

NHS Pensions - Annual Allowance

These examples illustrate the calculation of the tapered Annual Allowance for members of the NHS Pension Scheme, whether in the 1995/2008 scheme or the 2015 scheme. The examples only consider benefits in the NHS Pension Scheme and do not allow for any other pension scheme benefits. Income tax rates used are the relevant rates applying in England and Wales.

Tapered Annual Allowance example prior to 5 April 2020

In the tax year 2018/19 addition to her pensionable pay of £131,343*, Dr Jones received £10,000 of investment income and has allowable reliefs of £5,000 during the 2018/19 tax year. Her pension contributions were £19,045 (i.e. 14.5% of £131,343).

*NHS Pensions is only notified of a member's pensionable pay – for the purposes of this example Dr Jones' pensionable and taxable NHS pay are assumed to be the same.

Step 1 – Checking the threshold income

HMRC confirm that for the 2018/19 tax year:

The tapered annual allowance restriction is subject to an income floor of £110,000 known as 'threshold income'. This definition is based on the individual's taxable income after allowing for certain reliefs plus the value of certain pension-related salary sacrifice type arrangements.

An individual with threshold income of £110,000 or less for a tax year is not subject to the tapered annual allowance, regardless of the level of their adjusted income for that tax year.

In light of HMRC's guidance Dr Jones must check her threshold income first.

To determine if Dr Jones' Annual Allowance will be tapered, her threshold income is compared against HMRC's £110,000 limit:

Pensionable pay	£131,343.00
Non pensionable pay	£0.00
Other taxable income	<u>£10,000.00</u>
Total income	£141,343.00
Less the following deductions:	
Dr Jones' pension contributions	£19,045.00
Other tax deductible reliefs	<u>£5,000.00</u>
Threshold income	£117,298.00

As her threshold income is greater than £110,000 she may be subject to a Tapered Annual Allowance and must next check her adjusted income.

Step 2 – Checking the Adjusted Income

HMRC confirm that for the 2018/19 tax year:

The adjusted income is based on the individual's taxable income after allowing for certain reliefs plus the value of their pension savings during the tax year.

The annual allowance is reduced by £1 for every £2 of income above £150,000. Where the reduction would otherwise take an individual's tapered annual allowance below £10,000 for the tax year, their reduced annual allowance for that year is set at £10,000.

To determine whether Dr Jones' adjusted income is greater than HMRC's £150,000 limit her threshold income and pension input amount are added together. Her pension savings statement for 2018/19 confirmed a pension input amount of £62,089.34:

Threshold income	£117,298.00
Plus pension input amount	<u>£62,089.34</u>
Adjusted income	£179,387.34

Step 3 – Tapered Annual Allowance

As a consequence of her adjusted income being greater than £150,000 Dr Jones has a Tapered Annual Allowance. The standard Annual Allowance is tapered by £1 for every £2 that Dr Jones' adjusted income exceeds £150,000.

Her adjusted income is £29,387.34 more than HMRC's £150,000 limit (£179,387.34 - £150,000) and as a result her Tapered Annual Allowance is £25,306.33 (£40,000 - (£29,387.34 ÷ 2)).

Step 4 – Comparing the pension input amount against the Tapered Annual Allowance

Dr Jones was sent a 2018/19 pension savings statement confirming a pension input amount of £62,089.34. She realises that she may have to pay an Annual Allowance charge on the £36,783.01 over her Tapered Annual Allowance of £25,306.33.

Step 5 – Calculating the Annual Allowance charge

Dr Jones can carry forward any unused Annual Allowance from the three previous tax years and add this to her Tapered Annual Allowance to offset against an Annual Allowance charge.

She has the following unused Annual Allowance to carry forward:

Carry forward from 2017/18	£6,176.38
Carry forward from 2016/17	£0.00
Carry forward from 2015/16	£7,337.18

She has a total of £13,513.56 of unused Annual Allowance to carry forward.

2018/19 Tapered Annual Allowance	£25,306.33
Plus carry forward	<u>£13,513.56</u>
	£38,819.89
Less pension input amount	£62,089.34
	<u>-£23,269.45</u>

Chargeable amount for the 2018/19 tax year	£23,269.45
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This means her Annual Allowance charge will be based on a chargeable amount of £23,269.45. Her marginal tax rate for 2018/19 was 40% therefore her charge is £9,307.78. Dr Jones can choose to pay the tax charge directly or use scheme pays within the NHS Pension Scheme.

Tapered Annual Allowance examples from 6 April 2020

Example 1: Member subject to tapered Annual Allowance

In addition to his pensionable pay of £183,000*, Dr Phillips received £20,000 of investment income and has allowable reliefs of £5,000 during the 2020/21 tax year. His pension contributions were £26,535 (i.e. 14.5% of £183,000).

*NHS Pensions is only notified of a member's pensionable pay – for the purposes of this example Dr Phillips' pensionable and taxable NHS pay are assumed to be the same.

Step 1 – Checking the threshold income

HMRC confirm that from 6 April 2020:

The tapered annual allowance restriction is subject to an income floor of £200,000 known as 'threshold income'. This definition is based on the individual's taxable income after allowing for certain reliefs plus the value of certain pension-related salary sacrifice type arrangements. An individual with threshold income of £200,000 or less for a tax year is not subject to the tapered annual allowance, regardless of the level of their adjusted income for that tax year.

In light of HMRC's guidance Dr Smith must check his threshold income first.

