

Pensions Taxation - Annual Allowance

HM Revenue and Customs impose two controls on the amount of pension savings you can make without having to pay extra tax. These controls are known as the Annual Allowance and Lifetime Allowance. This is in addition to any income tax you pay on your pension once it is in payment.

This factsheet looks at the Annual Allowance which is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge.

For information on the Lifetime Allowance please refer to the [lifetime allowance factsheet](#).

What is the Annual Allowance?

The Annual Allowance (AA) is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. This is in addition to any income tax you pay on your pension once it is in payment.

If the value of your pension savings in any one year, including pension savings outside of the Firefighters' Pension Scheme (FPS) are in excess of the annual allowance, the excess will be taxed as income.

The Government reduced the AA from £255,000 to £50,000 from 6 April 2011 and then reduced it again to £40,000 from 6 April 2014. Further changes to the annual allowance have been made for higher earners from 6 April 2016, which resulted in special transitional rules for the 2015/16 tax year. These [changes](#) are covered in more detail later in this factsheet.

Annual Allowance limit

Pension Input Period	Annual Allowance
1 April 2011 to 31 March 2012	£50,000
1 April 2012 to 31 March 2013	£50,000
1 April 2013 to 31 March 2014	£50,000
1 April 2014 to 31 March 2015	£40,000
1 April 2015 to 5 April 2016	£80,000 (transitional rules apply)
6 April 2016 to 5 April 2017	£40,000 (unless tapering applies)
6 April 2017 to 5 April 2018	£40,000 (unless tapering applies)
6 April 2018 to 5 April 2019	£40,000 (unless tapering applies)
6 April 2019 to 5 April 2020	£40,000 (unless tapering applies)

Am I likely to be affected by the Annual Allowance?

Most people will not be affected by the AA tax charge because the value of their pension saving will not increase in a year by more than £40,000, or, if it does they are likely to have unused allowance from previous years that can be carried forward.

You are most likely to be affected if:-

- you have a lot of scheme membership and you receive a significant pay increase, and/or;
- you pay a high level of additional contributions, and/or;
- you are a higher earner, and/or;
- you transfer pension rights into the FPS from a previous public sector pension scheme¹ under the preferential club transfer rules and your salary (full time equivalent) upon joining the FPS is somewhat higher than the salary you earned when you left the previous scheme, and/or;
- you combine a previous FPS pension benefit that was built up in the final salary section of the FPS with your current pension account and your salary (full time equivalent) has increased significantly since leaving and re-joining the scheme.

Your pension administrator will inform you if your FPS pension savings exceed the standard AA in any year by no later than 6 October of the following year.

How is the Annual Allowance calculated?

The increase in the value of your pension savings in the FPS in a year is calculated by working out the value of your benefits immediately before the start of the 'pension input period', increasing the value by inflation and then comparing it with the value of your benefits at the end of the 'pension input period'.

The 'pension input period' (PIP) is the period over which your pension growth is measured. From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Prior to the 2016/17 the PIP for the FPS was 1 April to 31 March, except for the year 2015/16 when special transitional rules apply.

In the FPS the value of your pension benefits is calculated by multiplying the amount of your annual pension by 16.

If the difference in the value of pension benefits at the end of the PIP less the value of your pension benefits immediately before the start of PIP (adjusted for inflation), is more than the AA then you may be liable to pay a tax charge.

It is important to note that the assessment for the AA covers any pension benefits you may have where you have been an active member during the year, not just benefits in the FPS.

¹ A public service pension scheme includes a pension scheme covering civil servants, the judiciary, the armed forces, any scheme in England, Wales or Scotland covering local government workers, or teachers, or health service workers, or fire and rescue workers or members of the police forces; or membership of a new public body pension scheme.

For example, if the increase in the value of your FPS benefits was calculated as £30,000 in 2014/15 when the AA was £40,000, but you also had an increase in the value of other pension benefits of £15,000 in the same year, that would mean you had a total increase in pension benefits of £45,000. If you did not have any carry forward (see below for more information), you would be liable for a tax charge for the amount you exceeded the AA by; even though at face value you did not breach the AA in either scheme.

