

Annual Allowance (AA) guide for LGPS members



Why have I been sent a Pension Saving Statement?



You have received a Pension Saving Statement (PSS) because during the last tax year you exceeded the HMRC pension growth limit.

This guide explains in simple terms what AA is all about and what action you need to take.

And you may not have a tax charge after all.....please READ ON

Do I need to do anything?

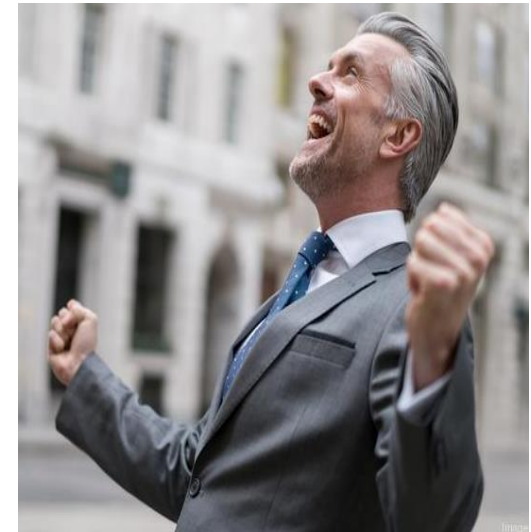


YES

- Personal taxation issue.
- Personal responsibility to calculate if an AA tax charge is payable.
- Applies to all pension growth, not just with Essex Pension Fund (EPF).
- Use the HMRC online AA calculator by inputting the Pension Input Amounts (PIA's) from your PSS to establish if there is an amount on which tax is payable.

DON'T PANIC

- There may be no tax charge – 3 years carry over of unused allowances.
- Scheme Pays – you won't have to pay the charge yourself if £2,000+
- Good pension growth – even after scheme pays deduction.



Annual Allowance (AA)

What is AA?



- HMRC allowance for pension 'growth' in a tax year.
- £40,000 limit for 2019/20.
- Taxable amount if 'growth' exceeds limit.
- Tax charge at marginal rate.

Why might I have exceeded?



- If you have a lot of LGPS membership.
- If you have a high pay increase.
- If you transfer in other pension rights on preferential terms – from another local authority or Public Sector 'Club' Pension Scheme.

How may I use carry forward?



- Can carry forward any unused AA from previous 3 years.
- May reduce or extinguish excess over AA.
- You may not actually have a tax charge to pay.

How does Scheme Pays work?



- Scheme Pays option if tax charge is £2,000 or more. (EPF growth only)
- You don't have to pay the charge yourself.
- Essex Pension Fund (EPF) pay the charge.
- A reduction is applied to your pension when paid.

Tapered AA for high earners

For high earners the AA limit is reduced on a tapered basis to a minimum of £10,000. This applies if, in the relevant tax year, your **threshold income** is more than £110,000 and your **adjusted income** is more than £150,000.

The changes to these limits announced in the 2020 Budget will apply from the next tax year, i.e. 2020/21.

For your EPF benefits only, the definitions of these incomes in very simple terms are:

Threshold Income

Taxable Income

(This figure is shown on your P60 as 'Pay in this employment')

