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Pension Tax Briefing

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January 2016



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- AA & LTA Overview
- How do they affect me?
- What are the changes?
- What action can you take?
- Q&A

Annual Allowance (AA)

- Maximum value of pension benefits growth, or the total contributions made, each year





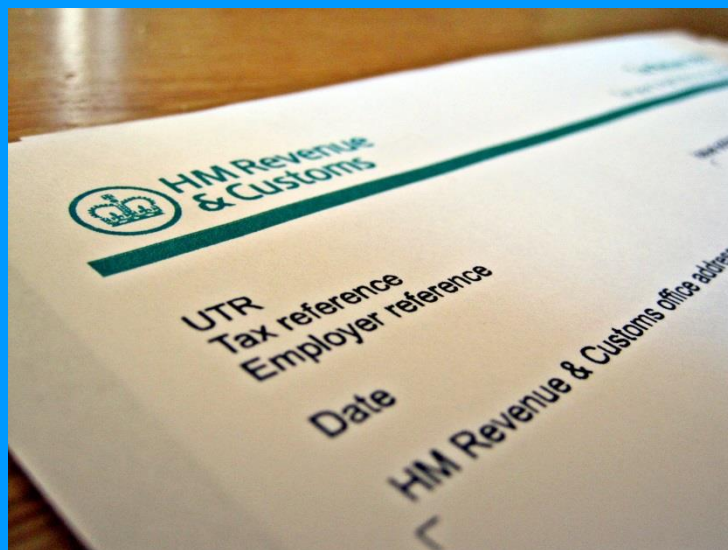
Lifetime Allowance (LTA)



- Maximum value of your benefits (pension & cash) on retirement



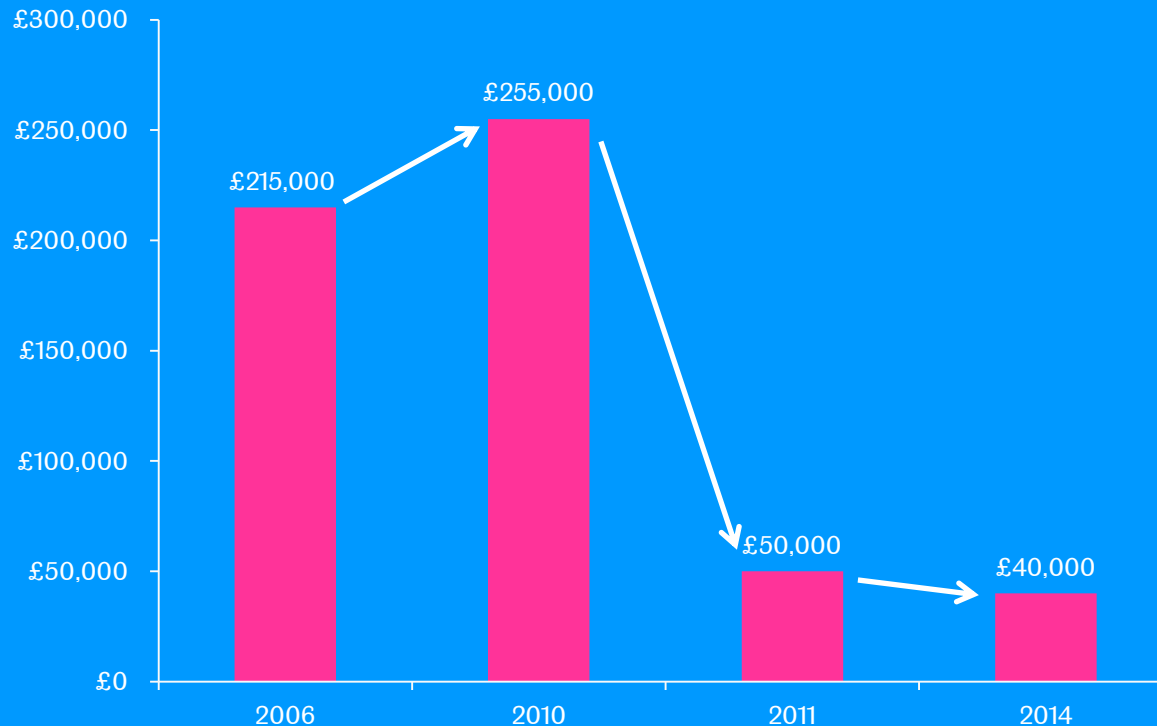
What if you exceed AA/LTA?