Carry forward

You would only be subject to an AA tax charge if the value of your total pension savings for a year increase by more than the AA for that year. However, a three year carry forward rule allows you to carry forward unused AA from the previous three years. This means that even if the value of your pension savings increase by more than the AA in a year you may not be liable to the AA tax charge.

For example, if the value of your pension savings in 2014/15 increased by £50,000 (i.e. by £10,000 more than the AA) but in the three previous years had increased by £25,000, £28,000 and £30,000, then the amount by which each of these previous years fell short of the AA for those three years would more than offset the £10,000 excess pension saving in the current year. There would be no AA tax charge to pay in this case.

To carry forward unused AA from an earlier year you must have been a member of a tax registered pension scheme in that year.

Changes to Annual Allowance

The Finance (No 2) Act 2015 introduced two important changes to the AA with effect from 6 April 2016.

1. An annual allowance taper for high earners from 6 April 2016 and
2. To adjust the 'pension input period' during 2015/16 so that it became aligned with the tax year from 6 April 2016.

1. Tapered Annual Allowance for higher earners

From the tax year 2016/17 the AA is tapered for members who have a 'Threshold Income' in excess of £110,000, and 'Adjusted Income' in excess of £150,000. For every £2 that your Adjusted Income exceeds £150,000, your AA is tapered down by £1 (to a minimum of £10,000).

Income	Definition	Limit
Threshold Income	Broadly your taxable income after the deduction of your pension contributions (including AVCs deducted under the net pay arrangement).	£110,000
Adjusted Income	Broadly your threshold income plus pensions savings built up over the tax year.	£150,000

Threshold income includes all sources of income that are taxable e.g. property income, savings income, dividend income, pension income, social security income (where taxable), state pension income etc.

Please note, you are not allowed to deduct from taxable income any amount of employment income given up for pension provision as a result of any salary sacrifice made on or after 9 July 2015.

How does the taper work?

From 6 April 2016, the taper reduces the AA by £1 for £2 of adjusted income received over £150,000, until a minimum AA of £10,000 is reached. This means that from 6 April 2016 the AA for high earners is as follows:

Adjusted Income	Annual Allowance
£150,000 or below	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or above	£10,000

Examples of tapering are shown at [Appendix 1](#).

2. Aligning the 'Pension Input Period' with the tax year

The 'pension input period' (PIP) is the period over which your pension growth is measured.

Up until 2014/15 the PIP in the FPS ran from 1 April to 31 March. From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Special transitional arrangements apply for 2015/16 meaning that there are 2 PIPs in 2015/16, as set out below:

Pre-alignment tax year: 1 April 2015 to 8 July 2015 - the revised AA during this period is £80,000

Post-alignment tax year: 9 July 2015 to 5 April 2016 - the AA for this period is the amount of the £80,000 not used up from the pre-alignment tax year (subject to a maximum of £40,000) together with any carry forward available from the three previous years.

If you have flexibly accessed any benefits in a money purchase pension arrangement on or after 6 April 2015 (see below) you should contact your pension administrator for information about how the pre and post alignment tax years will work as it will be different to the above.

Annual Allowance 'Flexible Benefit' access

If you have 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 (MPAA) rules may apply. However, the MPAA will only apply if your total contributions to a money purchase arrangement in a Pension Input Period exceed the MPAA.

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 scheme in subsequent tax years will be tested against the MPAA. If your contributions exceed the MPAA your defined benefit pension (FPS) savings will be tested against the alternative AA and you will pay a tax charge in respect of your money purchase saving in excess of the MPAA.

Tax Year	MPAA	Alternative annual allowance if MPAA is exceeded
2016/17	£10,000	£30,000
2017/18	£4,000	£36,000
2018/19	£4,000	£36,000
2019/20	£4,000	£36,000

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

If you access flexible benefits you will be provided with a flexible access statement; you should provide your administrator with a copy of this statement.

Flexible access means taking a cash amount over the tax-free lump sum from a flexi-access drawdown account, taking an uncrystallised funds pension lump sum (UFPLS), purchasing a flexible annuity, taking a scheme pension from a defined contribution scheme with fewer than 12 pensioner members or taking a stand-alone lump sum if you have primary but not enhanced protection².

