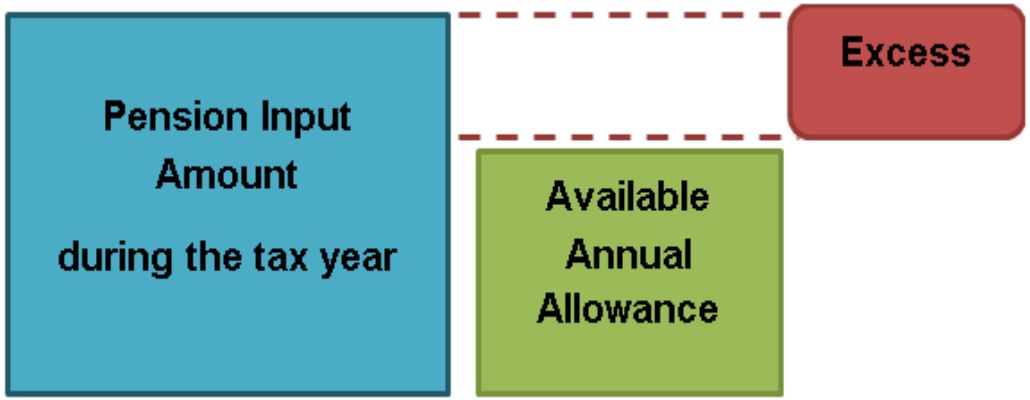
NHS
Business Services Authority

Pensions and Tax

An overview of annual allowance and lifetime allowance

Annual Allowance

- Limits the amount pension savings can grow tax-free during a pension input period (a tax year, prior to 2015/16 this was a scheme year).
- Standard annual allowance is currently £40,000.
- From 6 April 2016, a tapered reduction introduced that lowered the standard annual allowance from between £40,000 and £10,000.
- Facility to carry-forward any unused annual allowance from the previous three tax years to absorb excess pension savings in the relevant tax year.
- Tax year 2015/16 had a one-off standard annual allowance of £80,000 as the pension input period transitioned from a scheme year to a tax year.
- Annual allowance charge payable on the excess if the total pension input amount is more than the available annual allowance.



Why members can be affected by annual allowance?

- net income of more than £110,000;
- significant pay rise, possibly due to promotion or a clinical excellence award;
- low inflation;
- pensionable earnings of more than £135,000 in the 2015 Scheme;
- change in employment status from Officer to Practitioner;
- transfer in under Club terms along with a significant pay rise;
- purchase of added years or additional pension;
- Tier 2 addition as part of a ill health pension;
- ill health (Tier 1 or Tier 2) retirement and the cost of any outstanding added years or additional pension is waived;
- any contributions paid to other pension arrangements, including the NHS MPAVC Scheme.

Determining if they have an annual allowance charge

Members can determine if they have an annual allowance charge to pay by working through the steps below.

Step 1 – work out their total pension input amount during the relevant tax year.

Step 2 – determine what their available annual allowance limit is.

Step 3 – assess if they have any unused annual allowance to carry forward.

Step 4 – determine if there is an annual allowance charge.

Step 5 – decide how to pay the annual allowance charge.

Step 1 - Work out their total pension input amount during the relevant tax year

Employers

- NHS Pensions relies on employers for annual updates of pensionable service and pensionable earnings so we can calculate the pension input amount for our members each year.
- Employers have until 6 July to update us with the end of scheme year updates – you should have updated us with 2018/19 by 6 July 2019.
- HMRC can impose fines of £300 for each member not updated, plus additional fines of £60 a day until we receive the update – employers liable for these fines not NHS Pensions.
- Ensure the updates you send us are correct – incorrect data could lead to a tax charge.
- Guidance and not advice, it's important to remember that:
  - tax is the member's personal responsibility;
  - the NHS Business Services Authority and employers can't advise on tax liability calculations; and
  - members may wish to seek the services of a tax adviser if they are concerned about the annual allowance.

Error - 1995/2008 Scheme hours

- The employer incorrectly inserted a ‘dummy’ 1 hour instead of changing the member’s employment to full-time.