Adjusted Income

Threshold income

+

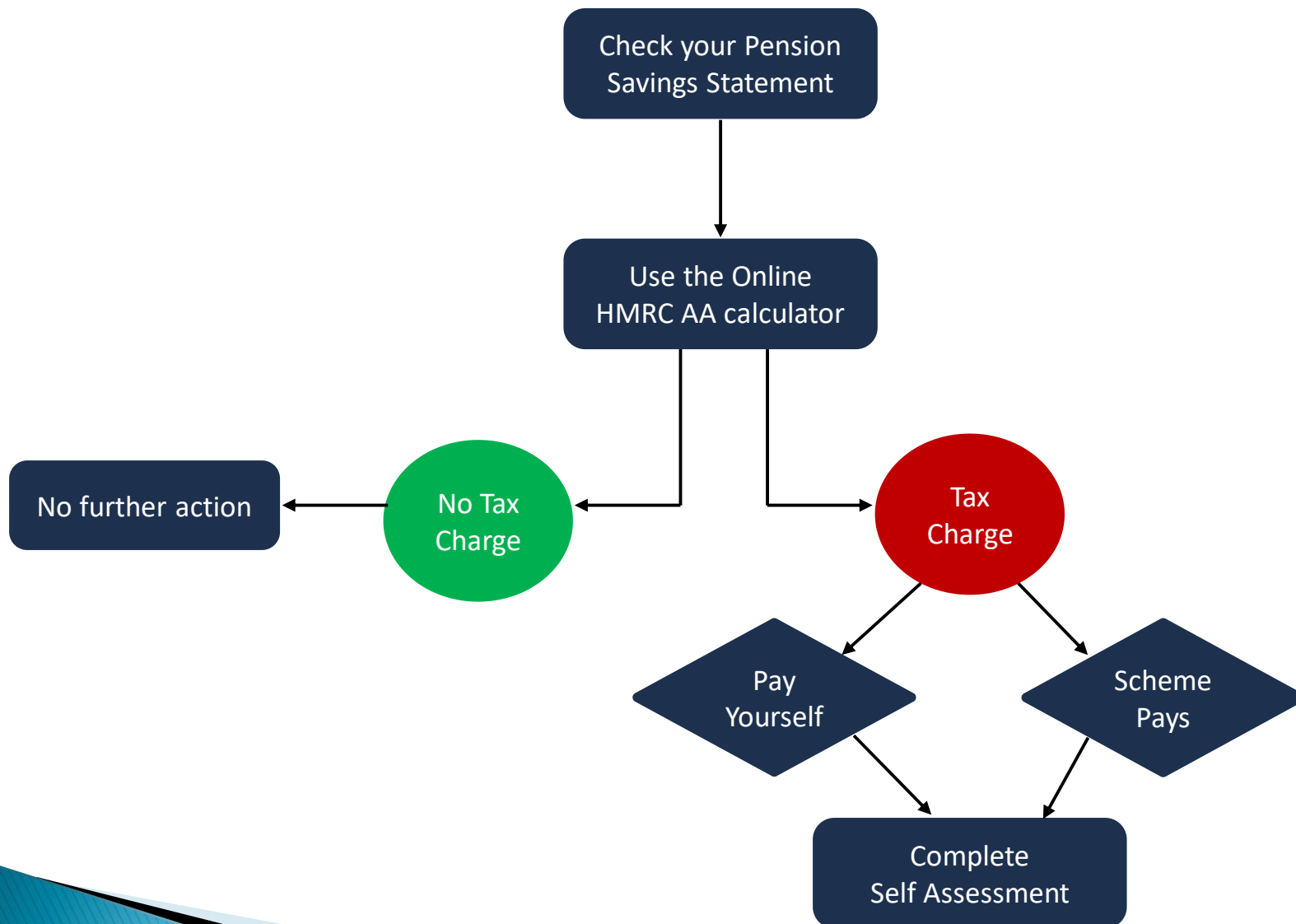
PIA Value

However, if you believe you may have exceeded both the Threshold and Adjusted Incomes, you should check the full definitions on the HMRC [website](#) before proceeding.

$$\text{Reduced AA Limit} = \text{£40,000} - \frac{(\text{Adjusted Income} - \text{£150,000})}{2}$$

(£10,000 Minimum)

What I should do – Flowchart Summary



What I should do – Step by step guide

Step 1 Check the pay used to value your pension benefits

The pay used to value your pension benefits is shown on pages 6 and 7 of your latest Annual Benefit Statement.

- If you think the pay information is incorrect, query with your employer.
- Should your employer agree, obtain revised pay in writing and forward to EPF.
- EPF will then recalculate the PIA and send a revised PSS.

