

Pension Tax Changes

1. Introduction

The Government set some 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 (AA); and
- The amount you can have as a total value from all your pension savings in your life time-the Lifetime Allowance (LTA)

2. What is the annual allowance?

In the HSC Pensions Scheme, the annual allowance is commonly worked out by the growth in your benefits in a year. The AA limit covers all your pensions, except your State pension, therefore all your other pension savings need to be added together.

The current limit is £40,000 for the tax year 2016/2017, which is subject to review for 2017/18

3. How will the change to the annual allowance affect me?

The vast majority of HSC Pensions Service 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 by HSC Pensions Service each year.

4. What happens if I exceed the annual allowance?

If you exceed the AA in any one tax year you can “look back” up to 3 previous years to see if you have any unused allowance from these years. If you do, you can “carry forward” any unused allowance in the current year.

This means that if your pension's growth exceeds £40,000 in any one year, say due to a rise as a result of a promotion, you may not have any extra tax to pay, depending upon your individual circumstances.

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.

5. What is the lifetime allowance?

The LTA 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 million, which is subject to review annually.

6. What is the lifetime allowance?

- If, in the 1995 section, you have a pension in excess of £43,478 plus your standard lump sum, you may be affected.
- If you have a pension (before taking any lump sum) in excess of £50,000, you may be affected.
- If, in the 2008 or 2015 scheme you have a pension (before taking any lump sum) in excess of £50,000 you may be affected.

The above figures only apply to your HSC Pension main scheme amounts. If you have any pension savings in addition to these, (including money purchase or Additional Voluntary Contributions (AVC's)), you will need to take these in to account.

7. 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.