- Tax charges apply
- They are *allowances, not limits*



Annual Allowance – a brief history



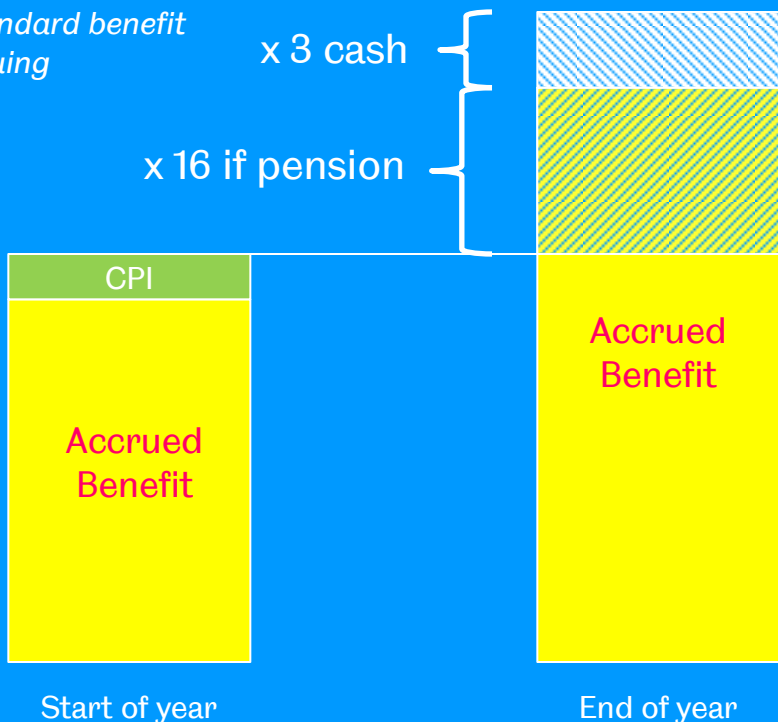


Annual Allowance

Defined Benefit

Defined Contribution

Note: Only include cash element if it is a standard benefit accruing



Amount of contributions paid by member and employer



Causes & mitigation

- Pay increases/promotions
- Longer service
- Higher salary

- Carry forward available
 - Unused AA from previous 3 years

Example 1 (before summer 2015 budget)



Sam has 25 years' service in USS
Salary last year was £80,000, this year it's £100,000

- Carry forward available from previous 3 years = £15,000
- AA available for 2015-16 is (£40,000 + £15,000) = £55,000
- Accrued pension at April 2015 $((24/80 \times £80k) \times 1.012)$ = £24,288
- Accrued pension at April 2016 $(25/80 \times £100,000)$ = £31,250
- HMRC "value" of benefits built up in 1 yr $((£31,250 - £24,288) \times 19)$ = £132,278
- Excess above AA is $(£132,278 - £55,000)$ = £77,278
- **Tax charge (assuming 40% marginal tax rate) = £30,911**



Do I need to worry about AA?

Annual salary	10	20	30	40
£150,000	£49,590	£63,128	£76,665	£90,203
£140,000	£46,284	£58,919	£71,554	£84,189
£130,000	£42,978	£54,711	£66,443	£78,176
£120,000	£39,672	£50,502	£61,332	£72,162
£110,000	£36,366	£46,294	£56,221	£66,149
£100,000	£33,060	£42,085	£51,110	£60,135
£90,000	£29,754	£37,877	£45,999	£54,122
£80,000	£26,448	£33,668	£40,888	£48,108
£70,000	£23,142	£29,460	£35,777	£42,095
£60,000	£19,836	£25,251	£30,666	£36,081
£50,000	£16,530	£21,043	£25,555	£30,068
£40,000	£13,224	£16,834	£20,444	£24,054

Note: these figures are indicative only. Your own personal situation may differ.

