

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 limit for pension growth.

This guide explains in simple terms what AA is all about and what action you need to take. 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 online HMRC 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 2022/23. (Increasing to £60,000 for 2023/24)
- 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.
- You pay a high level of additional contributions.
- You are a high earner.

How may I use carry forward?

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

How does Scheme Pays work?

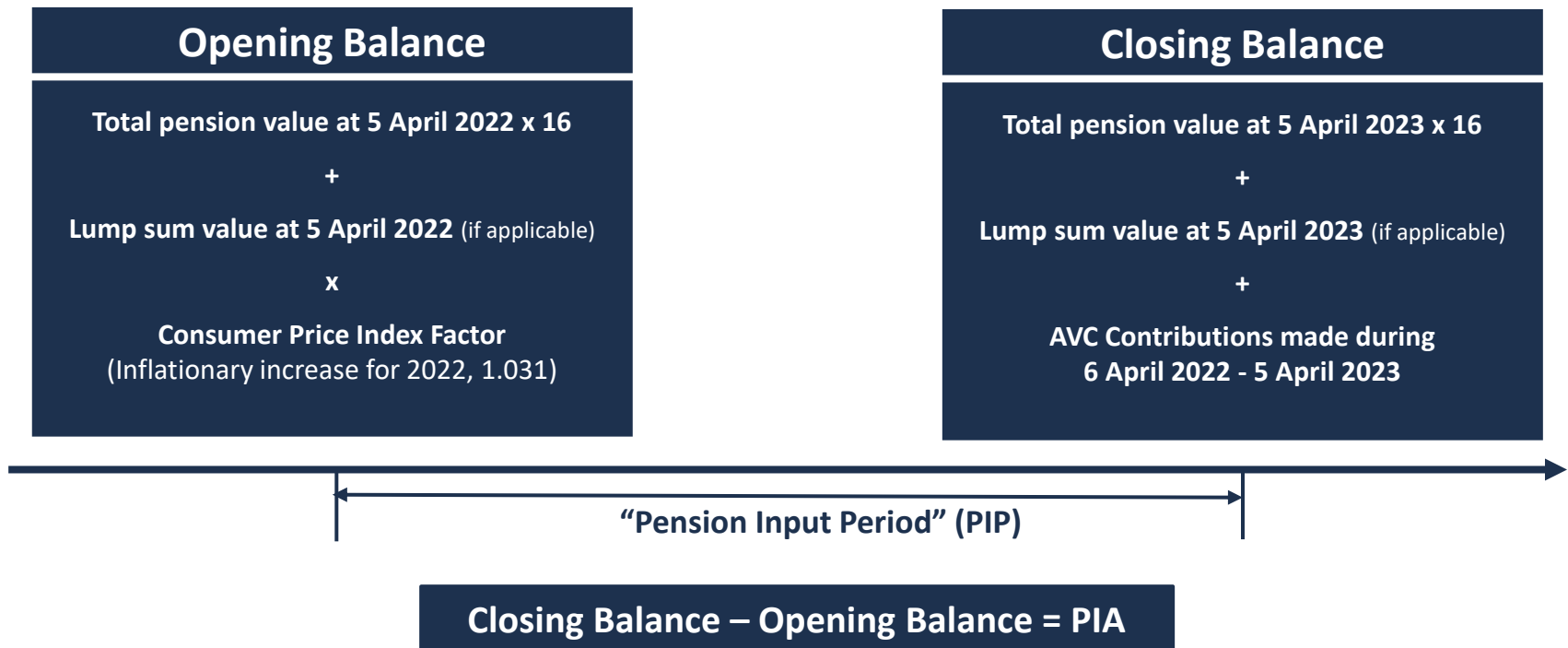
- Scheme Pays option if tax charge is £2,000 or more. (EPF growth only)
- You don't have to pay the charge yourself.
- EPF pay the charge.
- A reduction is applied to your pension when paid.

How is AA calculated in the LGPS?

The increase in the value of your pension savings each year is calculated by:

- working out the value of your benefits immediately before the start of the “Pension Input Period”.
- increasing that value by inflation, and
- comparing it with the value of your benefits at the end of the “Pension Input Period”.

The growth in pension savings is known as the Pension Input Amount (PIA).