How would I pay an Annual Allowance tax charge?

If you exceed the AA 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. Your pension administrator is obliged to notify you if your FPS benefits exceed the standard AA, or if they believe you have exceeded the MPAA, in a year. They must inform you by no later than 6 October of the following tax year. However, your pension administrator is not obliged to inform you if you exceed the tapered annual allowance.

If you have an AA tax charge that is more than £2,000 and your pension savings in the FPS alone have increased in the year by more than the standard AA, 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 recovered from your pension benefits.

If you want your pension administrator to pay some or all of an AA tax charge on your behalf, you must notify them no later than 31 July in the year following the end of the year to which the AA charge relates. However, if you are retiring (and draw all of your benefits from the FPS) and you want the scheme to pay some or all of the tax charge on your behalf from your benefits, you must tell your administrator before you become entitled to those benefits.

Your FRA, at their discretion, may also agree to pay some or all of an annual allowance charge on your behalf in other circumstances e.g. where your pension savings are not in excess of the standard AA but are in excess of the tapered or money purchase AA, or where part of the charge relates to pension savings outside of the FPS. Contact your FRA for more information.

² A stand-alone lump sum is a lump sum relating to pre 6 April 2006 where the whole amount can be taken as a lump sum without a connected pension

The table below shows the timescales that would apply for the 2018/19 year:-

5 April 2019	Tax year ends
6 July 2019	FRA provides pay information to pension administrator
6 October 2019	Pension administrator provides pension saving statement to the scheme member who has breached the annual allowance
31 January 2020	Deadline for scheme member to submit Self-Assessment Tax Return stating how Annual Allowance tax will be paid.
31 July 2020	Scheme Pays election deadline (if scheme member elects for scheme pays).
31 January 2021	Deadline for scheme to submit HMRC event report.
14 February 2021	Deadline for scheme to pay tax to HMRC (if member elected for scheme pays).

Am I affected?

If you think you are affected by the AA more information is available on the Government's website - <https://www.gov.uk/tax-on-your-private-pension/annual-allowance>.

[Appendix 2](#) to the factsheet shows some examples within the Firefighters' Pension Schemes.

More information

If you have any questions about your FPS membership or benefits, please contact the Pension Scheme Administrators:

West Yorkshire Pension Fund
P.O. Box 67
Bradford
BD1 1UP
Telephone:

Phone: 01274 434999

Email: pensions@wypf.org.uk

Disclaimer

This factsheet provides an overview of the Annual Allowance rules as at April 2019. It should not be treated as a complete and authoritative statement of the law. The rules governing AA can be complex and are subject to change.

If you are unsure how to proceed, you are advised to obtain independent financial advice. For help in choosing an independent financial advisor you can visit the [money advice website](#).

Some of the examples shown in the appendix have been rounded to the nearest whole pound in order to simplify the calculations.

Appendix 1: taper calculations

Cerys		
Gross Salary 2017/18	£120,000	
Less employee pension contributions	£19,800	16.5% (FPS1992)
Threshold Income 2017/18	£100,200	Below £110,000 so the AA will not be tapered and remains at £40,000
Pensions saving in the year	£19,500	Less than £40,000 so no tax charge

Sanjay		
Gross Salary 2017/18	£140,000	
Less employee pension contributions	£20,300	14.5% (FPS2015)
Plus taxable income from property	£40,000	
Threshold Income 2017/18	£159,700	Greater than £150,000 so AA will be tapered
Plus pensions saving in the year	£30,000	
Adjusted Income 2017/18	£189,700	
Tapered AA	£20,150 *	
In excess of AA	£9,850	Pension saving of £30,000 less tapered AA
AA tax charge at marginal rate (assumed to be 40%)	£3,940	£9,850 x 40%

*Taper = £189,700 - £150,000 = £39,700 / 2 = £19,850. Standard AA £40,000 less £12,590 = £20,150

Please note that the examples above make no allowance for any carry forward.

Appendix 2: example AA calculations

1) Permanent promotion from Crew Manager to Watch Manager B on 6 April 2017, in the FPS 1992.