<http://www.uss.co.uk/SchemeGuide/FinalSalaryBenefitssection/taxconsiderations/Pages/default.aspx>



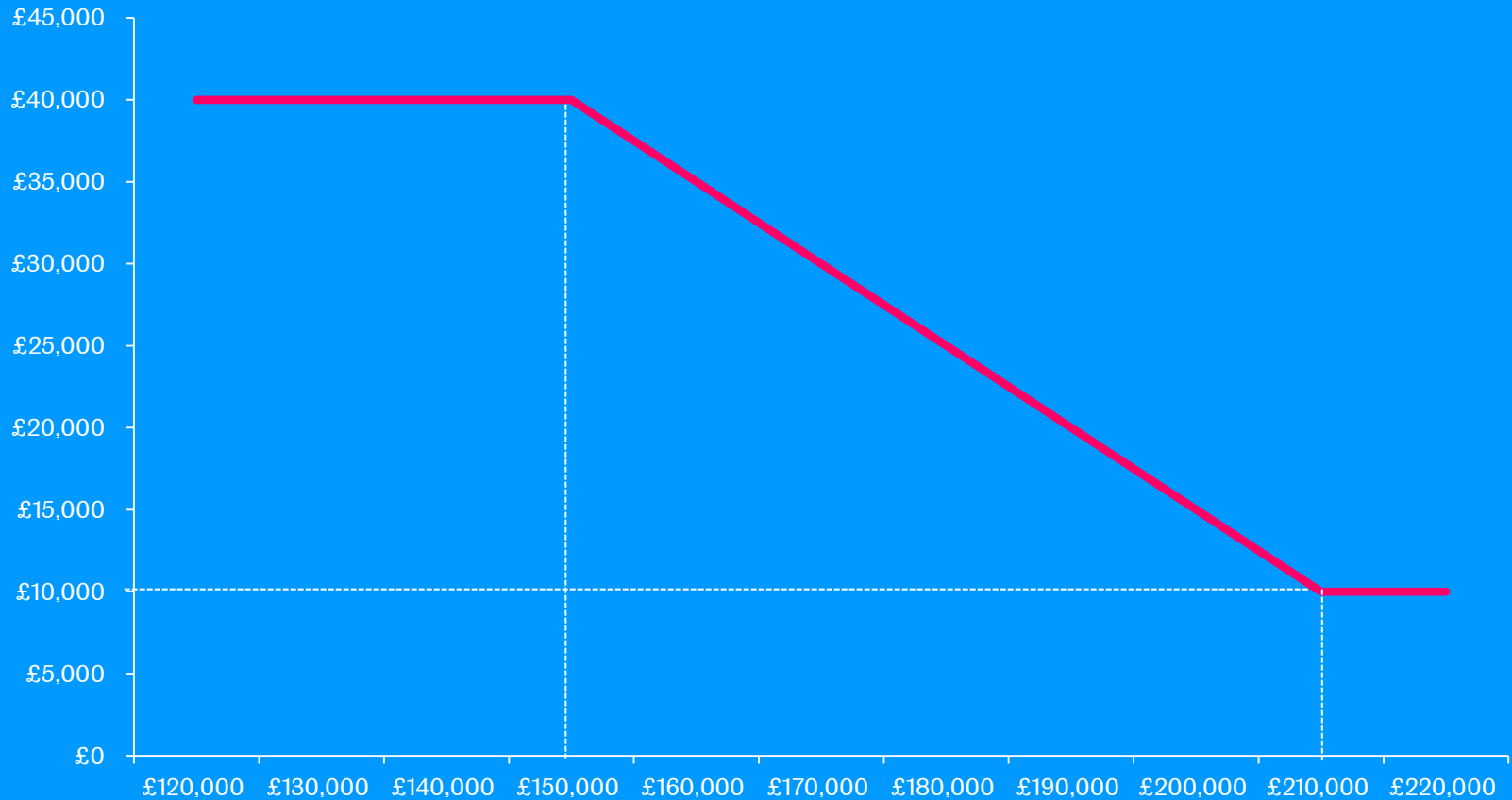
Summer Budget 2015 changes

1. Tapered Annual Allowance (TAA) – effective April 2016
2. Realignment of Pension Input Period (PIP) – happening in 2015-16