Emp ID	Start Date	End Date	Part-Time Hours	Data Quality Comment
2	01/04/2018	31/03/2019	**1.00**	** has been w/t since 01/04/2018
2	01/04/2017	31/03/2018	1795.00	
2	30/05/2016	31/03/2017	1351.00	

- The mistake has repercussions for the member’s NHS benefits, at the end of the tax year:
  - NWT pensionable pay - £23,792,548.26
  - pension - £2,167,403.37
  - pension input amount - £34,619,781.82

Your pension input amount in the relevant tax year is:

Pension Input Period Start	Pension Input Period End	Standard Annual Allowance (across all of your pension schemes)	Pension Input Amount (Growth) in the 1995/2008 NHS Pension Scheme
06/04/2018	05/04/2019	£40,000.00	£34,619,781.82

Error - 2015 Scheme pensionable earnings

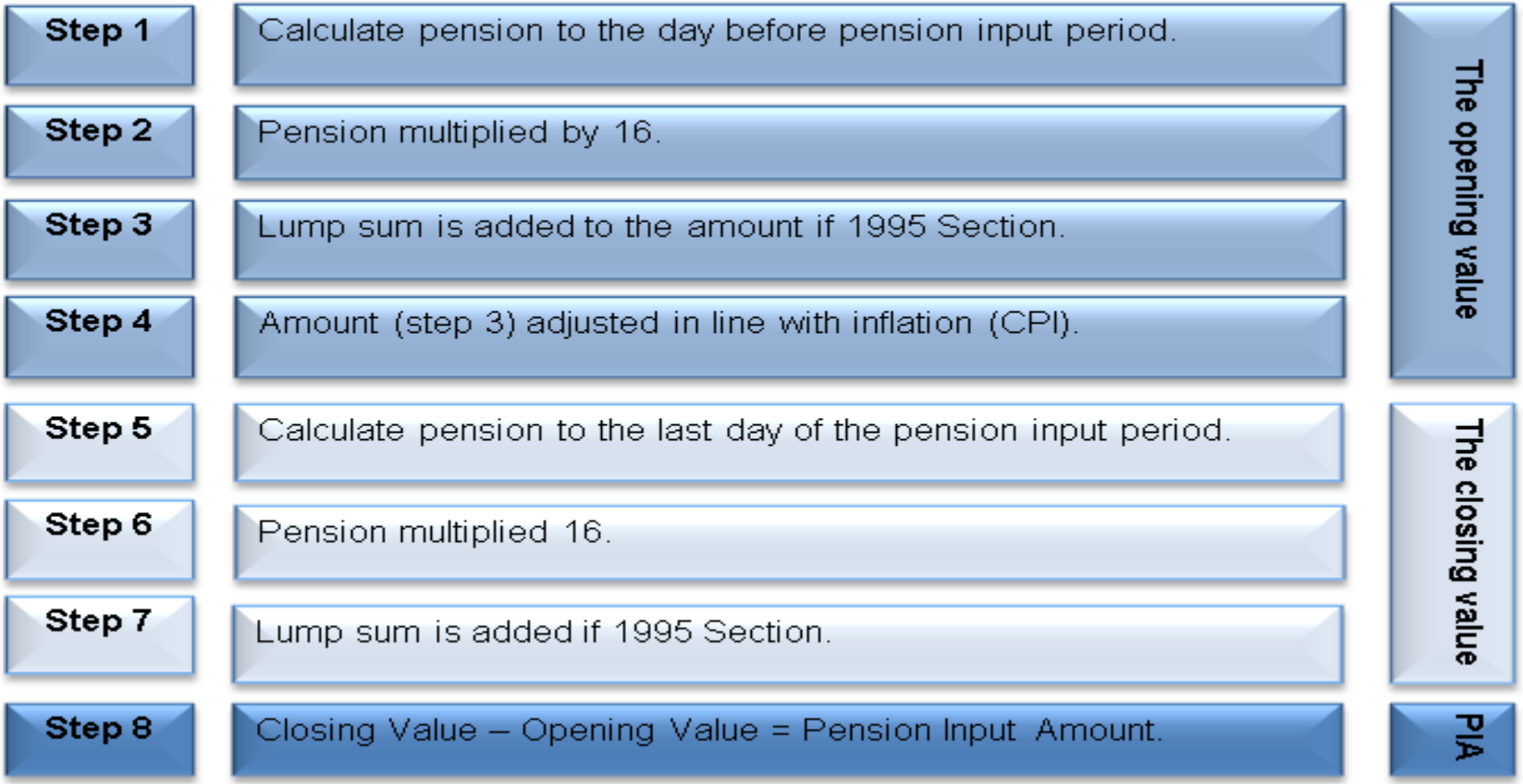
- The employer mistakenly added an ‘8’ to the employer pay.

