



HSC Pension Service

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Business Services Organisation

# EMPLOYER NEWSLETTER

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# 1. Annual Allowance Tax Changes 2020

The purpose of this one off newsletter is to inform employers and scheme members of the changes introduced in the Finance Bill 2020 which have increased the Threshold and Adjusted Income amounts for the purposes of establishing the amount of Annual Allowance a member can have in relation to their pension growth.

At Budget 2020, the Chancellor announced a package of pension tax measures to address the ongoing service delivery issues within the NHS/HSC. The measures were introduced to ensure that doctors do not turn down extra shifts because of concerns about high tax bills.

## **Budget 2020 measures:**

- The two tapered annual allowance limits have been increased by £90,000 each.
  - ◇ The **new threshold income for tapered annual allowance will increase to £200,000**, from £110,000.
  - ◇ The **new adjusted income for tapered annual allowance will increase to £240,000**, from £150,000.
- The minimum annual allowance has been reduced to £4,000, from £10,000.
- **The Lifetime Allowance (LTA) will be increased in line with CPI.**
- Pension flexibilities consulted on by DHSC in England & Wales will not be pursued further.

## **Detail:**

- The Budget measures will ensure that **no one with income below £200,000 will be in scope of the tapered annual allowance.**
- **The measures will take effect from 6 April 2020.**
- HSC Pension Service **estimate that up to 96% of GPs and up to 98% of HSC consultants will be outside the scope of the tapered annual allowance** following the rises, based on their HSC earnings.
- The pension's annual allowance is the maximum amount of tax-relieved pension savings that can be accrued in a year. For those on the highest incomes, the annual allowance tapers down from £40,000. HM Treasury has reviewed the tapered annual allowance and its impact on the NHS.
- To support the delivery of public services the two tapered annual allowance thresholds are each being raised by £90,000. This means that from 2020-21 the "threshold income" will be £200,000, so individuals with income below this level will not be affected by the tapered annual allowance, and the annual allowance will only begin to taper down for individuals who also have an "adjusted income" above £240,000.



# 1. Annual Allowance Tax Changes 2020 - cont

- For those on the very highest incomes, the minimum level to which the annual allowance can taper down will reduce from £10,000 to £4,000 from April 2020. This reduction will only affect individuals with total income (including pension accrual, earnings and other income) over £300,000.
- The government allows up to three years' unused annual allowance to be carried forward to help mitigate one-off spikes.

**These new tax measures will apply to all staff, including senior managers and clinicians within the HSC.**

## Example Cases

The examples below show how a member's Threshold Income is calculated and how if they exceed the threshold income their Adjusted Income and tapered Annual Allowance can be calculated.

### Case 1 – Member does not breach Threshold Income

Martin is a HSC Pension Scheme member and has an annual pensionable pay figure of £140k. Martin works full time and his pensionable pay figure reflects his income from his 10 Programme Activities (PA's) and associated pensionable allowances. Martin has no other tax deductible reliefs. Martin has no other income outside the HSC.

Martin also works additional PA's for which he receives additional £60k non pensionable income bringing his total HSC Gross Pay to £200k.

In order to work out Martin's threshold Income for Annual Allowance purposes the following calculation is carried out.

### Step 1 – Calculate Martin's Taxable Income

Pensionable Pay	£140,000 +
HSC Non Pensionable Pay	£ 60,000 +
Other Taxable Income	<u>£ 0</u>
Total Taxable Income	£200,000

### Step 2 – Subtract Pension Contributions and Tax Deductible Reliefs from Total Taxable Income

Total Taxable Income	£200,000 -
Member Contributions Paid (14.5% £ 20,300 -	
Other Tax Deductible Reliefs	<u>£ 0</u>
Threshold Income	= £179,700



# 1. Annual Allowance Tax Changes 2020 - cont

Martin's Threshold income is below £200k therefore there is no requirement to measure the member's Adjusted Income and as a result there will be no tapering of his Annual Allowance amount of £40k.

## Case 2 - Member Exceeds Threshold and Adjusted Income resulting in Tapered Annual Allowance

Margaret is a HSC Pension Scheme member and has an annual pensionable pay figure of £170k. Margaret works full time and her pensionable pay figure reflects her income. The income is made up of Margaret's basic full time pay and associated pensionable allowances. Margaret has no other tax deductible reliefs. Margaret also has private income from outside the HSC of £80k bringing her total income to £250k.

In order to work out Margaret's threshold Income for Annual Allowance purposes the following calculation is carried out.

### Step 1 – Calculate Margaret's Taxable Income

Pensionable Pay	£170,000 +
HSC Non Pensionable Pay	£0 +
Other Taxable Income	<u>£ 80,000</u>
Total Taxable Income	£250,000

### Step 2 – Subtract Pension Contributions and Tax Deductible Reliefs from Total Taxable Income

Total Taxable Income	£250,000 -
Member Contributions Paid (14.5%)	£ 24,650 -
Other Tax Deductible Reliefs	<u>£ 0</u>
Threshold Income	£225,350

Margaret's Threshold income is over £200k therefore we must measure her Adjusted Income.

In order to work out Margaret's Adjusted Income for Annual Allowance purposes the following calculation is carried out.

- ◇ Adjusted Income is the total of Threshold Income plus Pension Growth.
- ◇ Pension growth is broadly measured as the increase in the value of a member's annual pension from the previous year multiplied by 16 plus the increase in the value of the member's lump sum.

For the purposes of this calculation we will assume that Margaret's pension growth is £38k (pension increases by £2k x 16) + (lump sum increase of £6k)



# 1. Annual Allowance Tax Changes 2020 - cont

## Margaret's Adjusted Income Calculation

Threshold Income	£225,350 +
Pension Growth	<u>£ 38,000</u>
Adjusted Income	£263,350

As Margaret's adjusted income has exceeded the HMRC limit of £240k her Annual Allowance amount of £40k will be tapered.

For every £2 excess of adjusted income over £240k means that Margaret's Annual Allowance will reduce by £1 down to a minimum of £4k

## Margaret's Tapered Annual Allowance Calculation

Margaret's Adjusted Income Amount	£263,350 -
Adjusted Income Limit	<u>£240,000</u>
Excess over Limit	£ 23,350

## Amount of reduction to Annual Allowance

Excess over Limit	£23,350 / 2 = £11,675
Standard Annual Allowance amount	£40,000 –
Less Tapered Amount	<u>£11,675</u>
Margaret's Annual Allowance	<b>£28,325</b>

**I would encourage you to share this information with your colleagues and employees who may be affected by these important changes in legislation.**



## 2. Contact Us

**By writing to us at:-**

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**Via e- mail at:-** [hscpensions@hscni.net](mailto:hscpensions@hscni.net)

**By Telephone:** 028 7131 9111 (9.00am to 4.00pm – Monday to Thursday; 9.00am to 12.00pm Friday)



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