Step 2 Use the HMRC online AA calculator

- The calculator is to be used to ascertain whether there is an amount on which tax is payable for the year in which your PSS relates taking into account any unused allowances from previous years.
- Before using the calculator ensure you have a full history of your PIA values, if applicable, from 2010/11 to the year of your PSS. If during this period, you contributed to other registered pension schemes you will need to obtain your PIA values from your other pension providers.
- Have your PSS to hand and, if applicable, details of your PIA's with other registered pension schemes and go to the HMRC online AA calculator at <https://www.tax.service.gov.uk/pension-annual-allowance-calculator>
- You are required to select / enter;
 - If and when you flexibly accessed your pension savings from a defined contribution pension scheme – this is only applicable if you have received a lump sum drawdown from a personal pension or money purchase pension scheme since 6 April 2015.
 - The years you were a member of a registered pension scheme from 2010/11 up to and including the year that your PSS relates.
 - Your total PIA in whole pounds for each year. If you had pension growth with other registered pension schemes you will need to combine your PIA's for the total for each applicable year. For the years since 2016/17, you will need to answer questions relating to Threshold & Adjusted Income. These questions are only applicable to 'High Earner' members whose taxable income for the tax year exceeded £110,000.



What I should do – Step by step guide

Step 2

Use the HMRC online AA calculator (continued)

- Check your answers carefully before selecting 'calculate'.
- Should you require further guidance this can be found at <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056110>
- Having selected 'calculate' the results will be displayed. The top banner of the results can be misleading as it relates to the current tax year. Check the results for the row that corresponds with the year of the PSS. A tax charge is payable if there is a figure in the 'Amount on which tax is due' column.

Screenshot example

How we worked out your results

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2020 to 5 April 2021	£0	£0	£0	£0	£0
6 April 2019 to 5 April 2020	£54,046	£0	£60,000	£5,954	£0
6 April 2018 to 5 April 2019	£64,286	£0	£50,240	£0	£14,046
6 April 2017 to 5 April 2018	£66,855	£0	£42,569	£0	£24,286

For 2019/20, this member has an amount on which tax is due of £5,954.

What I should do – Step by step guide

Step 3 No tax charge

The HMRC online AA calculator confirms there is no amount on which tax is payable.

- Check you have input the correct figures.
- Breathe a sigh of relief.
- Print out the calculator results and retain. These will be useful should you need them in the future.
- No further action required.



Step 4 Tax charge

The HMRC online AA calculator confirms there is an amount on which tax is payable.

- Check you have input the correct figures.
- Print out the calculator results and retain. These will be useful should you need them in the future.
- Calculate the tax charge payable taking account of your marginal rate of tax. You can pay the tax charge directly to HMRC or if the charge is £2,000+ you can elect for 'Scheme Pays' and EPF will pay - see Steps 5 & 6.
- Your total taxable income for the year will be your taxable income for the year plus the amount on which tax is payable from the AA calculator results. It's possible two different rates of tax may need to be applied in order to calculate the tax charge payable.

In step 2, let's assume the member in the example had reduced net income for the year of £49,000. On the amount on which tax is payable (£5,954), a tax rate of 20% applies to £1,000 with the remainder being taxed at 40%.

2019/20 Income tax rates & thresholds		
Tax Rate (Band)	Taxable Income	Tax Rate
Basic Rate	£12,501 to £50,000	20%
Higher Rate	£50,001 to £150,000	40%
Additional Rate	Over £150,000	45%

Amount on which tax is payable = £5,954 Tax Charge = **£2,181** [(£1,000 x 20%) + (£4,954 x 40%)]

What I should do – Step by step guide

Step 5 Paying the tax charge yourself

If the tax charge is less than £2,000 or choosing to pay the tax charge yourself.

- Declare tax charge on your self assessment.
- Pay tax charge by following instructions at <https://www.gov.uk/pay-self-assessment-tax-bill>

Step 6 Scheme Pays option

If the tax charge is £2,000+ (EPF growth only) and interested in Scheme Pays.

- Send EPF a copy of the HMRC online AA calculator results and confirmation of the tax charge payable.
- EPF will provide details of the scheme pays pension deduction and the required election form(s).

Step 7 Choosing Scheme Pays

If choosing scheme pays.

- Complete and return the election form(s) to EPF by the deadline.
- Declare tax charge on your self assessment – still required even if choosing scheme pays.
- EPF pays the tax charge on your behalf and a permanent reduction will be applied to your pension at the point at which it is paid.
- The reduction does not affect the value of your survivors pension provision.

Any Questions?



That is all there is to it.

However should you have any questions about your PSS or Scheme Pays please send an email to:



Pensions.Technical@essex.gov.uk

For all other questions contact HMRC or consult with a financial/tax adviser.