Scottish Parliamentary Pension Scheme Information about the Transitional Rules for Annual Allowance in Tax Year 2015/2016

Please read the following information carefully

Background

Although there is no limit on the amount of pension savings that may be made in a registered pension scheme. There is a restriction on the amount of pension savings that can be made which are tax free. The annual allowance effectively limits the amount of tax relief available on pension accrual in defined benefit schemes and pension contributions to defined schemes.

The UK government reduced the annual allowance to £50,000 and amended their rules with effect from the 2011/2012 tax year. The annual allowance was then reduced again to £40,000 from 6 April 2014.

Tax Year	Annual Allowance
2010/2011	£255,000
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000

To determine if the annual allowance has been exceeded for a particular tax year, it is not simply the amount of contributions made or the accrual in that tax year that is taken into account. Instead, it is the total amount of pension growth, known as the pension input amount that is made during a pension input period, ending in the tax year.

In the SPPS , the pension input amount is calculated as the difference between the accrued benefits at the end of the year and the accrued benefits at the end of the previous year. The previous year's benefits are adjusted for inflation and the difference is then tested against the annual allowance.

Changes to the Annual Allowance

The Finance (No2) Act 2015 introduces two important changes to the annual allowance:

1.To adjust the pension input period during the 2015/2016 tax year so that all schemes becomes aligned with the tax year from 6 April 2016. Transitional rules have been brought in for the 2015/2016 tax year to make sure that pension savings up to £80,000 made before 9 July 2015 are protected from an annual allowance charge.

2.To taper the annual allowance for members who have a ‘threshold income’ of over £110,000 and an ‘adjusted income’ of £150,000 from 6 April 2016. Please refer to the factsheet tapered annual allowance

Tax Year	Annual Allowance
2015/2016	£80,000 (transitional rules apply)
2016/2017	£40,000 (unless tapering applies)

Transitional rules

The pension input period is the period over which Annual Allowance is measured. Up to, and including, tax year 2014/2015 the pension input period for the SPPS mirrored the scheme year and ran from 1 April to 31 March.

On 8 July 2015, the Chancellor made good his promise to raise the threshold for Inheritance Tax and to fund this tax change by restricting pension tax relief to high-income individuals. The mechanism to achieve this is to taper available annual allowance for the 2016/2017 tax year onwards for higher earning members. As a result transitional rules were brought in for the 2015/2016 tax year with the result that all registered pension schemes have to align pension input periods to tax years.

Pension input periods that were open on 8 July 2015 are to be treated as having ended that day and the next pension input period will run from 9 July 2015 to 5 April 2016. Members with active membership for these days will have two mini tax years each with separate pension input period in 2015/2016. Pension input periods will continue to exist from 6 April 2016 when they will permanently aligned to the tax year.

For tax year 2015/2016 the SPPS will have a pre-alignment tax year of 99 days from 1 April 2015 to 8 July 2015 and a post-alignment tax year of 272 days (including 29 February 2016) from 9 July to 5 April 2016.

Tax Year – 2015/16	Start of Pension Input Period	End of Pension Input Period	Days
Pre-alingment tax year	1 April 2015	8 July 2015	99
Post-alignment tax year	9 July 2015	5 April 2016	272

Members will have an annual allowance of £80,000 for the pre-alignment tax year, plus any a vailable carry forward of unused annual allowance from the previous three years, 2014/15, 2013/14 and 2012/13.

Savings from 9 July 2015 to 5 April 2016 will have a nil annual allowance, but up to £40,000 of any unused annual allowance from the pre-alignment tax year can be added to this, plus any annual allowance still unused from previous three tax years.

The combined period

The UK Government recognises that it would be unduly burdensome on defined benefit schemes to undertake a special one-off exercise to calculate members' Pension input Amount at 8 July 2015. Therefore, in schemes such as the SPPS, with an initial pension input period beginning on 1 April 2015, the pension input amounts for the pre- and post-alignment tax years will be proportion of the combined period amount.

Benefits will be calculated as normal at the end of the post-alignment period and will disregard any pensionable membership on 29 February 2016 (unless the employment started or ended on this date). However, HMRC has confirmed that when calculating the post-alignment tax year's pension input amount that 29 February 2016 must be included when apportioning, for this reason the number of days in the period 9 July 2015 to 5 April 2016 is 272.

