Annual Allowance Factsheet

What is the Annual Allowance?

The **Annual Allowance** is a limit set by the Government on the amount of pension savings that an individual can make **tax free** into all registered pension schemes that they are a member of in each tax year. There is also a reduced Annual Allowance for high earners from 6 April 2016 and a 'money purchase' Annual Allowance.

Tax year	**Standard Annual Allowance**
2010/11	£255,000
2011/12	£50,000
2012/13	£50,000
2013/14	£50,000
2014/15	£40,000
2015/16	£40,000[1]
2016/17 to 2022/23	£40,000
2023/24 onwards	£60,000

[1] The 2015/16 tax year was split into two 'mini tax years'. In practice, individuals had a new £40,000 Annual Allowance for the period 9 July 2015 – 5 April 2016, in addition to their pension savings from 6 April 2015 – 8 July 2015.

Tapered Annual Allowance for High Earners
There is a tapered Annual Allowance for high earners [2]. From 6 April 2023 for every £2 of income over £260,000, the £60,000 Annual Allowance will reduce by £1, down to a minimum of £10,000 (for incomes of £360,000 or more) [3]. See further below. [2] Those with total income sources (including employee and employer pension contributions) above £260,000. [3] Between 6 April 2016 and 5 April 2020 the tapered Annual Allowance reduced to a minimum of £10,000 for income over £210,000. Between 6 April 2020 and 5 April 2023 the tapered Annual Allowance reduced to a minimum of £4,000 for income over £312,000.

Money Purchase Annual Allowance
2016/17: £10,000 **2017/18 to 2022/23**: £4,000 **2023/24**: £10,000 Individuals who 'flexibly access' money purchase benefits are subject to a £10,000 allowance for future money purchase savings (leaving £50,000 towards defined benefit savings if the £10,000 is used). Flexible access is triggered in a number of scenarios, including taking your fund as a cash lump sum known as an UFPLS (see further below).

The Annual Allowance is measured over a twelve month period from **6 April – 5 April** known as the **pensions input period**.

The amount of pension savings an individual makes is based on the value of your contributions and the Employer contributions paid into FuturePlanner during the pension input period. The amount of savings in each pension input period is known as the **pension input amount**.

The total amount of pension savings in a tax year is determined by adding together the pension input amounts for all registered pension schemes you are in during that tax year.

How is the pension input amount worked out?

For **defined benefit arrangements**, the pension input amount is calculated as:

16 x (Your benefits valued on the last day of the pension input period less Your benefits valued on the first day of the pension input period, uplifted by the annual increase in Consumer Prices Index (CPI)*)

* The annual increase in CPI will be measured against the rate of increase in the previous September.

For **defined contribution** arrangements, i.e. your **FuturePlanner contributions** the calculation of the pension input amount is the total contributions paid into the arrangement during the pension input period.

If you have defined benefit and defined contribution benefits in any one pension input period, the value of each is worked out and then added together. Similarly, if you are accruing benefits in more than one scheme, the amounts for each scheme should be worked out and then added together.

What happens if my pension savings exceed the Annual Allowance?

If your pension savings in all schemes exceed the **Annual Allowance** in a tax year, you can look at the last three tax years to see if there is any unused Annual Allowance that can be carried forward into the current tax year.

If the amount of your pension savings is **less than** the combined total of the Annual Allowance and the amount of unused Annual Allowance in the last three tax years, **no further action is required**.

If the amount of your pension savings **exceeds** the combined total, the amount that exceeds the combined total is **subject to an Annual Allowance charge**.

The Annual Allowance charge is payable at the actual rate of tax that you pay under PAYE.

How do I know if this will affect me?

Your **annual benefit statement** provides you with an estimate of the Annual Allowance you have used with FuturePlanner each year, based on the standard Annual Allowance amount. The Scheme Administrator, XPS does not have access to details of any other pension savings you have made, or the total income you receive, and it is **your responsibility** to ensure that if you exceed the Annual Allowance (including where you are subject to the tapered Annual Allowance or Money Purchase Annual Allowance) that you declare this to HMRC via a self-assessment tax return. We recommend you seek independent financial advice.

Benefits you may have in **other pension schemes** which you have not been an active member of during the year i.e., not contributing into, for example from previous employment, are not normally counted.

How does the Tapered Annual Allowance for High Earners work?

