PENSION AWARENESS WEEK 2026

Armed Forces Pension Tax and Allowances

ARMED FORCES PENSION AWARENESS WEEK

Understanding pension tax limits, statements and your responsibilities

£60,000 STANDARD AA	➜	£200,000 INCOME THRESHOLD	➜	£260,000 COMBINED THRESHOLD

ANNUAL ALLOWANCE (AA)

- The Annual Allowance is a tax limit on pension growth in a tax year, not a limit on the pension you are allowed to receive.
- For most people the standard AA is currently £60,000, but a tapered Annual Allowance can apply to some higher-income individuals. The test looks across all relevant pension arrangements, not just AFPS.
- The tapered Annual Allowance results in a sliding scale reduction of the Annual Allowance if all taxable income exceeds £200,000 and a combination of taxable income and pension growth exceeds £260,000.

WHY DEFINED BENEFIT GROWTH CAN SURPRISE PEOPLE

- In a Defined Benefit scheme, Annual Allowance is not tested on employee contributions.. Instead, HMRC rules place a value on the increase in promised pension benefits over the tax year.
- This means pension growth can be significant following promotion, pay changes or other pension adjustments even though you have not paid money into an individual pension pot.

PENSION SAVINGS STATEMENT (PSS)

- A PSS gives information about pension growth for tax purposes. AFPS will only issue one in the event the Annual Allowance is exceeded or you may be subject to tapering.
- Receiving a PSS does not automatically mean a tax charge is due. You may be able to use unused allowance from earlier years.

YOUR RESPONSIBILITY

- DBS/Veterans UK administers Armed Forces pension benefits but does not calculate or advise on your personal tax liability. You are responsible for checking, taking into account other pensions (such as private schemes) and relevant income (from rental, savings interest, investments).
- If you are unsure, use HMRC guidance/calculators or seek independent tax/financial advice.

DO NOT MIX UP YOUR PENSION DOCUMENTS

- Using a forecast or BIS to try to calculate an AA charge can give the wrong answer because those documents were created for a different purpose.

MCCLOUD TAX ADJUSTMENTS

- The 2015 Pension Remedy can retrospectively change which scheme benefits are attributed to the remedy period and therefore alter pension growth for affected tax years. If you are affected you will be sent an R-PSS.
- An Armed Forces Pensions Savings Tax Remedy Adjustment Booklet, R-PSS guidance and HMRC's public service pension adjustment service for affected members is available on the Gov.UK website.

LUMP-SUM TAX ALLOWANCES

- Tax rules also limit the amount of certain pension lump sums that can normally be paid tax-free. The Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA) are separate from the Annual Allowance.
- GOV.UK provides a specific AFPS guide to these lump-sum allowances. This is especially relevant when taking retirement lump sums or considering lump-sum death benefits.

PENSION INCOME

- Armed Forces pension and EDP income is normally taxable income, although National Insurance is not normally payable on pension/EDP income.

FIND OUT MORE

- https://www.gov.uk/guidance/pensions-and-compensation-for-veterans
- **Phone:** 0800 085 3600 (UK freephone)
- **Email:** DBS-JPAC@dbspv.mod.uk