Annual Allowance Factsheet - To accompany the Pension Savings Statement for the 2021/22 year onwards

October 2022

Introduction

Since 6 April 2006 the amount of pension savings that benefit from tax relief within a given tax year is limited to the Annual Allowance (AA). This includes pension savings to all registered pension schemes made by, or on behalf of, an individual. If your pension savings go above the AA and any allowance carried forward from the previous three years, you'll be liable to a tax charge.

The Pension Input Amount

The Pension Input Amount (PIA) is the increase in the notional value of your pension savings over a 12 month period, between an 'opening' value and a 'closing' value.

The opening value is actually the closing value of the previous year uprated by a statutory increase factor, to allow for inflation. The closing value is the notional value of your accrued pension (allowing for your additional pensionable service completed in the Scheme over this period).

The PIA is therefore the difference between the opening and closing values.

The Pension Input Period

1. The Pension Input Period (PIP) is the period in which the notional values of your pension savings are measured. From 2016/17 onwards the PIP is 6 April to 5 April
2. 2015/16 the PIP consisted of two 'mini tax years'. These ran from 1 April 2015 to 8 July 2015 and 9 July 2015 to 5 April 2016
3. 2014/15 and earlier the PIP was 1 April to 31 March.

Teachers' Pensions

Measuring pension savings

As the Teachers' Pension Scheme is a defined benefit scheme pension savings are calculated based on the difference between your benefits at the start and end of the PIP, allowing for inflation. This difference – the PIA- is then multiplied by a factor 16 (for those with benefits in the NPA 60 section of the final salary scheme, the value of your automatic lump sum is also included in the assessment).

There was a variation to these rules for the 2015/16 tax year.

If you're also a member of a defined contribution (money purchase) scheme, your pension savings are calculated based on the total contributions paid by you and on your behalf during the PIP. The result is your Pension Input Amount. Investment return is ignored for the purpose of this calculation.

The AA for defined contribution schemes depends on whether the member has "flexibly accessed" any benefits held in a defined contribution scheme. You'll need to contact your defined contribution scheme for further details.

Accounting for inflation

When calculating the PIA the opening value is uprated by a statutory increase factor, to allow for inflation. The factors for the relevant years are:

1. 2021/22 - 0.5%
2. 2020/21 – 1.7%
3. 2019/20 – 2.4%
4. 2018/19 – 3%

The Annual Allowance limits

Since the 2016/17 pension input period, the level of the annual allowance has remained the same - £40,000, with a taper applying to those deemd by HMRC to have high incomes .

The Tapered Annual Allowance (TAA)

With effect from 6 April 2016, the standard AA was reduced (tapered) for high income individuals. You're deemed by HMRC to be a high-income individual if both of the following apply:

1. You've a Threshold Income of more than £200,000 (£110,000 for 2016/17 to 2019/20) AND
2. You've an Adjusted Income of more than £240,000 (£150,000 for 2016/17 to 2019/20).

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Threshold Income and Adjusted Income are explained in further detail in HMRC's Pensions Tax Manual.

For those who meet the criteria for a high-income individual, a Tapered Annual Allowance applies with a reduction to the standard allowance of £1 for every £2 of Adjusted Income in excess of £240,000. This is subject to a minimum TAA of £4,000 (10,000 for 2016/17 -2019/20) on all Adjusted Incomes in excess of £240,000.

Whether you're a high-income individual and are affected by the TAA is something that only you or a financial/taxation adviser can determine, as these income definitions are not restricted to just pensionable earnings in the Teachers' Pension Scheme, but cover all the components of your income.

Teachers' Pensions will not be aware if a TAA applies as a result of income outside of earnings pensionable in the Scheme.

Pension Savings Statements

Pension Savings Statements (PSS) are only automatically sent out to those members whose pension savings in the Teachers' Pension Scheme exceed the standard AA in the relevant tax year. If you believe the TAA applies you may need to request a statement directly from us.