The Annual Allowance is tapered for members who have a ‘Threshold Income’ in excess of £200,000 and ‘Adjusted Income’ in excess of £260,000.

Income	Definition	Limit
Threshold Income	Broadly your taxable income after the deduction of your pension contributions (including AVCs).	£200,000

Adjusted Income	Broadly your threshold income plus pension savings built up over the year.	£260,000

Threshold income includes all sources of income that are taxable e.g. salary, self- employment income, property income, savings income, dividend income, pension income (your pension input amount as detailed above), social security income (where taxable), other pension income (including state pension), etc.

For every £2 that your Adjusted Income exceeds £260,000, your Annual Allowance is tapered down by £1 (to a minimum of £10,000).

Adjusted Income	Annual Allowance
£260,000 or below	£60,000
£270,000	£55,000
£280,000	£50,000
£290,000	£45,000
£300,000	£40,000
£310,000	£35,000
£320,000	£30,000
£330,000	£25,000
£340,000	£20,000
£350,000	£15,000
£360,000 or above	£10,000

How does the Money Purchase Annual Allowance work?

If you had any benefits in a money purchase (defined contribution) pension arrangement which you have flexibly accessed on or after 6 April 2015 then the Money Purchase Annual Allowance rules may apply. However, the Money Purchase Annual Allowance will only apply if your total contributions to a money purchase arrangement in a tax year exceed the Money Purchase Annual Allowance.

Generally, if you have flexibly accessed any benefits in a money purchase arrangement on or after 6 April 2015, any further contributions you make to a money purchase arrangement in subsequent tax years will be tested against the Money Purchase Annual Allowance.

If your contributions exceed the Money Purchase Annual Allowance defined benefit savings will be tested against the alternative Annual Allowance (set out below) and you will pay a tax charge in respect of your money purchase savings in excess of the Money Purchase Annual Allowance.

Tax Year	Money Purchase Annual Allowance	Alternative Annual Allowance if Money Purchase Annual Allowance is exceeded
2016/17	£10,000	£30,000
2017/18 to 2022/23	£4,000	£36,000
2023/24 onwards	£10,000	£50,000

Special transitional rules applied for the tax year 2015/16 – contact XPS for more information, if applicable.

If you have flexibly accessed pension benefits you will be provided with a flexible access statement; you should provide XPS with a copy of this statement.

What is flexible access?

Flexibly accessing means taking a cash amount over the 25% tax free limit, for example taking an Uncrystallised Funds Pension Lump Sum (UFPLS) from your DC fund, taking an UFPLS from another pension arrangement (including through income drawdown), or purchasing a flexible annuity.

How would I pay an Annual Allowance tax charge?

If you accrue an Annual Allowance tax charge in any year you are responsible for reporting this to HMRC on a self-assessment tax return, even if you don't normally complete one. XPS is obliged to notify you if your FuturePlanner contributions exceed the standard Annual Allowance in a year. They will inform you no later than the 6 October following the end of the tax year (via a Pensions Saving Statement). However, they are not obliged to inform you if you exceed the lower Tapered Annual Allowance as the pension scheme does not have details of your income from all sources.

If you have an Annual Allowance tax charge from your FuturePlanner contributions alone you may be able to opt for the Scheme to pay some or all of the tax charge on your behalf. The tax charge would then be recoverable from your pension benefits. This is known as 'Scheme Pays' method.

If you want the Annual Allowance tax charge paid from your retirement savings within FuturePlanner you must notify XPS. Your Pensions Savings Statement will detail the deadlines.

However, XPS will not be aware if you have exceeded the Tapered Annual Allowance. If you have exceeded the Tapered Annual Allowance and wish to use "Scheme Pays" method you must inform XPS by the 5 November following the end of the tax year.

Also, if you are retiring (and drawing your pension benefits) and want to pay some or all of your Annual Allowance tax charge from your Pension savings, you must tell XPS before you become entitled to your pension.

Finding out more

You can find more details on the HM Revenue & Customs website at https://www.gov.uk/tax-on-your-private-pension

If you do not already use a financial adviser, www.unbiased.co.uk can give you details of an Independent Financial Adviser (IFA) in your area. Before you contact an IFA, you should read the guide to financial advice which you can find along with other useful information at: www.moneymadeclear.org.uk or telephone 0300 500 5000 (call rates may vary).