Scheme Year	Opening Balance	2015 Pension	Employer Pay	Closing Balance	Index Adjustment
2018/2019	£21,071.85	£1,837.00	£99,198.00	£22,908.85	3.9000
2017/2018	£18,364.60	£1,799.85	£97,191.76	£20,164.45	4.5000
2016/2017	£1,437.63	£16,479.05	**£889,868.88**	£17,916.68	2.5000
2015/2016	£0.00	£1,417.78	76,559.93	£1,417.78	1.4000

- The mistake has repercussions for the member’s NHS benefits, at the end of the tax year:
  - pay - £889,868.88
  - pension - £16,479.05
  - pension input amount - £297,445.44
- What it should have been:
  - pay - £89,868.88
  - pension - £1,664.24
  - pension input amount - £27,864.64

Calculating the pension input amount

The pension input amount is the difference between the value of factorised benefits at the beginning, **the opening value**, and the end, **the closing value**, of the pension input period.



Pension savings statement - distribution

NHS Pensions provides a pension savings statement in the following circumstances – as long as we have correct updates from you:

- Pension input amount is more than the standard annual allowance - this includes the combined amount across the 1995/2008 and 2015 Schemes.
- Member, or a third party, has requested a pension savings statement - this is called an ‘on demand’ statement.
- Member, or a third party, has requested a revised statement due to a notification of amended data from the employer.
- Member is retiring because of ill health - Tier 2 or added years or additional pension contract being waived.
- Member is a medical, opthalmic or dental practitioner - a significant number may have pension savings in other pension arrangements outside the NHS Schemes.

Pension savings statement - deadlines

NHS Pensions must provide an automatic pension savings statement, if the pension input amount is more than the standard annual allowance by 6th October, following the end of the relevant tax year.

- We must provide an on demand statement by the later of: three months of the date of request or 6th October.
- Deadlines are extended if employer updates are not with us by 6th July. New deadline is three months of us receiving the update.
- We can't provide statements to GPs until we have certified pensionable earnings confirmed – this can be up to 10 months later than officers.
- Statements include the pension input amount for the relevant tax year as well as for the three previous tax years.
- We also provide automatic statements from the NHS MPAVC Scheme.
- Members who were active in other pension arrangements and who do not receive a statement should contact their scheme administrator to request an on demand statement.

Step 2 – determine what the annual allowance limit is.

Tapered annual allowance

- A threshold income of more than £110,000 and an adjusted income of more than £150,000 will result in a tapered annual allowance.
- Members with a threshold income of £110,000, or less, don't have a tapered annual allowance, no matter how much adjusted income they have.
- Threshold income is taxable income from employment, property, investments less their pension contributions – this is net income. It gets more complicated if they are part of a salary sacrifice arrangement or are a beneficiary of a lump sum on death.
- Adjusted income is all net income plus employer pension contributions. However, in a defined benefit schemes, like NHS Scheme, the value of the employer contribution is the total pension input amount less member pension contributions.
- Taper is £1 for every £2 of adjusted income over £150,000, maximum taper is £30,000. An adjusted income of £210,000 or more leaves a tapered annual allowance of just £10,000.
- More information on how to calculate the adjusted/threshold income at: **www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance**

Alternative annual allowance

Members can have an alternative annual allowance if they have a money purchase annual allowance in respect of their money purchase benefits.

- The money purchase annual allowance:
  - was £10,000 before 6th April 2017; and
  - is £4,000 from 6th April 2017.
- The trigger for a money purchase annual allowance is:
  - flexibly accessing money purchase benefits after 5th April 2015; and
  - paying more than £4,000 pension contributions (from 6th April 2017) to a money purchase scheme – this includes the NHS MPAVC Scheme.
- The alternative annual allowance:
  - was £30,000 before 6th April 2017; and
  - is £36,000 from 6th April 2017.
- Members can have a tapered annual allowance and an alternative annual allowance – this give them a reduced annual allowance of just £6,000.

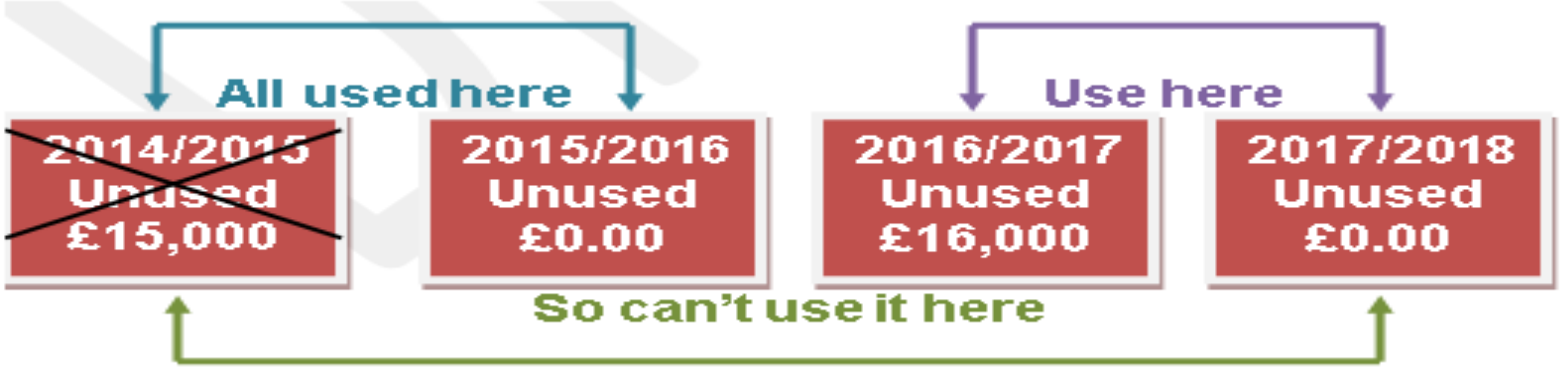
Step 3 – assess if there is unused annual allowance to carry forward.

Carry forward (1)

- If total pension input amount, in any of the last three tax years, is less than the annual allowance for that year there is unused annual allowance.
- For each tax year members need to determine the:
  - total pension input amount by adding together all the pension input amounts from all their pension schemes; and
  - their available annual allowance, this could be standard, tapered or alternative.
- Unused annual allowance from the earliest of the three tax years must be used first, followed by the middle year and the year before the relevant tax year.

Carry forward (2)

- Can’t re-use annual allowance from a tax year if it has already been used to absorb excess pension input amount for a previous relevant tax year.



- If it’s not completely been exhausted and the tax year is still within the last three years they can carry forward any remaining unused amount.

- Unused annual allowance is added to their annual allowance (standard, tapered or alternative) for the relevant year to find the total amount of annual allowance available to them.

Step 4 – determine if there is an annual allowance charge.

Determine if there is an annual allowance charge

- Members are responsible for calculating if they have an annual allowance charge.
- Calculated by adding the excess pension input amount to their taxable income for the tax year, and applying tax at their appropriate marginal rate – 20%, 40% or 45% can span two or more income tax bands.
- Members living in Wales or Scotland have different income tax rates.
- There is no annual charge if, during the relevant tax year, a member:
  - retires on Tier 2 ill health and meets HMRC's severe ill-health condition (SIHC) – similar to a Tier 2 plus;
  - dies; or
  - was a deferred member for the entire tax year..
- They must decide how to pay their annual allowance charge, they can:
  - pay it directly to HMRC; or
  - ask their NHS Scheme(s) to pay it using the scheme pays facility.

Step 5 – decide how to pay the annual allowance charge

Member pays

- Members can pay some, or all, of their annual allowance charge themselves as part of their normal income tax bill by 31st January, following the end of the relevant tax year i.e. 2018/19 by 31st January 2020.
- HMRC charge interest if the charge is paid after 31st January.
- Whether members pay the charge or they elect for scheme pays it must be reported to HMRC on their self-assessment tax return.
- To do this they will need the Pension Scheme Tax Reference (PSTR) number of the NHS Scheme:
  - 1995/2008 Scheme – 00328820RJ
  - 2015 Scheme – 00820574RJ
  - NHS MPAVC – 00328923RA

Mandatory scheme pays

- NHS Schemes must provide a mandatory scheme pays facility.
- Only available if:
  - the pension input amount, in either the 1995/2008 Scheme or the 2015 Scheme is more than the standard annual allowance;
  - the annual allowance charge for the tax year is more than £2,000; and
  - we receive the scheme pays election (SPE2) by the deadline.
- The maximum charge we can pay by mandatory scheme pays is based on that part of the pension input amount that is more than the standard annual allowance.
- The NHS Business Services Authority (NHSBSA) becomes jointly and severally liable with the member for their annual allowance charge.
- The deadline for us to receive the SPE2 is 31st July, 18 months after the tax year the charge relates to ended, i.e. 2018/19 is 31st July 2020.
- NHS Pensions must pay any mandatory scheme pays by the second 14th February that follows the end of the relevant tax year, i.e. 2018/19 by 14th February 2021.

Voluntary scheme pays

- Its not compulsory to provide a voluntary scheme pays facility.
- Available to members of both NHS Schemes if the total pension input amount, when added together, is more than their annual allowance:
  - standard annual allowance up to 2016/17 (plus any carry forward); and
  - their available annual allowance (inc. any carry forward), even if this is lower than the standard annual allowance from 2017/18.
- More flexibility introduced from 2017/18, for charges:
  - as a result of having a tapered annual allowance; and
  - less than £2,000.
- The deadline for the SPE2 is the same as mandatory - 31st July.
- Members remain solely liable for the charge - not shared with NHSBSA.
- We pay quarterly to HMRC, these end: 31st Jan, 30th Apr, 31st Jul and 31st Oct. Which quarter depends on the date we process and accept the SPE2, not the date it is received.
- Interest payable by the member if charge is paid after the income tax deadline of 31st January.

Scheme pays – members of both NHS Schemes

- Members can complete a SPE2 if the pension input amount, in one or both NHS schemes is under their available annual allowance, as long as the total amount together is more than their available annual allowance.

Member	Scheme Pays
1995/2008 Scheme	1995/2008 Scheme
2015 Scheme	2015 Scheme
Both NHS Schemes	1995/2008 Scheme and 2015 Scheme
NHS MPAVC Scheme	NHS MPAVC Scheme

- How much each pays depends on the pension input amount in each NHS scheme and the total pension input amount when added together – method approved by Scheme Actuary.
- One NHS scheme can't pay 100% the annual allowance charge.
- Members must tell NHS Pensions how much of the charge they want each NHS Scheme to pay, subject to maximum amount.
- We confirm how the annual allowance charge is paid – by each NHS Scheme and whether mandatory or voluntary scheme pays.

Estimating

- If they have not received a pension savings statement members should estimate if they have a reduced annual allowance and an annual allowance charge.
- HMRC is happy for members to estimate based on available information.
- To meet the scheme pays election deadline members should consider completing an election using estimated figures.
- Changes can be made to an election up to 4 years after the end of the tax year in which the charge relates.
- Members want to change an election must complete a new SPE2.

Recovering the cost of scheme pays

- Two methods used across the public service pension schemes to recover the cost of paying an annual allowance charge, a:
  - debit method; and
  - notional negative defined contribution (DC) method.
- We use the negative DC method.
- Compound interest is added to the debt on 1st January each year – currently 2.4% + CPI.
- The total debt owed is converted to a benefit reduction that permanently reduces the member's retirement benefits before payment.
- If the member leaves and wants to transfer out the total debt may be repaid from the transfer value before payment.
- Scheme Actuary says DC method reduction could be around 2% lower than the debit method reduction at retirement.
- No recovery if a member dies after we have paid the charge.
- 'Annual Allowance – Estimating the Cost of Scheme Pays' provided by the Scheme Actuary at: **www.nhsbsa.nhs.uk/member-hub/annual-allowance**

Key dates

Lifetime allowance

- The maximum amount of tax-free benefits that can be taken from a pension scheme.
- From 6 April 2019 the standard lifetime allowance increased from £1,030,000 to £1,055,000.
- Standard lifetime allowance applies unless member s have a valid HMRC lifetime allowance protection.
- Benefits are tested against a standard or protected lifetime allowance at a benefit crystallisation event (BCE).
- BCEs mainly occur at retirement but can also occur when members die or transfer out to an overseas pension scheme (QROPS).
- At the BCE we test the capital value of the member's benefits being paid against their available lifetime allowance.
- If the benefits about to be paid exceed their lifetime allowance then a lifetime allowance charge is payable on the excess.

