

## The annual allowance (AA)

The Annual Allowance (AA) is the maximum tax-free increase in the capital value of a member's pension benefits, allowable in any one year. If the growth in the capital value of the benefits is greater than the AA the member will be liable for an additional tax bill.

The AA has been set at £255,000 for the tax year 2010/11.

Anyone exceeding the AA will need to complete a self-assessment income tax return for HMRC. Those members that exceed the AA will be liable for the Annual Allowance Charge, which is 40% of the capital value in excess of the AA.

The following count towards the AA:

- Increases in the capital value of salary-related pensions, like the NHS Pension Scheme (NHSPS), including lump sums for active members and added years, whether due to pensionable pay increases, normal build-up or augmentation.
- Contributions made by the member or employer to money purchase arrangements (including money purchase AVC's).

For the NHS Pension Scheme the growth in the capital value of the benefits is the difference between the benefit build-up at the start of the year and the benefit build-up at the end of the year. This period is called the pension input period.

### Pension input period

The NHSPS has chosen, in consultation with HMRC, the period 1 April to 31 March as the pension input period. This is the period over which the annual allowance usage will be measured. NHS Pensions can provide valuations for this period only. If you or another pension provider has chosen a different pension input period, then you will need to adjust the figures sent to you from NHS Pensions.

More information about this adjustment can be found at:

<http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm06105000.htm>

If you recently joined the NHSPS then your first pension input period will be from the day you joined the NHSPS to the following 31 March. Each subsequent pension input period will be from 1 April to 31 March.

### Opening value and closing value

When an annual allowance calculation is completed, the capital value of the member's benefits at start of the pension input period is compared with the capital value of the member's benefits at the end of the pension input period.

The capital value at the start of the pension input period is called the 'opening value'. The capital value at the end of the pension input period is called the 'closing value'.

### Capital value

The capital value of the pension is found by multiplying it by 10 and adding any lump sum.

### Exemptions

There can be exemptions from the annual allowance in the following circumstances:

The following will not count towards the AA:

- Contributions for death in employment benefits (unless part of the 'ordinary' contributions to a money purchase arrangement).
- Any member contributions not qualifying for tax relief.

## How do I tell if I am likely to be affected?

The AA is currently set at a level that will not adversely affect most NHSPS members.

Those who are already high earners with long NHSPS membership who:

- Receive a significant pay increase during the pension input period; and/or
- Make a very large contribution to another pension provider during the pension input period

may be at risk of exceeding the AA.

### Important note:

- The AA test does not apply to those who have enhanced protection provided the conditions of the enhanced protection apply throughout the tax year being considered for an annual allowance charge see:

[www.hmrc.gov.uk/manuals/rpsmmanual/rpsm06100110.htm](http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm06100110.htm)

The examples below illustrate how the AA is tested for a salary-related scheme, like the NHS Pension Scheme. They do not reflect actual pay increases, and are provided for illustration purposes only.

*This document reflects current law and practice as at October 2010*

### Important Note

HM Treasury have announced that the annual allowance will reduce to £50,000 from April 2011 and that the factor used to determine the capital value of the pension will increase from 10 to 16. The opening value will also be increased by the consumer prices index. Further information on the annual allowance can be found at: [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions)