claim. If you are eligible, the Pension Tax Allowance will be applied automatically using the information HMRC holds about your income and State Pension age. You can contact HMRC if your income changes or you think the information used is incorrect.

What if my income changes within the financial year?

The Pension Tax Allowance will be based on your total income for the tax year. If your income changes, HMRC may adjust your Pension Tax Allowance during the tax year or reconcile your position after the year ends. You do not need to contact HMRC or make a claim to receive the allowance.

Will I receive a tax refund?

The Pension Tax Allowance will not generate a refund or result in a payment to you if you owe less tax than the full value of the allowance.

What should I do if I think HMRC has calculated my total income or Pension Tax Allowance incorrectly?

If you think HMRC has used incorrect information about your income, or your Pension Tax Allowance has been calculated incorrectly, you can find further guidance and contact HMRC using [Income Tax: enquiries - GOV.UK](https://www.gov.uk/guidance/income-tax-enquiries)

FAQ

I currently pay tax through Simple Assessment, will I still receive one?

If the Pension Tax Allowance removes all the income tax you would otherwise owe, you will not receive a Simple Assessment for that tax year. If you still have tax to pay that cannot be collected another way, HMRC may issue a Simple Assessment showing the amount due after the reduction has been applied. If you receive a Simple Assessment for tax years before 2027-28, this is still due and must be paid.

Will I still receive a Simple Assessment if I have a partial Pension Tax Allowance? What about when I move out of the withdrawal range?

If you receive a partial Pension Tax Allowance, you may still have some income tax to pay. If this cannot be collected through PAYE or another method, HMRC may issue you with a Simple Assessment. The Pension Tax Allowance will be deducted, and the remaining amount will require payment. Once your income moves above the withdrawal range (between £13,037 and £13,319 in 2027-28) you will not receive any income tax reduction. You will receive a Simple Assessment if you still have income tax to pay that cannot be collected through another method. You do not need to contact HMRC or make a claim. If you are eligible, the tax reduction will be applied automatically.

What about Self-Assessment? How is the Pension Tax Allowance calculated as part of my tax return?

If you complete an Income Tax Self Assessment return, any Pension Tax Allowance you receive will be taken into account as part of your overall tax position for the year.

I'm a Scottish Pensioner and my income tax rate is 19%, do I still get the Pension Tax Allowance?

Yes. Eligible Scottish taxpayers will receive the Pension Tax Allowance which is calculated using the 20% basic rate rather than the Scottish starter rate.

Can I give my unused Pension Tax Allowance to my partner?

No. The Pension Tax Allowance is applied based on your State Pension Age and total income, on an individual basis. It therefore cannot be transferred to your partner.

FAQ

Will receiving the Pension Tax Allowance affect my benefit entitlement?

If your benefit is means-tested, receipt of the Pension Tax Allowance may affect your entitlement. You should check the rules for the specific benefit you receive.

How have you calculated the value of the full new State Pension?

The new State Pension has a weekly rate, rather than a statutory annual rate.
For tax purposes, the full new State Pension is calculated to reflect the total income you are entitled to receive within the tax year, from 6 April 2027 to 5 April 2028.
Other annual figures may be used for different purposes, including the annualised amount shown in the Check your State Pension forecast service.



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