SCOTTISH PUBLIC PENSIONS AGENCY

Annual Allowance Fact Sheet

In the SPPS the Annual Allowance (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 any other pension savings need to be added together.

From 6 April 2011 the limit was reduced to £50,000 a year and contributions made to pension savings above this limit are subject to tax at the individual's highest marginal rate. From the tax year 2014/15 the AA will reduce further to £40,000 a year.

The effects of AA changes

The majority of members will not be affected; however, it 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 £50,000 in any one year, for example due to an increase in salary, you may not have any extra tax to pay, depending upon your individual circumstances.

If your annual pension increases by more than £3,125, you may exceed the AA. If you are entitled to a pension and lump sum and these increase by more than £2,631, you may exceed the AA.

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.

Further information

Your total pension savings are subject to the AA test therefore any contributions you are paying to other registered pension schemes will also need to be included when calculating how much your pension has grown by in any one year. It is your responsibility to ensure that you include all pension savings in your calculations.

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.

Example

The Pension Input Amount (PIA) is the capitalised value of your pension and lump sum growth. To work it out you take the value of your pension at the start of the Pension Input Period (PIP) (plus an allowance for inflation) and subtract it from the value of your pension at the end of the PIP. It is the result of this calculation that is measured against the AA. A factor of 16 will be applied.

Start of PIP (01/04/2012)
Pension £10,000 + 5.2% inflation = £10,520

End of PIP (31/03/2013)
Pension =£12,000

Growth in Scheme Benefits
Pension = (£12,000 – £10,520) x 16 = £23,680

Unused AA (£50,000 – £23680) = £26,320

AA Charge Liability £0.00