An example of a LGPS PIA calculation

A member of the LGPS with Essex Pension Fund has 20 years membership in respect of service prior to 01/04/2014. Their final pensionable pay for 2021/22 was £66,000 and for 2022/23 it was £74,000. Their CARE Pay for 2022/23 was also £74,000 and during the year made additional voluntary contributions (AVC's) of £4,800. CPI for 2022 was 3.1%.

OPENING BALANCE 2022/23		£
Pre 2008 Pension	14/80 x £66,000	11,550
Post 2008 Pension	6/60 x £66,000	6,600
CARE Pension		9,850
Total Pension		28,000
Multiply pension by factor of 16		448,000
Add Lump Sum	14 x 3/80 x £66,000	34,650
Sub-total		482,650
Increase by CPI factor of 1.031		
OPENING VALUE		497,612.15

CLOSING BALANCE 2022/23		£
Pre 2008 Pension	14/80 x £74,000	12,950
Post 2008 Pension	6/60 x £74,000	7,400
CARE Pension		11,360
Total Pension		31,710
Multiply pension by factor of 16		507,360
Add Lump Sum	14 x 3/80 x £74,000	38,850
Sub-total		546,210
Add AVC contributions made in the year		4,800
CLOSING VALUE		551,010.00

The PIA for 2022/23 is £551,010 - £497,612.15 = £53,397.85

The member exceeds the £40,000 Annual Allowance limit for 2022/23 and will be sent a Pension Savings Statement from Essex Pension Fund in early October 2023.

Tapered AA for high earners

For high earners the AA limit is reduced on a tapered basis to a minimum of £4,000. This applies, if in the relevant tax year, your threshold income is more than £200,000 and your adjusted income is more than £240,000.