Tapered Annual Allowance (TAA)



Adjusted income

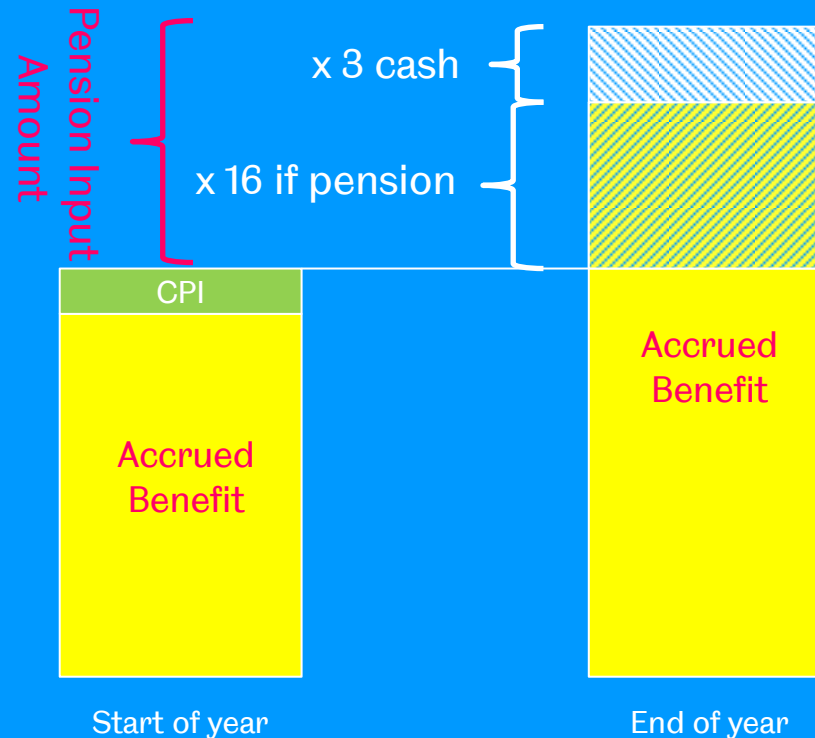
New terminology:

- “Threshold Income”
 - Taxable income (earnings in work, rental income, dividends etc),
 - **Less** any contributions to contract based (personal) pension scheme
 - **Plus** employer contributions to a new salary sacrifice arrangement (started after 9 July 2015)
- “Adjusted Income”
 - Threshold Income
 - **Plus** member and employer contributions to a DC scheme
 - **Plus** “Pension Input Amount” in a DB scheme



Annual Allowance

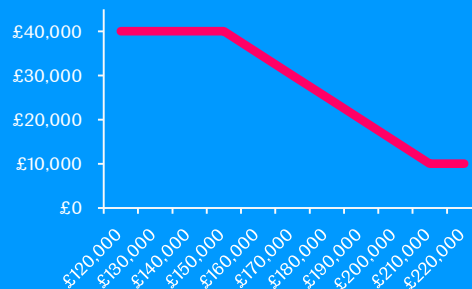
Defined Benefit





Am I affected by TAA?

- Threshold Income > £110,000?
 - If not, TAA does not apply – AA = £40,000
- Adjusted Income > £150,000?
 - If not, TAA does not apply; AA = £40,000
- If “yes” to the above, TAA applies



Example 2 – Threshold/Adjusted Income

Jo has a salary of £100,000 and also receives rental income of £20,000. She receives no other income.

Hence her total taxable income is £120,000 for the 2016-17 tax year – above the Threshold Income of £110,000

She is a member of NHSPS and the value of the increase in her pension benefits is £35,000 in the tax year. So her Adjusted income is £155,000, and so she has an AA of £37,500

Mel also has a salary of £100,000 and receives a bonus of £9,000 on 5 April 2017. He receives no other income.

