LGPS Information FACTSHEET

SOUTH YORKSHIRE PENSIONS AUTHORITY

Pensions Taxation

Tapered Annual Allowance for High Earners

Commencing from the tax year 2016/2017, HM Revenue and Customs have imposed a further control on the amount of pension savings a person can have before incurring a tax liability. This additional limit is specific to those who, in terms of Local Government, can be classed as 'high earners' or those with high income. This restriction is known as a **Tapered Annual Allowance**.

If a person has an Adjusted Income of over £150,000 for a tax year, the annual allowance will be reduced for that tax year by £1 for every £2 of income received over £150,000. However, this reduction is only applied where conditions in respect of pay levels and benefit accrual are breached. The two components of these conditions are **Threshold Income** and **Adjusted Income**.

Threshold Income can be defined broadly as a persons taxable income after the deduction of pension contributions (including AVCs deducted under the net pay arrangement). **Threshold Income** includes all sources of income that are taxable e.g. property income, savings income, dividend income, pension income, social security income (where taxable), state pension income etc. The **Threshold Income** limit is £110,000. Please note no deduction from taxable income can be made as a result of any salary sacrifice made on or after 9th July 2015.

Adjusted Income is broadly a persons **Threshold Income** plus pensions savings built up over the tax year, i.e. a persons Pension Input Amount. The **Adjusted Income** limit is set at £150,000.

HMRC Guidance can be found at *https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance* and provide confirmation of the elements contained within each definition.

A persons Pension Input Amount is currently provided within your Annual Pension Forecast and represents the growth of a members LGPS benefits within the South Yorkshire Pension Fund (SYPF) for that scheme year.

How does the Taper work?

Where the limits for BOTH the **Adjusted Income** and **Threshold Income** have been exceeded, the reductions to Annual Allowance begin to bite.

The Taper reduces the Annual Allowance by £1 for every £2 of **Adjusted Income** received over £150,000, until a minimum Annual Allowance of £10,000 is reached. To put this into some kind of context, the table below provides an indication of reduction a person can expect.

Adjusted Income	Annual Allowance
£150,000 or below	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or above	£10,000

You should note that the table is not a range and is for illustrative purposes only. Any actual reduction is calculated accurately, to the nearest pound.

Continues on next page >>

Example 1

Betty has a Basic Salary of £120,000 and pays a pension contribution rate of 11.4%.

In this case, the persons **Threshold Income** is £106,320, which is under the £110,000 limit and therefore no further test is necessary. The members Pension Input Amount (pension saving within a year) is £19,500 and therefore under £40,000 (the normal limit), so no potential tax charge is due.

Betty	
Gross Salary 2016/17	£120,000
Less employee pension contributions Contribution rate is 11.4%	£13,680
Threshold Income 2016/17 Below £110,000 so the Annual Allowance will not be tapered and remains at £40,000	£106,320
Pensions saving in the year **Less than £40,000 so no tax charge**	£19,500

Example 2

Bob has a basic salary of £130,000 but has other income arising from property rental. Because this is taxable income it is included within the **Threshold Income** assessment, which for Bob amounts to £145,180. As this exceeds the limit of £110,000, the second Adjusted Income test is required.

A persons Pension Input Amount (PIA) is the pension growth from all pension arrangements from that year. SYPA can only provide the figures in respect of benefits accrued in relation to the SYPF. The **Adjusted Income** is the persons **Threshold Income** plus their total PIA for that year. In Bob's case, this results in a total of £175,180, which exceeds the £150,000 limit and therefore a Tapered Adjustment is required and calculated as:

Tapered Adjustment
£175,180 - £150,000 = £25,180 / 2 = £12,590

Standard Annual Allowance is
£40,000

Tapered Annual Allowance for the year is
£40,000 - £12,590 = £27,410

Bob's PIA is £30,000, and therefore exceeds the Tapered Annual Allowance by £2,590. This is the amount upon which tax is payable at Bob's marginal rate.

Bob	
Gross Salary 2016/17	£130,000
Less employee pension contributions Contribution rate is 11.4%	£14,820
Plus taxable income from property	£30,000
Threshold Income 2016/17	£145,180
Plus pensions saving in the year	£30,000
Adjusted Income 2016/17 Greater than £150,000 so Annual Allowance will be tapered	£175,180
Tapered Annual Allowance	£27,410
In excess of Annual Allowance Pension saving of £30,000 less tapered Annual Allowance	£2,590
Annual Allowance tax charge at marginal rate (assumed to be 40%) £2,590 x 40%	**£1,036**

Please note, the examples above make no allowance for any carry forward, i.e. the ability to use any unused Annual Allowance from any of the previous three years.

Exceeding the Annual Allowance

If you have exceeded the Annual Allowance and have an Annual Allowance tax charge then you could ask the Pensions Authority to pay it by reducing your pension benefits. This is known as Scheme Pays.

Value in excess of the Annual Allowance after the Tapered Adjustment	Scheme Pays Option
Up to £40,000	Voluntary Scheme Pays
£40,000+	Mandatory Scheme Pays

Deadline

If you wish to take advantage of Scheme Pays then the latest date to return the Scheme Pays Nomination Form to us is Thursday7th December.

The deadline to complete the tax return and pay the Annual Allowance Tax charge is 31st January 2018.

Continues on next page >>

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