

Information about the Tapered Annual Allowance from 6 April 2016

Tapered Annual Allowance

The Government has introduced Tapered Annual Allowance from 6 April 2016 as a means to further reduce the Annual Allowance. It works by reducing a person's Annual Allowance by £1 for every £2 of 'adjusted income' earned over £150,000, up to a maximum reduction of £30,000 leaving a minimum Tapered Annual Allowance of £10,000.

Members with an adjusted income of between £150,000 and £210,000 will be affected by the Tapered Annual Allowance from the 2016/17 tax year. Those with an adjusted income of over £210,000 will have a Tapered Annual Allowance of £10,000.

Members with a threshold income of less than £110,000 will be exempt from the Tapered Annual Allowance.

As at present, any unused Annual Allowance from the three previous tax years can be carried forward and added to the individual's Annual Allowance. Where this Annual Allowance is reduced by the taper, the carry forward will be the balance of the tapered amount.

Tapered Annual Allowance is based on an Annual Allowance of £40,000, so the rate of the taper may vary if the annual allowance is changed in the future.

Adjusted income (£150,000 and over)

Adjusted income is the total of all sources of taxable income falling in the tax year plus the value of any pension saving in that year. This is to ensure that the restriction applies fairly and cannot be avoided, for example, through using salary sacrifice.

There are seven steps for members to consider when calculating their adjusted income.

1. Identify the amounts of income on which the member is charged to income tax for the tax year.

The main types of chargeable income are:

- employment income,
 - trading income (income from trades and professions),
 - property income,
 - pension income,
 - social security income (where it is taxable),
 - savings income,
 - dividend income, and
 - miscellaneous income.
2. Deduct from total income the amount of any relief under a provision listed in the Income Tax Act 2007 to which the member is entitled for the tax year.

There are two pension scheme related reliefs:

- excess relief where relief under a net pay arrangement is not sufficient, and
- relief on making a claim.

There are numerous other reliefs set out in the Income Tax Act 2007 that may be deducted at this step.

3. Add back in the amount of any claim for excess relief under net pay and relief on making a claim (described in step 2 above).
4. Add in the amount of any pension contributions made from any employment income of the individual for the tax year under net pay (but not any elements already added back in under step 3 above). This is to ensure fairness between those who have contributions deducted via net pay.

5. Add in the amount of relief claimed where non-domiciled individuals make contributions to overseas pension schemes.
6. Add in the value of any employer contributions for the tax year. The normal calculation basis for the Annual Allowance should be used. In the HSC Pension Scheme, this is the pension input amount for the tax year minus the amount of member contributions.
7. Deduct the amount of any lump sum death benefit accruing to the individual in the tax year from the death of a member over age 75/pre age 75 where not paid before end of relevant two year period. This will apply to those lump sums that are currently subject to the special lump sum death benefit charge (45%), but will instead, from 6 April 2016, be taxed at the recipient's marginal rate of tax.

Threshold income (£110,000 and over)

To provide some certainty for Scheme administrators and members over who may be affected, and to ensure that lower paid individuals are not affected, the taper restriction will be subject to an income floor. The threshold income will be £110,000 (being £150,000 less the Annual Allowance) of what is normally a member's net income for the tax year and will be known as threshold income.

Where an individual has threshold income of £110,000 or less they cannot be subject to the tapered Annual Allowance regardless of the level of their adjusted income.

There are five steps for members to consider when calculating their threshold income.

Steps 1 and 2 are the same as for adjusted income above.

3. Add in the amount of any employment income given up for pension provision as a result of any salary sacrifice made on or after 9 July 2015.
4. Deduct the gross amount of any pension contribution made via the relief at source method.
5. Deduct the amount of any lump sum death benefit accruing to the individual in the tax year from the death of a member over age 75/pre age 75 where not paid before end of relevant two year period.

Maximum tax relieviable contributions

If, in a tax year, a member does not know what their final earnings and other income will be then they will not know where they fall within the taper range for the Annual Allowance (unless they are definitely above or below the range). Consequently they will not know how much their maximum tax relieviable pension contributions can be for that year. This uncertainty might be because a member receives a large pensionable or non-pensionable payment at the end of the tax year or receives separate income from outside the HSC.

Money Purchase Annual Allowance

From 6 April 2016, members who have flexibly accessed their defined contribution pension savings will continue to have a money purchase Annual Allowance of £10,000. However, where this applies the alternative Annual Allowance, normally £30,000, against which their defined benefit savings are tested, will be restricted by the Tapered Annual Allowance rules. This means that for those with incomes of £210,000 or more, they will have an alternative Annual Allowance of £0 although any available used Annual Allowance can be carried forward and added to this.

Information to be provided by employers

As a result of the pension input period from 2016/17 onwards being the same as the tax year (6 April to 5 April) employers will need to provide information on the additional five days (1 April to 5 April) when they provide the Scheme year updates.

Annual Allowance Charge

Members have an obligation to include the Annual Allowance Charge information on their tax return by the following 31 January.

Pension Saving Statement timescales for 2016/17 onwards

The HSC Pension Scheme must provide a Pension Savings Statement to members who exceed the Annual Allowance by the 6 October following the end of the tax year that gave rise to the charge, provided the employer has supplied relevant information by 6 July.

The inclusion of all types of taxable contributable income in the definition of adjusted income will make the identification members affected by the Tapered Annual Allowance difficult because only the member or an accountant will hold the required information. In many cases this might not be possible until the relevant tax year has ended. Registered pension schemes are awaiting further information from HMRC about the provision of information required to members.

Until an update from HMRC is available members with higher salaries should seek independent financial advice in connection with the calculation of their adjusted income and threshold income, taking account of earnings received from various sources, to identify whether their Annual Allowance is to be tapered from 2016/17 onwards.

Members who calculate that they have an adjusted income of between £150,000 and £210,000 should then consider requesting a Pension Savings Statement from HSC Pensions.

Principal or Assistant Medical Practitioners or non GP providers will only receive a statement once details from their Annual Certificate of Pensionable Profit have been received