Hence his total taxable income is £109,000 and so is below the Threshold Income.

As a result, he has an AA of £40,000 irrespective of the level of his pension savings over the tax year.

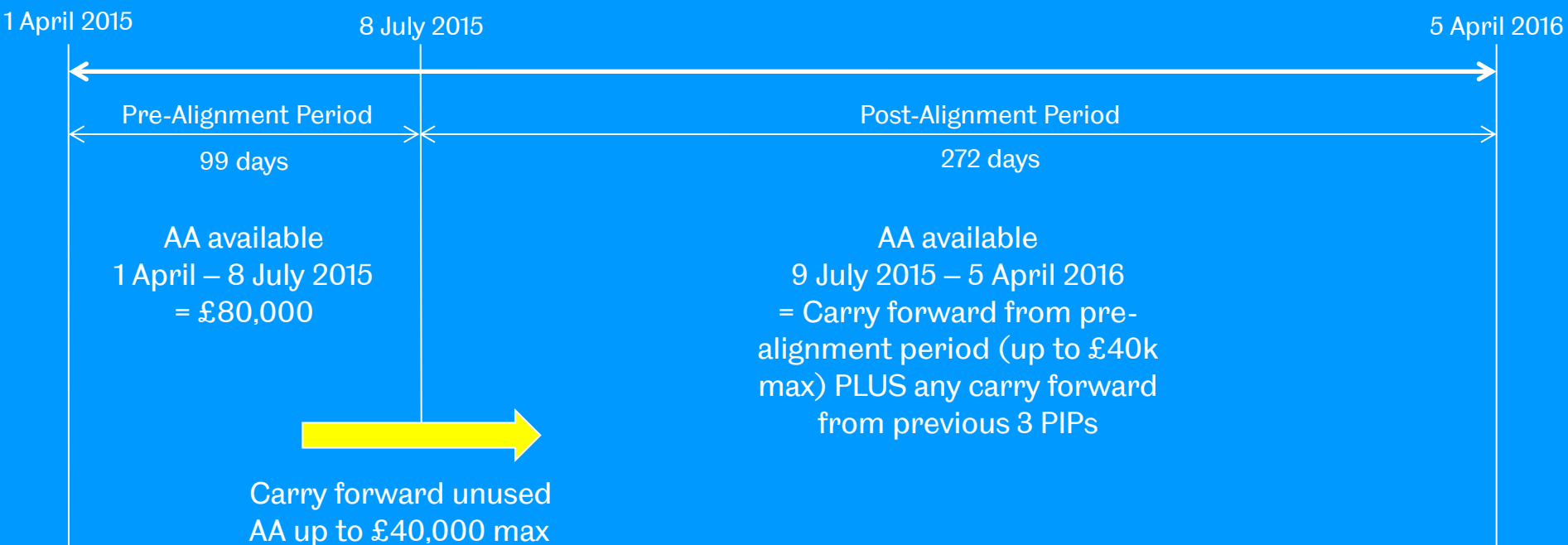


Realignment of PIP in 2015-16

- Change mid year – effective Budget day (8 July 2015)
- Previously PIP for USS/NHSPS = 1 April – 31 March
- But now.....



Realignment of PIP in 2015-16



Also, re-valuation figure to be used = 2.5% (instead of CPI at 1.2%)

Example 3 (after summer 2015 budget)



Sam has 25 years' service in USS
Salary last year was £80,000, this year it's £100,000

- Carry forward available from previous 3 years = £15,000
- Accrued pension at April 2015 $((24/80 \times £80k) \times 1.025)$ = £25,625
- Accrued pension at April 2016 $(25/80 \times £100,000)$ = £31,250
- HMRC "value" of benefits built over period $((£31,250 - £25,625) \times 19)$ = £106,875
 - Pre-Alignment value $(£106,875 \times (99/371))$ = £28,519
 - Carry forward to Post-Alignment period $(£80,000 - £28,519 = £51,481)$ = £40,000 (max possible)
 - Post-Alignment value $(£106,875 \times (272/371))$ = £78,356
- Excess above AA is $(£78,356 - £40,000 - £15,000)$ = £23,356
- **Tax charge (assuming 40% marginal tax rate) = £9,342**