Pension Savings Statements are only issued as a matter of course to those members identified as having exceeded the standard Annual Allowance in respect of their savings in the Teachers' Pension Scheme. We send these out by 6 October following the end of the tax year. Please note that you can request a PSS at any time.

Money Purchase Annual Allowance

While it is the combination of all pension savings that are assessed against the Annual Allowance, the Money Purchase Annual Allowance (MPAA) is triggered if you flexibly access your money purchase pension savings.

This would include taking benefits in a money purchase scheme as an Uncrystallised Funds Pension Lump Sum (UFPLS). From 6 April 2017, if money purchase pension savings are accessed flexibly, any contribution which exceeds £4,000 in the tax year will be subject to a Money Purchase Annual Allowance charge.

Carry forward

Even if your total pension savings over the tax year are more than the AA available, you may not have to pay a tax charge.

You can carry forward any AA that you've not used from the previous three tax years. If your unused allowance is more than the amount by which you've exceeded the AA, then you'll not be liable for a tax charge and you'll not be required to report anything to HMRC.

If you don't have sufficient unused Annual Allowance available to offset against the excess, you'll be liable to the Annual Allowance tax charge on your pension savings above your AA (after using all of your carry forward).

Teachers' Pensions

Tax charge

In order to assess your liability to an AA tax charge, you're required to measure the annual growth in all of your registered pension schemes, not just the Teachers' Pension Scheme.

Teachers' Pensions can only provide you with the PIA in respect of your membership in the Teachers' Pension Scheme.

If you've pension savings in other schemes, you'll need to contact the relevant provider in order to obtain a Pension Savings Statement for that scheme. Once you've received Pension Savings Statements for all of the schemes in which you have pension savings, you'll be able to determine whether you've exceeded the AA for the relevant tax year.

To find out the amount of your AA tax charge you need to work out by how much you've exceeded the AA after offsetting this year's AA available and any carry forward from the total PIA.

This amount is then multiplied by your highest marginal rate of tax.

Further guidance is available here.

The Scheme Pays facility

AA tax charges are a personal tax matter. You may choose to pay any AA tax charge to HMRC direct, or you may wish to use the 'Scheme Pays' facility.

Since 6 April 2006, HM Treasury have allowed, upon meeting certain prescribed conditions, members to request that their pension scheme pays their Annual Allowance tax charge immediately on their behalf, in exchange for a 'just and reasonable' actuarial deduction to be applied to their benefits at retirement. Upon accepting the Scheme Pays Election form the member, and the scheme are jointly and severally liable to the tax charge; this is known as Mandatory Scheme Pays.

If you choose to use the Scheme Pays facility, please note that Teachers' Pensions are only able to pay a tax charge directly related to pension savings in the Teachers' Pension Scheme. The Scheme Pays facility cannot be used in the Teachers' Pension Scheme to pay a tax charge arising from savings in another pension scheme.

In order for a Mandatory Scheme Pays Election to be accepted, certain conditions MUST be met:

1. The Annual Allowance tax charge is £2,000 or more in respect of growth in all pension schemes

2. The growth in the relevant pension scheme exceeds the standard Annual Allowance

3. The Scheme Pays Election is received no later than 31 July in the calendar year following the end of the tax year in which the liability arose

4. Retirement benefits have not yet come into payment when the election is received by the scheme.

However, if there has been a 'change of facts' a member has until the earlier of: the end of the period of three months beginning with day on which the scheme administrator issued the amended PSS and the end of the period of six years beginning with the end of the tax year in question.

With the introduction of 'tapering' from 6 April 2016, members subject to a TAA cannot meet the statutory conditions for a Mandatory Scheme Pays Election. Consequently, following consideration by The Department for Education, the Scheme will accept 'Voluntary' Scheme Pays elections in respect of tax charges from the 2016/17 Pension Input Period onwards. This means that Teachers' Pensions can pay a tax charge that does not meet the statutory conditions required for the 'Mandatory' Scheme Pays Election.

