

## HSC Pension Service – Annual Allowance – Tapered Annual Allowance example

In addition to her pensionable pay of £131,343<sup>\*</sup>, Dr Jones received £10,000 of investment income and has allowable reliefs of £5,000 during the 2016/2017 tax year. Her pension contributions were £19,045 (i.e. 14.5% of £131,343).

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

### Step 1 - Checking the threshold income

HMRC confirm that:

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>   |
| <b>Threshold income</b>         | <b>£117,298.00</b> |

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:

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 2016/2017 confirmed a pension input amount of £62,089.34:

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

## 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 2016/2017 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 2015/2016 | £6,176.38 (post-alignment tax year) |
| Carry forward from 2014/2015 | £0.00                               |
| Carry forward from 2013/2014 | £7,337.18                           |

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

|                                    |                   |
|------------------------------------|-------------------|
| 2016/2017 Tapered Annual Allowance | £25,306.33        |
| Plus carry forward                 | <u>£13,513.56</u> |
|                                    | £38,819.89        |
| Less pension input amount          | <u>£62,089.34</u> |
|                                    | -£23,269.45       |
| Chargeable amount                  | £23,269.45        |

This means her Annual Allowance charge will be based on a chargeable amount of £23,269.45. Her marginal tax rate for 2016/2017 was 45% therefore her charge is £10,471.25.