

# Basic information - Annual Allowance (AA)

June 2020



## Introduction

Although there is no limit on the pension savings that may be made in a registered pension scheme, the AA effectively limits the amount of tax relief available on contributions to Defined Contribution (DC) schemes and pension accrual in Defined Benefit (DB) schemes.

The Government reduced the AA to £50,000 and amended the rules with effect from the 2011/12 tax year. The AA was then reduced again to £40,000 from 6 April 2014. Further changes to the AA were made in the 2015/16 tax year. These are commonly referred to as the 'transitional protection'.

In addition, further changes were introduced in 2016/17 tax year when a 'taper' to the AA was introduced for high earners. The parameters for the 'taper' have changed since its introduction. For more information on the 'taper' please see Briefing notes 4a & 4b.

Tax year or years	Annual Allowance
2010/11	£255,000
2011/12 to 2013/14	£50,000
2014/15	£40,000
2015/16	Special transition rules apply
2016/17 onwards	£40,000 (unless tapering applies)

## Pension Input Amounts (PIA)

To determine if the AA has been exceeded for a particular tax year, it is not simply the amount of contributions made or the accrual in that tax year that is taken into account. Instead, it is the total PIA made within a pension input period (PIP) ending in the tax year.

In a DC arrangement, the PIA is the sum of any member and employer contributions paid during the PIP.

In a DB arrangement such as the Teachers' Pension Scheme, the PIA is calculated as the difference between the accrued pension at the end of the PIP and the accrued pension at the end of the previous PIP. The previous figure is adjusted for inflation and the difference multiplied by a factor of 16.

## Pension Input Periods

The PIP is the period over which the PIA is measured. PIPs are usually 12 months long. Prior to the changes on 8 July 2015, the PIP for the Teachers' Pension Scheme ran from 1 April to 31 March each year.

From 9 July 2015 all PIPs are aligned with the tax year, so all PIPs end on 5 April. There are transitional arrangements for the 2015/16 tax year, which in the Teachers' Pension Scheme involves a pre-alignment PIP of 99 days from 1 April to 8 July 2015 and a post-alignment PIP of 272 days.

## Tax charge

Full tax relief is still available on member contributions, and employer contributions remain deductible for the employer and exempt from a benefit-in-kind charge on the employee. However, if the PIA exceeds the available AA, the excess may be subject to additional tax depending on the carry forward available.

The AA tax charge will depend on the member's marginal rate of income tax. The amount of tax due is determined by adding the excess over the AA to other taxable income. This means that once the AA is exceeded, there will effectively be no tax relief available.

If the member is to retire in the PIP in which an AA tax charge has arisen, the election must be made and the tax charge paid, before benefits can come into payment.

## Carry forward

Unused AA from up to three previous tax years may be carried forward. However, it is necessary to have been a member of a registered pension scheme at some point in the tax year from which unused allowance is to be brought forward, even if the total PIA in that tax year was nil. The AA figure used to determine if any unused allowance exists for tax years prior to 2011/12 is £50,000 (rather than the higher level which was then in force).

Before AA is carried forward from a previous year, the current year's allowance must first be exhausted. Any unused AA must be carried forward from earlier tax years before later years.

## Exemptions from the Annual Allowance test

The AA does not apply in cases of death, serious ill-health (life expectancy of less than one year), or where the member meets HMRC's conditions for 'severe ill health' (where the member is unlikely to work again).

Deferred pensions are also exempt from the AA provided that revaluation is not excessive. However, there are no concessions for enhancements in redundancy situations, or early retirement situations where an employer may want to enhance benefits to reward past service.

## **Provision of information requirements**

Where a member has exceeded the AA under the scheme, and where we have the required information from employers, Teachers' Pension is obliged to provide information about the PIA that gave rise to the charge and the PIAs for the three previous tax years within specific timescales (currently 6 October following the tax year in question).

## **Money Purchase Annual Allowance (MPAA) may apply from April 2015**

From 6 April 2015 where a member first flexibly accesses their money purchase benefits, a new MPAA applies in respect of DC contributions, cash balance accrual and hybrid accrual. This MPAA was only £10,000, however with effect from 6 April 2017 the MPAA was reduced to £4,000. If you are subject to the MPAA, this may reduce the AA available in the Scheme.

The information in this Briefing Note is based on our current understanding of the tax and legal position. This document is for reference purposes only and does not constitute financial advice. If you think that you might be affected by the Annual Allowance, we recommend that you take independent financial advice from a registered individual, who can assess and quantify the extent of any tax liability that is due. You can find a list of independent financial advisers at [www.unbiased.co.uk](http://www.unbiased.co.uk).