Work out the opening value of the member's benefits for 2017/18:-

At 5 April 2017		
Pensionable pay 6 April 2016 to 5 April 2017	$(£32,533 / 365 \times 86 \text{ days})$ + $(£32,858 / 365 \times 279 \text{ days}) =$	£32,781
Scheme membership	26 years. 20 years at $1/60^{\text{th}}$ and 6 years at $2/60^{\text{ths}}$	$32/60^{\text{ths}}$
Consumer Prices Index (CPI) for September 2016		1.0%
Annual Pension	$£32,781 \times 32/60^{\text{ths}}$	£17,483
Multiply by 16	x 16	£279,728
Increase by inflation as measured by CPI	x 1.01	£282,525

Work out the closing value of the member's benefits for 2017/18:-

At 5 April 2018		
Pensionable pay for the year to 5 April 2018	$(£36,745 / 365 \times 86 \text{ days})$ + $(£37,112 / 365 \times 279 \text{ days})$ =	£37,026
Scheme membership	27 years. 20 years at $1/60^{\text{th}}$ and 7 years at $2/60^{\text{ths}}$	$34/60^{\text{ths}}$
Closing Value		
Annual Pension	$£37,020 \times 34/60^{\text{ths}}$	£19,747
Multiply by 16	x 16	£315,952

The increase in the member's benefits over the year to 31 March 2018 is £315,952 less £282,525 = **£33,427**. As this is less than the annual allowance limit for 2017/18 of £40,000, there is no annual allowance charge in this example, and they have £6,588 unused annual allowance from 2017/18 to carry forward to 2018/19.

2) Permanent promotion from Watch Manager B to Station Manager B (Flexi) on 1 September 2017, in the FPS 2015 with previous membership of the FPS 1992

Work out the opening value of the member's benefits for 2017/18:-

At 5 April 2017		
Pensionable pay for the year to 5 April 2017	$(£36,381 / 365 \times 86 \text{ days})$ $+ (£36,745 / 365 \times 279 \text{ days}) =$	£36,659
Scheme membership	20 years. 20 years at 1/55 th and CARE pot of £1,234	20/55 ^{ths}
Consumer Prices Index (CPI) for September 2016		1.0%
Opening Value		
Final Salary Pension	$£36,659 \times 20/55^{\text{ths}}$	£13,331
CARE Pension	CARE pot of £1,234	£1,234
Total Pension		£14,565
Multiply by 16	x 16	£233,040
Increase by inflation as measured by CPI	x 1.01	£235,370

Work out the closing value of the member's benefits for 2017/18:-

At 5 April 2018		
Pensionable pay for the year to 5 April 2018	$(£36,745 / 365 \times 86 \text{ days})$ $+ (£37,112 / 365 \times 62 \text{ days})$ $+ (£51,091 / 365 \times 217 \text{ days}) =$	£45,336
Scheme membership	20 years. 20 years at 1/53.077 th and CARE pot of £1,266	20/53.077 ^{ths}
Closing Value		
Final Salary Pension	$£45,175 \times 20/53.077^{\text{ths}}$	£17,083
CARE Pension	$£45,175 \times 1.59.7$	£757
Total Pension	+ CARE pot of £1,266	£19,106
Multiply by 16	x 16	£305,696

The increase in the member's benefits over the year to 5 April 2018 is £305,696 less £235,370 = **£70,326**.

The member has exceeded the annual allowance in the year 2017/18 by **£30,326** (£70,326 - £40,000). However, the member may be able to use any unused allowance in their three previous years to reduce or eliminate the £30,326.

The member had the following pension input amounts in the three previous years:-

Tax Year	Annual Allowance Limit	Pension Input Amount	Remaining AA to carry forward
2014/15	£40,000	£30,000	£10,000
2015/16 – Pre 9 July	£80,000	£55,000	£25,000 + £10,000 (from 2014/15) = £35,000
2015/16 – Post 8 July	£0	£20,000	-£20,000 + £35,000 (from Pre 9 July) = £15,000
2016/17	£40,000	£20,000	£20,000 + £15,000 (from Post 8 July 2015) =
Total Unused Allowance			£35,000

The member has £35,000 of unused annual allowance from previous years that they can use to offset their charge of £30,326. They would then have £4,674 (£35,000 - £30,326) remaining to carry forward.