The opening value of the member's benefits at the start of the combined period is uprated by 2.5% (the appropriate percentage), rather than a Consumer Price Index (CPI) increase for September 2014 which was 1.2%

New members

Members who join the SPPS at some time during the period 9 July 2015 to 5 April 2016 who were not a member of a registered pension scheme at any time during the period 1 April 2015 to 8 July 2015 will have an annual allowance of £40,000 for post-alignment tax year.

Deferred members

Where a member is not an active member of the SPPS between 1 April 2016 and 5 April 2016 the end of the pension input period will be 31 March 2016. This is relevant as it will change slightly the apportionment of the benefit accrual to the pre-alignment tax years.

A member who became a deferred member:

- Before 9 July 2015, has no pension input amount in the post-alignment tax year as it is all in the pre alignment tax year.

- After 8 July 2015, then the apportion for the post-alignment tax year is based on the number to the end of the pension input period.

Money Purchase Annual Allowance

From 6 April 2015 members who flexibly access define contribution pension savings, will trigger the money purchase annual allowance rules and may have a money purchase annual allowance of only £10,000.

If the £10,000 money purchase annual allowance limit is exceeded for the tax year, members will have a reduced £30,000 annual allowance for the remainder of their pension savings for that tax year. This reduced annual allowance in respect of the remaining pension savings is the alternative annual allowance.

If flexible access has occurred in the pre-alignment tax year, the money purchase annual allowance for savings during that period is £20,000, and the alternative annual allowance is £60,000.

The money purchase annual allowance for savings made during the post-alignment tax year is the amount of £20,000 that has not been used from the pre-alignment tax year, subject to a maximum of £10,000. The alternative annual allowance will be nil but again any unused annual allowance from the pre-alignment tax year and any unused annual allowance from the previous three tax years can be carried forward.

If flexible access occurs in the post-alignment tax year, the money purchase annual allowance for savings made during the post-alignment tax year is £10,000 and the alternative annual allowance will be up to £30,000.

Carry forward

Carry forward will continue to apply in the same way; any unused Annual Allowance from the three previous tax years can be carried forward to the current tax year.

However, there are special rules which apply for tax year 2015/16, the two mini tax years will be treated as one tax year for the purposes of calculating which years unused Annual Allowance can be carried forward.

For the pre-alignment tax year, carry forward will therefore be available for any unused Annual Allowance from 2012/13, 2013/14, 2014/15.

For the post-alignment tax year, carry forward will be available for any unused Annual Allowance from these same three tax years where it hasn’t been used up by the pre-alignment tax year, plus the limited carry forward, of up to £40,000, from the pre-alignment tax year.

For the three tax years after 2015/16, carry forward will be available for:

- 2016/17 - from 2013/14, 2014/15 and the pre-alignment tax year.

- 2017/18 from 2014/15, the pre-alignment tax year and 2016/17.

- 2018/19 from the pre-alignment tax year, 2016/17 and 2017/18.

Annual Allowance Charge in 2015/16

An Annual Allowance Charge will be the total charge arising from either the pre and post-alignment tax years, or both. This should be reported by the member to HMRC as one combined tax charge.

Pension Saving Statement timescales for 2015/16

Affected members should receive a Pension Saving Statement by 6 October 2016 provided the employer has supplied the relevant information by 6 July 2016.

Members who flexibly access defined contributions pension savings will be notified by their pension provider and must notify SPPS within 91 days of receiving the notification. This will assist SPPS administration team in identifying members with an alternative Annual Allowance when issuing statements.

A reminder of who is more likely to be affected by the Annual Allowance

The majority of members will not be affected by the Annual Allowance. However, any of the following could impact on the amount of pension growth in the SPPS;

- a significant pay rise, possible due to promotion
- a transfer in from a defined benefit pension scheme
- a purchase of Added Years and/or Additional Pension, in particular a purchase by single payment on or after 1 April 2011;
- an ill health retirement where the cost of any outstanding Added Years or Additional Pension is waived;
- contributions paid to another pension saving arrangements

Questions?

If you have any questions about the information contained in this factsheet, please contact SPPA at
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