

Taxation Factsheet

This factsheet is designed for the use of the Scottish NHS, Teachers', Police and Firefighters' Pension Schemes and can be read in conjunction with the member's guides

Taxation

The UK Government restricted the amount that you can build up towards your pension and benefit from tax relief. Below is a summary of the main changes which formed 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 - Lifetime Allowance (LTA).

Annual Allowance (AA)

AA is calculated as the growth in your benefits during the reporting year. The AA limit covers all your pensions, except your state pension, therefore all other pension savings need to be added together.

The table below shows the AA limits from 2011

Tax Year	Annual Allowance
2011/12	£50,000
2012/13	£50,000
2013/14	£50,000
2014/15	£40,000
2015/16	£80,000
2016/17	£40,000
2017/18	£40,000

Exceeding the Annual Allowance

If you exceed (breach) the AA in any one tax year you can see if you have any unused allowance from the three previous years to offset the breach. 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 AA of £40,000 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, dependent upon your individual circumstances.

Using the AA limit of £40,000. If you are entitled to a pension only and this increases by more than £2500.00, you will exceed the AA. If you are entitled to a pension and a 3/80th lump sum and the pension increases by more than £2105.26, you will exceed the AA.

The AA will remain at its current level of £40,000 for defined benefit schemes such as the NHS, Teachers, Fire and Police schemes, but this could reduce if a member accesses pension flexibilities on or after 6 April 2015 and they have exceeded the Money Purchase Annual Allowance. More details can be found at [Annual Allowance](#).

From April 2016 the Pension Input Period changed for all schemes to align with the tax year. More details on these important changes to the AA including the transitional rules for 2015/16 and the tapered AA from 2016/17, again more details can be found at [Annual Allowance](#)

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)).
- enhanced benefits through ill health retirement *

*Members who are retired through ill health and are awarded Upper Tier (NHS), Total Incapacity benefits (Teachers) and Upper Tier/enhanced ill health (Police and Fire Schemes) 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.

You will be due any excess over the AA at your marginal rate of income tax and you are required to declare your this amount on your tax return. Any monies due should be paid in line with the self-assessment deadline, unless you are eligible to elect for scheme pays.

Options if the AA is exceeded

If you exceed the AA and your total tax liability is less than £2,000, you must pay your tax charge directly to HMRC.

If you exceed the AA and your total tax liability is in excess of £2,000 you can ask the scheme to pay part or the whole of the amount to HMRC on your behalf. The mandatory requirement for scheme pays are applied by SPPA, exceeding the AA and only to pay the 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. Please see the [Scheme Pays Factsheet](#).

Lifetime Allowance

The LTA is the total amount you can build up from all your pension savings in your lifetime without incurring a tax charge. From April 2018 the LTA will increase from £1m to £1,030,000.

The effects of LTA changes

Using the LTA of £1 million, if you have a pension in excess of £43,478 plus a 3/80th lump sum, you will be affected. If you have a pension (before taking any lump sum) in excess of £50,000, you may be affected.

The above figures only apply to your main scheme benefits. If you have any other pension savings in addition to these (including money purchase or Additional Voluntary Contributions (AVCs)) you will need to take these into account.

Exceeding the Lifetime Allowance

If you are over the limit, tax on the excess is charged at:

- 25% on your pension in excess of your personal LTA
- 55% on your lump sum

However, the tax free lump sum is the lower of 25% of the:

- remaining capital value or,
- standard LTA based on:
 - £1.8m for Fixed Protection;
 - £1.5m for Fixed Protection 2014, Primary Protection and Enhanced Protection;
 - £1.25m for Fixed Protection 2016;
 - The value of your LTA as at 5 April 2014;
 - The value of your LTA as at 5 April 2016.

The pension commencement lump sum automatically crystallises before the pension therefore using any available LTA first.

Benefit Crystallisation

For the purposes of the LTA, your benefits crystallise on the date you had an actual right to receive your benefits. This date is the latter of:

- the payable date or
- the date benefits are actually authorised by SPPA

You will need to declare any charge to HMRC. Please see the HMRC website: hmrc.gov.uk for details on self-assessment.

The reduction in LTA may result in:

- a bigger percentage of the LTA being used up
- LTA charges being applied to a later benefit crystallization, including revised awards because there is insufficient LTA remaining
- high earning scheme members may become subject to LTA charges or see those charges increase

Protection

Details on all types of LTA protection, including how to apply for Individual Protections (IP) 2014, IP 2016 and Fixed Protection 2016, can be found on the HMRC website at: <http://www.hmrc.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>

Applications for IP 2014 must be received no later than 5 April 2017. **Recycling**

Recycling of a lump sum is considered by HMRC to be an unauthorised payment and occurs where an individual receives a Pension Commencement Lump Sum (PCLS) and:

- because of the PCLS the amount of contributions paid in to another registered pension scheme in respect of the individual is significantly greater than it would be otherwise; and
- the additional contributions are made by the individual or by someone else, such as the employer; and
- the recycling is planned; and
- the amount of the PCLS, taken together with any other such lump sum taken in the previous 12 month period, exceeds 1% of the standard LTA prior to this date); and
- The cumulative amount of the additional contributions exceeds 30% of the PCLS.

If you recycle your PCLS then you or your representative must notify SPPA.

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 AA and LTA 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.

Questions?

If you have any questions about the information contained in this factsheet, please contact SPPA at 7 Tweedside Park, Tweedbank, Galashiels TD1 3TE.