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

+

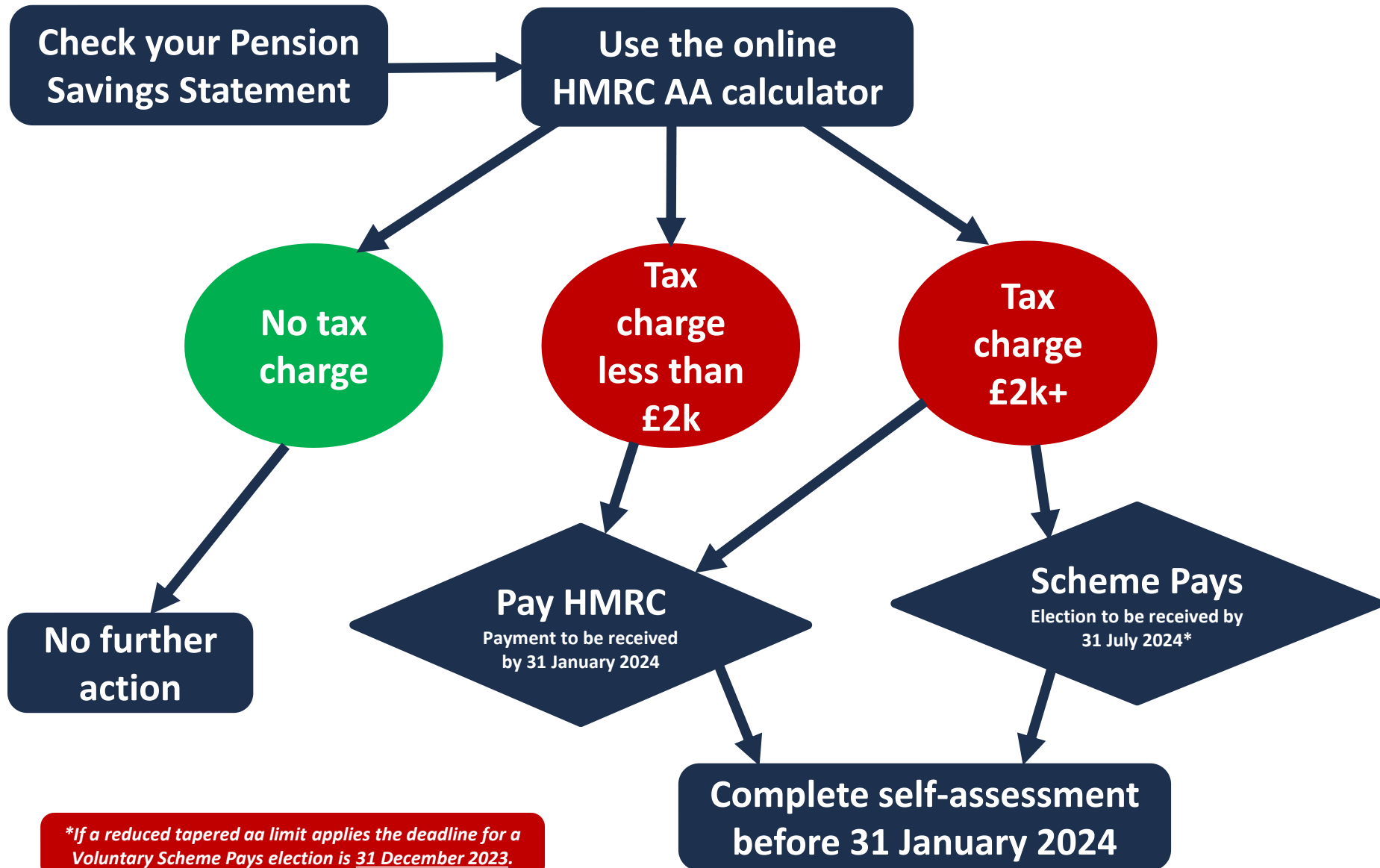
PIA Value

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

$$\text{Reduced AA Limit} = \text{£40,000} - \frac{(\text{Adjusted Income} - \text{£240,000})}{2}$$

(£4,000 Minimum)

What I should do – flowchart summary



**If a reduced tapered aa limit applies the deadline for a Voluntary Scheme Pays election is 31 December 2023.*

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 2023 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 online HMRC AA calculator

- The calculator is to be used to ascertain whether there is an amount on which tax is payable for 2022/23 taking into account any unused allowances you have from the 3 previous years.
- Before using the calculator, ensure you have your PIA values from 2017/18 to 2022/23. If during this period, you contributed to other registered pension schemes you will need to obtain your PIA values from your other pension providers.
- Open the calculator by visiting <https://www.tax.service.gov.uk/pension-annual-allowance-calculator>
- You are required to select / enter / answer;
 - when you flexibly accessed your pension savings from a defined contribution pension scheme – this only applies if you 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 2017/18 to 2022/23.
 - the type of pension schemes you contributed to (the LGPS is a Defined benefit pension scheme) and the applicable PIA for each. The PIA values to be entered should be rounded down to the nearest whole pound.
 - questions relating to Threshold & Adjusted Income. These questions are only applicable to ‘High Earner’ members whose taxable income exceeded £110k during 2017/18 to 2019/20 and £200k during 2020/21 to 2022/23.



What I should do – Step by step guide

Step 2

Use the online HMRC AA calculator (continued)

- Check your answers carefully before selecting 'calculate'.
- Having selected 'calculate' the results will be displayed. The results for other years can be misleading so just focus on the results for the period **6 April 2022 to 5 April 2023**. If there is a value in the section 'Amount on which tax is due' you **ARE** liable to a charge.

Screenshot example

6 April 2022 to 5 April 2023	
Your result	Amount
Available annual allowance	£72,000
Available money purchase annual allowance	£0
Pension savings	£93,000
Amount on which tax is due	£21,000
Unused annual allowance	£0

This person would be liable to a charge as they have a taxable excess in relation to Pension Savings of £21,000.

What I should do – Step by step guide

Step 3

No tax charge

The online HMRC 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 online HMRC 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 is your taxable income for the year plus the taxable excess amount. 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 £35,700. On the amount on which tax is payable (£21,000), a tax rate of 20% applies to £2,000 with the remainder being taxed at 40%.

2022/23 Income tax rates & thresholds		
Tax Rate (Band)	Reduced Net Income	Tax Rate
Basic Rate	£0 to 37,700	20%
Higher Rate	£37,701 to £150,000	40%
Additional Rate	Over £150,000	45%

Amount on which tax is payable = £21,000 Tax Charge = £8,000 [(£2,000 x 20%) + (£19,000 x 40%)]

If you are completing a self-assessment online, the tax charge will be worked out automatically for you.

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 the Pension Savings tax charge on your self-assessment.
- Pay the tax charge by following the governments 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 you are interested in Scheme Pays option.

- 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 Pension Savings 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.**

Should you have any questions about your PSS or Scheme Pays please email



pensions.technical@essex.gov.uk

For further information on AA visit the [government's website](#). Should you have any other questions contact HMRC or consider obtaining independent financial advice.

For help in choosing an independent financial advisor, visit the [MoneyHelper website](#).