Protection

Protection	Eligibility	Pension	Tax-free Lump Sum	% of Lifetime Allowance	Application Deadline
Enhanced Protection (EP)	Open to all members	Unlimited protection	Up to 25% of £1.5m	Standard LTA	5 April 2009
Primary Protection (PP)	Capital value of >£1.5m at 5 April 2006	Pension underpinned at £1.8m	Up to 25% of £1.5m	Standard LTA	5 April 2009
Protected Lump Sum (PLS)	PP or EP plus lump sum of £375K	N/A	Up to protected lump sum	Standard LTA	5 April 2009
Fixed Protection 2012 (FP2012)	Open to all members	£1.8m	Up to 25% of £1.8m	£1.8m	5 April 2012
Fixed Protection 2014 (FP2014)	Open to all members	£1.5m	Up to 25% of £1.5m	£1.5m	5 April 2014
Individual Protection 2014 (IP2014)	Capital value of >£1.25m at 5 April 2014	Individual protection	Up to 25% of individual protection	Individual protection	5 April 2014
Fixed Protection 2016 (FP2016)	Open to all members	£1.25m	Up to 25% of £1.25m	£1.25m	5 April 2016
Individual Protection 2016 (IP2016)	Capital value of >£1.0m at 5 April 2016	Individual protection	Up to 25% of individual protection	Individual protection	Still open

IP2016 Valuation

- Members may need an IP2016 Valuation from NHS Pensions to apply for individual protection 2016 - IP2016 Valuation requests should be made via the employer on AW295 (Officer - IP2016).
- Must have a capital value of benefits of more than £1m at 5 April 2016.
- No statutory requirement for NHS Pensions to provide a member with an IP2016 Valuation – there may be a charge.
- Members can use their TRS at 31 March 2016 as a guide to whether they need an IP2016 Valuation.
- Individual protection 2016 has a ceiling of £1.25m for protection therefore if TRS shows NHS benefits that equate to a capital value of more than £1.25m HMRC has advised that this is sufficient to use in the application and members do not need to request an IP2016 Valuation.

Retirement

- A BCE occurs at retirement and with the exception of ill health retirement, the member must be over minimum pension age. There is no BCE after age 75.
- The capital value of the pension is the pension to be paid times 20.
- The maximum tax-free pension commencement lump sum (PCLS) is restricted by HMRC to the lower of:
  - 25% of the available standard lifetime allowance (unless they have protection); or
  - 25% of the capital value of the pension benefits being paid.
- We must notify members of the % of lifetime allowance used by the BCE.

Example: 1995 Section - pension = £47,000 and lump sum = £141,000.

PCLS is lower of 25% of £1,055,000 = **£263,750**; or

25% of £1,081,000 ((£47,000 x 20) + £141,000) = £270,250.

£1,055,000(SLTA) - £141,000 (PCLS) = £914,000.

Pension capital value - £47,000 x 20 = £940,000. BCE used 102.46%

Therefore, £26,000 in excess of lifetime allowance.

Lifetime allowance charge - £6,500 (25% of £26,000).

Retirement application form

- Part 12 of the retirement application form (AW8) is completed by members who will have an annual pension, from all their pension arrangements, including the NHS Schemes of more than £30,000.

Part 12 - HM Revenue and Customs (HMRC) information

To comply with HMRC legislation please answer the following questions. It is important that you complete these questions fully and correctly and supply any information asked for. Failure to do so will delay the payment of pension and lump sum and may cause all your benefits to have the Lifetime Allowance Charge (LTAC) applied to them.