Please note: There's no statutory requirement to accept a 'Voluntary' Scheme Pays Election, it has been allowed 'exceptionally'. Tax charges that are paid, via Voluntary Scheme Pays, after 31 January following the end of the tax year in which the charge arose incurs interest and late payment charges from HMRC. Neither the Scheme nor Teachers' Pensions will accept responsibility to pay these interest and late payment charges, it will be the member's sole responsibility to pay.

It's also worth noting that in order for Teachers' Pensions to meet the entire AA tax charge via Scheme Pays, a combination of Mandatory and Voluntary scheme pays payments to HMRC may be required. However, we do not require you to specify whether your election is for Voluntary or Mandatory Scheme Pays. As long as you fully complete the Scheme Pays Election form, we'll calculate the amount of the tax charge that can be made via a Mandatory election, with any remaining charge, if applicable, met via a Voluntary election.

Please refer to Briefing Note 4 (a) and (b) for more information on Voluntary and Mandatory Scheme Pays.

Reporting and arranging payment of the Annual Allowance tax charge to HMRC along with the timescales involved

You'll need to complete a Self- Assessment tax return; if you don't usually complete one you'll need to register with HMRC for this.

HMRC has issued guidance in the event of inaccurate or indeed no data being available to the member to make an accurate assessment of their AA tax charge.

The guidance in the Pensions Tax manual requires a member, who believes that they may be liable to an AA tax charge, to submit an estimate based on all of the information they have available. Individuals can, at a later date, alter their tax return once accurate data has been provided.

The deadline for completion and submission of the Self-Assessment tax return online is normally 31 January following the end of the tax year.

When completing the return online, HMRC will automatically work out the amount of the Annual Allowance tax charge for you, based on your marginal rate of income tax.

If you've opted to use the Scheme Pays facility to pay the Annual Allowance tax charge then, when completing your self assessment tax return, you'll need to provide the Pension Scheme Tax Reference numbers, to allow HMRC to match the money from the scheme with the individual.

The PSTR number for the Teachers' Pension Scheme (2010) final salary section is 00328821RM.

The PSTR number for the Teachers' Pension Scheme (2015) career average section is 00810719RB.

Recent transfers-in

This section will be applicable to you if you've either transferred-in service from a final salary occupational scheme that participates in the Public Service Transfer Club (Club) or from a Comparable United Kingdom Scheme (CUKS – the equivalent teacher's pension schemes in Scotland and in Northern Ireland) and the transfer was made on or after 28 January 2015.

We would recommend that if you've recently transferred in any 'Club' or CUKS benefits into the Teachers' Pension Scheme, please pay particular attention to the Pension Savings Statement, as you may find that an Annual Allowance tax charge arises as a consequence of transferring in this service.

In simple terms, while the final salary service credit you receive in the Teachers' Pension Scheme is adjusted to take account of any differences in scheme design between your transferring scheme and the Teachers' Pension Scheme, the effect of the transfer is to re-link your earlier period of pensionable service with service completed in the Teachers' Pension Scheme. This means that your benefits are re-linked to your current pensionable salary (if a transfer-in is made to the final salary sections of the Teachers' Pension Scheme), or to in-service revaluation (if you're transferring-in career average benefits, which will be continue to be revalued as if you never left your previous Club scheme).

This can mean there's a step change in the value of your benefits at the point of transfer. If you're now paid a higher salary than when you left the transferring scheme, the value of final salary benefits will increase in comparison to what they were in the previous scheme. For career average benefits, any period between leaving your previous scheme and transferring the benefits into the Teachers' Pension Scheme will now be treated as being active rather than deferred and will be revalued accordingly This can mean that your benefits increase in value at the point of transfer. This increase in value is assessed as part of the Annual Allowance calculations.

A link to the guidance for Club Schemes is set out below:
http://www.civilservicepensionscheme.org.uk/media/181603/transfer-club-and-annual-allowance-note240816.pdf

Where can I get more information?

HMRC has guidance on the Annual Allowance on its website at:
https://www.gov.uk/tax-on-your-private-pension/annual-allowance

Alternatively, you can contact Teachers' Pensions by writing to:

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11b Lingfield Point
Darlington
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