3) Permanent promotion from Station Manager B (Flexi) to Group Manager B (Flexi) from 1 May 2017.

Work out the opening value of the member's benefits for 2017/18:-

At 5 April 2017		
Pensionable pay for the year to 5 April 2017	$(£50,084 / 365 \times 86 \text{ days})$ $+ (£50,584 / 365 \times 279 \text{ days}) =$	£50,467
Scheme membership	23 years. 20 years at 1/60 th and 3 years at 2/60 ^{ths}	26/60 ^{ths}
Consumer Prices Index (CPI) for September 2016		1.0%
Opening Value		
Annual Pension	$£50,467 \times 26/60\text{ths}$	£21,869
Multiply by 16	$\times 16$	£349,904
Increase by inflation as measured by CPI	$\times 1.01$	£353,403

Work out the closing value of the member's benefits for 2017/18:-

At 5 April 2018		
Pensionable pay for the year to 5 April 2018	$(£50,584 / 365 \times 25 \text{ days})$ $+ (£58,555 / 365 \times 61 \text{ days})$ $+ (£59,141 / 365 \times 279 \text{ days}) =$	£58,457
Scheme membership	24 years. 20 years at 1/60 th and 4 years at 2/60 ^{ths}	28/60 ^{ths}
Closing Value		
Annual Pension	$£58,457 \times 28/60\text{ths}$	£27,280
Multiply by 16	$\times 16$	£436,480

The increase in the member's benefits over the year to 31 March 2018 is £436,480 less £353,403 = **£83,077**.

The member has exceeded the annual allowance in the year 2017/18 by **£43,077** (£83,077 - £40,000). However, the member may be able to use any unused allowance in previous years to reduce or eliminate the £43,077.

The member had the following pension input amounts in the three previous years:-

Tax Year	Annual Allowance Limit	Pension Input Amount	Remaining AA to carry forward
2014/15	£40,000	£35,000	£5,000
2015/16 – Pre 9 July	£80,000	£15,000	£40,000 ³ + £5,000 (from 2014/15) = £45,000
2015/16 – Post 8 July	£0	£25,000	-£25,000 + £45,000 (from Pre 9 July) = £20,000
2016/17	£40,000	£55,000	-£15,000 + £20,000 (from Post 8 July 2015) =
Total Unused Allowance			£5,000

Annual Allowance excess	-	Unused Allowance	=	Adjusted Annual Allowance excess
£43,077	-	£5,000	=	£38,077

This is added to the member's taxable income to determine the marginal tax rate to be used. In this case, it would be 40%.

Adjusted Annual Allowance excess	x	Tax Rate	=	Tax payable
£38,077	x	40%	=	£15,230.80

The member has two options for how to pay this tax charge:

1. Directly to HMRC, or
2. Via 'scheme pays'

Whatever the member decides to do, they must declare this on a self-assessment tax return, even if they have never had to complete one before.

The member decides to elect for 'scheme pays', so that the scheme pays the charge on the member's behalf, in exchange for the member having a reduction to their pension benefits. This worked out using [actuarial 'scheme pays' factors](#).

The member is age 50 at the date of implementation (i.e. the day after the pension input period ends – 6 April 2018), the actuarial factor for someone aged 50 and in the FPS 1992, is 13.97.

Tax Charge	/	Actuarial Factor	=	Scheme Pays Debit
£15,230.80	/	13.97	=	£1,090.25

The Scheme Pays Debit will attract appropriate inflation increases up until retirement.

The Scheme Pays Debit assumes retirement at age 60 and the member actually decides to retire when they are age 55. The scheme pays debit is reduced accordingly:-

Scheme Pays Debit	x	Retirement Timing Factor	=	Adjusted Scheme Pays Debit
£1,090.25	x	0.782	=	£852.58

³ Maximum that can be carried forward from 2015/16 – Pre 9 July is £40,000.