- We need to know if they have had a BCE, at any time, before the BCE with the NHS Scheme – have they already used some of their standard or protected lifetime allowance.
- If they have a valid lifetime allowance protection they must confirm the certificate/reference number.
- We also need to see a copy of the paper certificate or a copy of HMRC's notification.
- Members must declare, in Part 15, that they have not had benefit accrual if they have FP2012, FP2014 or FP2016.

Death

- If member dies before age 75 and the death lump sum is paid within two years of NHS Pensions being notified of the death it is a BCE and tested against the lifetime allowance.

Member under age 75 and death lump sum paid within than 2 years	
Recipient	**Tax**
Spouse; civil partner; qualifying scheme partner; nominated partner; nominated person or organisation or the estate of the member	A BCE therefore must be tested against the member's lifetime allowance

- A death lump sum is always taxable if, the member was aged 75 or over when they died or was aged under 75 but the death lump sum was not paid within the 2 years.

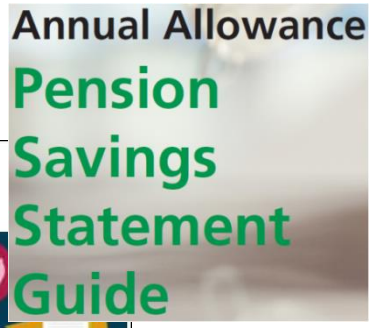
Member over age 75 or death lump sum paid more than 2 years	
Recipient	**Tax**
Spouse; civil partner; qualifying scheme partner or nominated partner	Income tax - % bases on the recipients marginal rate of income tax
Personal representative; trustee; director; partner in a firm or a member of a limited liability partnership	Special lump sum death benefit charge – 45%

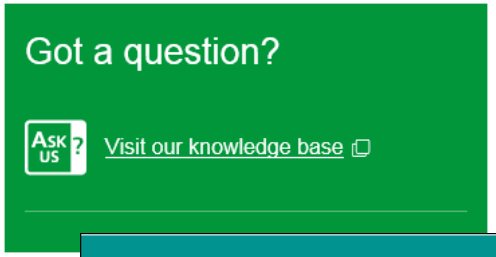
Lifetime allowance charge

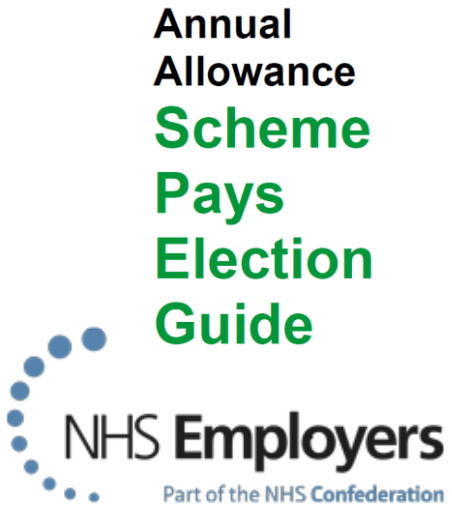
- A lifetime allowance charge applies the capital value of benefits at the BCE is more than the standard or protected lifetime allowance. If the excess is:
  - a pension - a 25% charge.
  - a lump sum - a 55% charge.
- If retiring the NHSBSA and the member are jointly liable so the charge is deducted from retirement benefits before payment.
- NHS Pensions must provide the following information:
  - the amount of the LTA charge;
  - how the LTA charge was calculated; and
  - whether the scheme administrator will pay the tax.
- Members with a lifetime allowance charge on:
  - their pension - a permanent reduction to their pension and possibly on dependant's pension.
  - their lump sum - a reduction to their lump sum.
- If member dies the personal representative is responsible, so if a BCE the death lump sum is paid in full – unless over age 75 or more than 2 years.

More information

- Information about annual allowance, scheme pays is available in the Pension Savings Statement Guide and the Scheme Pays Election Guide, can be found on our website at: **www.nhsbsa.nhs.uk/nhs-pensions**
- Member Hub has factsheets on annual allowance and lifetime allowance.
- Our online knowledge base ‘Ask Us’ can answer your questions 24 hours a day, 7 days a week.
- The Pensions Tax Manual (PTM) is HMRC’s guidance on the taxation of pension schemes at: **www.gov.uk/hmrc-internal-manuals/pensions-tax-manual**







Thankyou for listening

Any Questions……

Paula Peppas
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