To determine if Dr Phillips' Annual Allowance will be tapered, his threshold income is compared against HMRC's £200,000 limit:

Pensionable pay	£183,000.00
Non pensionable pay	£0.00
Other taxable income	<u>£20,000.00</u>
Total income	£203,000.00
Less the following deductions:	
Dr Phillips' pension contributions	£26,535.00
Other tax deductible reliefs	<u>£5,000.00</u>
Threshold income	£171,465.00

As his threshold income is less than £200,000 he is not subject to a Tapered Annual Allowance and instead has the standard Annual Allowance of £40,000.

Step 2 – Comparing the pension input amount against the standard Annual Allowance

Dr Phillips is sent a 2020/21 pension savings statement confirming a pension input amount of £71,949.25. He realises that he may have to pay an Annual Allowance charge on the £31,949.25 over his standard Annual Allowance of £40,000.

Step 3 – Calculating the Annual Allowance charge

Dr Phillips can carry forward any unused Annual Allowance from the three previous tax years and add this to his standard Annual Allowance to offset against an Annual Allowance charge.

He has the following unused Annual Allowance to carry forward:

Carry forward from 2019/2020	£0.00
Carry forward from 2018/2019	£4,030.68
Carry forward from 2017/2018	£6,727.45

He has a total of £10,758.13 of unused Annual Allowance to carry forward.

2020/2021 standard Annual Allowance	£40,000.00
Plus carry forward	<u>£10,758.13</u>
	£50,758.13
Less pension input amount	£71,949.25
	<u>-£21,191.12</u>

Chargeable amount for the 2020/2021 tax year £21,191.12

This means his Annual Allowance charge will be based on a chargeable amount of £21,191.12. His marginal tax rate for 2020/21 is 45% therefore his charge is £9,536.00.

Dr Phillips can choose to pay the tax charge directly or use scheme pays within the NHS Pension Scheme.

Example 2: Member subject to tapered Annual Allowance

In addition to her pensionable pay of £241,000*, Dr Smith received £10,000 of investment income and has allowable reliefs of £5,000 during the 2020/21 tax year. Her pension contributions were £34,945 (i.e. 14.5% of £241,000).

*NHS Pensions is only notified of a member's pensionable pay – for the purposes of this example Dr Smith's pensionable and taxable NHS pay are assumed to be the same.

Step 1 – Checking the threshold income

HMRC confirm that from 6 April 2020:

The tapered annual allowance restriction is subject to an income floor of £200,000 known as 'threshold income'. This definition is based on the individual's taxable income after allowing for certain reliefs plus the value of certain pension-related salary sacrifice type arrangements. An individual with threshold income of £200,000 or less for a tax year is not subject to the tapered annual allowance, regardless of the level of their adjusted income for that tax year.

In light of HMRC's guidance Dr Smith must check her threshold income first.

To determine if Dr Smith's Annual Allowance will be tapered, her threshold income is compared against HMRC's £200,000 limit:

Pensionable pay	£241,000.00
Non pensionable pay	£0.00
Other taxable income	<u>£10,000.00</u>
Total income	£251,000.00

Less the following deductions:	
Dr Smith's pension contributions	£34,945.00
Other tax deductible reliefs	<u>£5,000.00</u>
Threshold income	£211,055.00

As her threshold income is greater than £200,000 she may be subject to a Tapered Annual Allowance and must next check her adjusted income.

Step 2 – Checking the Adjusted Income

HMRC confirm that from 6 April 2020:

The adjusted income is based on the individual's taxable income after allowing for certain reliefs plus the value of their pension savings during the tax year.

The annual allowance is reduced by £1 for every £2 of income above £240,000. Where the reduction would otherwise take an individual's tapered annual allowance below £4,000 for the tax year, their reduced annual allowance for that year is set at £4,000.

To determine whether Dr Smith's adjusted income is greater than HMRC's £240,000 limit her threshold income and pension input amount are added together. Her pension savings statement for 2020/21 confirmed a pension input amount of £94,349.12:

Threshold income	£211,055.00
Plus pension input amount	<u>£94,349.12</u>
Adjusted income	£305,404.12

Step 3 – Tapered Annual Allowance

As a consequence of her adjusted income being greater than £240,000 Dr Smith has a Tapered Annual Allowance. The standard Annual Allowance is tapered by £1 for every £2 that Dr Smith's adjusted income exceeds £240,000.

Her adjusted income is £65,404.12 more than HMRC's £240,000 limit (£305,404.12 - £240,000) and as a result her Tapered Annual Allowance is £7,297.94 (£40,000 - (£65,404.12 ÷ 2)).

Step 4 – Comparing the pension input amount against the Tapered Annual Allowance

Dr Smith is sent a 2020/2021 pension savings statement confirming a pension input amount of £94,349.12. She realises that she may have to pay an Annual Allowance charge on the £87,052.18 over her Tapered Annual Allowance of £7,297.94.

Step 5 – Calculating the Annual Allowance charge

Dr Smith can carry forward any unused Annual Allowance from the three previous tax years and add this to her Tapered Annual Allowance to offset against an Annual Allowance charge.

She has the following unused Annual Allowance to carry forward:

Carry forward from 2019/2020	£0.00
Carry forward from 2018/2019	£0.00
Carry forward from 2017/2018	£4,097.12

She has a total of £4,097.12 of unused Annual Allowance to carry forward.

2020/2021 Tapered Annual Allowance	£7,297.94
Plus carry forward	<u>£4,097.12</u>
	£11,395.06
Less pension input amount	£94,349.12
	<u>-£82,954.06</u>
Chargeable amount for the 2020/2021 tax year	£82,954.06

This means her Annual Allowance charge will be based on a chargeable amount of £82,954.06.

Her marginal tax rate for 2020/21 is 45% therefore her charge is £37,329.33.

Dr Smith can choose to pay the tax charge directly or use scheme pays within the NHS Pension Scheme.