Annual Allowance Factsheet

Taxation

The UK Government introduced some restrictions to the amount that you can build up towards your pension and benefit from tax relief. Below is a summary of the main changes which form part of the Finance Act 2011.

There are two restrictions that apply to pension savings. These are:
• the amount you can increase your pension value by in any one year
- the Annual Allowance (AA) and
• the amount you can have as a total value from all your pension savings in your lifetime
- the Lifetime Allowance (LTA).

Annual Allowance

In the LA(S)PS, the AA is commonly worked out by the growth in your benefits in a year. The AA limit covers all your pensions, except your State pension, therefore all other pension savings need to be added together.

From 6 April 2011, the limit was reduced to £50,000 a year.
From 6 April 2014, the limit will reduce further to £40,000.

The effects of AA changes

The vast majority of LA(S)PS members will not be affected. Early indications are that the changes will primarily affect high earners but this can vary depending on the length of pensionable service and the rate of pensionable pay increase in any particular year.

Exceeding the Annual Allowance

If you exceed the AA in any one tax year you can 'look back' up to three previous years to see if you have any unused allowance from these years. If you do, you can "carry forward" any unused allowance and add this to your allowance in the current year. This means that if your pension's growth exceeds the current AA of £50,000 in any one year, for example due to a rise as a result of a promotion, you may not have any extra tax to pay, depending upon your individual circumstances.

Using the AA limit of £50,000, If you are entitled to a pension only and this increases by more than £3,125, you may exceed the AA. If you are entitled to a pension and a lump sum and these increase by more than £2,631, you may exceed the AA.

From tax year 2014/15, the AA will reduce to £40,000, Therefore, if you are entitled to a pension only and this increases by more than £2,500 you may exceed the AA. If you are entitled to a pension and a lump sum and these increase by more than £2,105, you may exceed the AA

From the tax year 2014/15, the Annual Allowance will reduce to £40,000

Exemptions

The AA restrictions will not be applied to the following:
• in the year of death or in a serious/terminal ill health case (by this we mean life expectancy of less than a year)
• deferred/preserved benefits in the scheme (unless the benefits are accrued in the current Pension Input Period(PIP)).
You will need to declare your pension savings amount on your tax return and you will pay any excess at your marginal rate of income tax.

Options if AA is exceeded

If you exceed the AA and your tax liability from the scheme is less than £2,000, you must pay your tax charge directly to HMRC.
If you exceed the AA and your tax liability is in excess of £2,000 you can ask the scheme to pay the whole of the amount to HMRC on your behalf. The mandatory requirement for the scheme to pay only applies if the member's savings within the scheme are more than the AA and the requirement for the scheme to pay only applies to tax charges incurred within the scheme.

Scheme pays

If you ask the scheme to pay your tax liability this will result in a subsequent reduction to your accrued scheme benefits. You may wish to consider other options for paying a tax charge if you do not want your scheme benefits reduced.

Enhanced benefits through Ill health retirement

Members who are retired through ill health and are awarded Upper Tier benefits will be subject to a further HMRC severe ill health test which is defined as 'unlikely because of ill health to be able to do any type of gainful work, other than to an insignificant extent, before state pension age'.
Members who meet HMRCs severe ill health test will be exempt from the AA restrictions. However, members who meet the scheme criteria but do not meet HMRCs test will be subject to the AA restrictions. The scheme Medical Adviser will assess on HMRCs test.
It is therefore in your own interest to ensure that your application for ill health retirement is accompanied by sufficient medical evidence.

Further information

SPPA cannot give you financial or tax advice and if you need this you should speak to a professional adviser. You can read more about the annual allowance and lifetime allowances on HMRCs website at www.hmrc.gov.uk/pensionsschemes

Factsheets are designed to give a brief overview. They do not cover every aspect and further guidance can be obtained from the member and employer guides. Full details are contained in the rules of the scheme.