

Pensions Tax changes factsheet

Introduction

The Government has formally confirmed the restrictions to the amount that you can build up towards your pension and benefit from tax-relief. Below is a summary of the main changes.

There are two restrictions that can apply to your pension savings. The restrictions are on:

- the amount you can increase your pension value by in any one year – the annual allowance; and
- the amount you can have as a total value from all your pension savings in your lifetime – the lifetime allowance.

What is the annual allowance?

In the NHS Pension Scheme the annual allowance is commonly worked out by the growth in your benefits in a year. The annual allowance limit covers all your pensions, except your State pension, so your other pension savings also need to be added.

The current limit is £255,000 for the tax year 2010/11. This has reduced to £50,000 a year from 6 April 2011.

How will the change to the annual allowance affect me?

The vast majority of NHS Pension Scheme members will not be affected. Early indications are that the changes will primarily affect high earners (those earning over £150,000 a year). But, this can vary depending on the length of pensionable service and the rate of pensionable pay increase in any particular year.

This calculation will be carried out each year.

What happens if I exceed the annual allowance?

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.

What is the lifetime allowance?

The lifetime allowance is the total amount that you can build up from all your pension savings in your lifetime without incurring a tax charge. It is currently £1.8 million. However, the Government has announced that this will reduce to £1.5 million from April 2012.

How will the reduction in the lifetime allowance affect me?

If you are in the 1995 Section and you have a pension in excess of £65,217 plus your standard lump sum, you may be affected.

If you are in the 2008 Section and have a pension (before taking any lump sum) of £75,000, you may be affected.

The above figures are only for your NHS Pension Scheme amounts. If you have any pension savings in addition to these (including money purchase Additional Voluntary Contributions (AVCs)), you will need to take these into account.

What happens if I am over the limit?

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

- 55% on your lump sum; and

- 25% on your pension.

Where can I find out more?

This is a very complex area and the details are still being considered. We cannot give you financial or tax advice and if you need this you should speak to a professional adviser. We will be developing more information for Scheme members and this will be available on the website www.nhsbsa.nhs.uk/pensions

You can also read more about the annual allowance on the HMRC website www.hmrc.gov.uk/pensionsschemes