

Pensions Tax changes Factsheet

Introduction

The Government has proposed 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; and
- the amount you can have as a total value from all your pension savings in your lifetime – the lifetime allowance.

What is the annual allowance?

In the HSC Pension Scheme the annual allowance is commonly worked out by the growth in your benefits in a year. The annual allowance limit covers all your pensions, except your State pension, so your other pension savings also need to be added. The current limit at 6 April 2016 is £40,000. However, this is subject to tapering which was introduced by the government from this financial year. For further information and how you may be affected, please refer to “Tapered Annual allowance” factsheet on our website.

How will the change to the annual allowance affect me?

Members on lower salaries can be affected if they receive a large increase in pensionable pay, although in these cases it may be possible to ‘carry forward’ up to 3 previous years unused annual allowance values.

Members are more likely to be affected if they receive a significant pay rise or promotion. Those earning under £45,000 per year are unlikely to be affected. However, this can vary widely depending on the length of pensionable service and the rate of pensionable pay increase in any particular year.

Early indications are that the changes will primarily affect high earners. Those most likely to be affected are those earning over £150,000 a year.

This calculation will be carried out each year.

What happens if I exceed the annual allowance?

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.

What is the lifetime allowance?

The lifetime allowance 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 £1million from 6 April 2016.

How will the reduction in the lifetime allowance affect me?

If you are in the 1995 Section and you have a pension in excess of £43,478 plus your standard lump sum, you may be affected.

If you are in either the 2008 Section or 2015 scheme and have a pension (before taking any lump sum) of £50,000 you may be affected.

The above figures are only for your HSC Pension Scheme amounts. If you have any pension savings in addition to these (including money purchase Additional Voluntary Contributions (AVCs)), you will need to take these into account.

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.

Where can I find out more?

This is a very complex area. We cannot give you financial or tax advice and if you need this you should speak to a professional adviser. We will be developing more information for Scheme members and this will be available on the website www.hscpensions.hscni.net

You can also read more about the annual allowance on the HMRC website www.hmrc.gov.uk/pensionsschemes