Impact of USS Changes on AA

- CRB 1/75th up to £55k cap (+ 3 x tax-free cash)
 - $1/75 \times £55,000 = £733$
 - AA used = $£733 \times 19 = £13,933$
- Salary above £55k in the DC section
 - 20% contribution
 - AA used = $20\% \times \text{Salary above cap}$
 - Plus contributions into 1% match facility
- Add the two together

Example 4 – AA in new USS



Sam earns £100,000 over the course of the year

- AA used in CRB section $((1/75 \times £55k) \times 19)$ = £13,933
- AA used in DC section above cap $(20\% \times £45k)$ = £9,000
- AA used in DC 1% matched AVC facility $(2\% \times £100k)$ = £2,000
- Total AA used $(£13,933 + £9,000 + £2,000)$ = £24,933
- AA available (is below threshold earnings of £110k) = £40,000
- **Tax charge** = **£Nil**

For more info on USS changes see:

<http://www.sheffield.ac.uk/hr/guidance/usschanges>



AA usage – new USS design

Salary	Allowance used
£250,000.00	£58,133.33
£240,000.00	£55,866.67
£220,000.00	£51,333.33
£210,000.00	£49,066.67
£200,000.00	£46,800.00
£190,000.00	£44,533.33
£180,000.00	£42,266.67
£170,000.00	£40,000.00
£160,000.00	£37,733.33
£150,000.00	£35,466.67
£140,000.00	£33,200.00
£130,000.00	£30,933.33
£120,000.00	£28,666.67
£110,000.00	£26,400.00
£100,000.00	£24,133.33
£90,000.00	£21,866.67
£80,000.00	£19,600.00
£70,000.00	£17,333.33
£60,000.00	£15,066.67
£50,000.00	£13,300.00
£40,000.00	£12,033.33

Note: these figures take into account the phasing of changes in 2016-17. They are indicative only. Your own personal situation may differ.

<http://www.uss.co.uk/SchemeGuide/FinalSalaryBenefitssection/taxconsiderations/Pages/default.aspx>



Triggering an AA tax charge

- Schemes should issue a statement to anyone who has exceeded AA in the previous year *in that scheme*
 - Issued in October following end of tax year
 - Note, if you have other pension scheme arrangements, you will need to consider whether you may have breached the AA through a combination of benefit accrual in all schemes
- Your responsibility to tell HMRC via self-assessment tax return that you have breached the AA and what amount of tax is therefore due
 - Self-assessment deadline is 31 January following end of tax year
 - If you receive a notification that you have breached AA, but have sufficient carry forward from 3 previous years, no need to inform HMRC – only want to know if you owe them anything

Paying an AA tax charge

- Pay direct to HMRC

- Simple, but potentially painful
- No choice if tax charge is $< \pounds 2,000$



- Scheme pays

- Request scheme pays HMRC directly if charge $> \pounds 2,000$
- Scheme will then reduce your pension fund by the amount paid to HMRC
- Will result in a lower pension payment being made to you
 - https://www.ussbenefitmodeller.co.uk/scheme_pays for USS calculator
 - [http://www.nhsbsa.nhs.uk/Documents/Pensions/Annual_Allowance_Estimating_the_cost_of_Scheme_Pays_05.2015\(V2\).pdf](http://www.nhsbsa.nhs.uk/Documents/Pensions/Annual_Allowance_Estimating_the_cost_of_Scheme_Pays_05.2015(V2).pdf) for NHSPS factsheet
- Knock on effects for LTA (reduces overall value of fund)
- Must declare this to HMRC by 31 Jan and inform scheme by 31 July
- USS in future, first port of call for scheme pays will be DC fund



Deadlines – 2015-16 Tax Year

October 2016

Scheme sends pension savings statements to those who have exceeded AA in that scheme in 2015-16 tax year

31 January 2017

Member notifies HMRC via self-assessment tax return of tax charge and that they wish to use “scheme pays” – latest submission date for 2015-16 tax year

31 July 2017

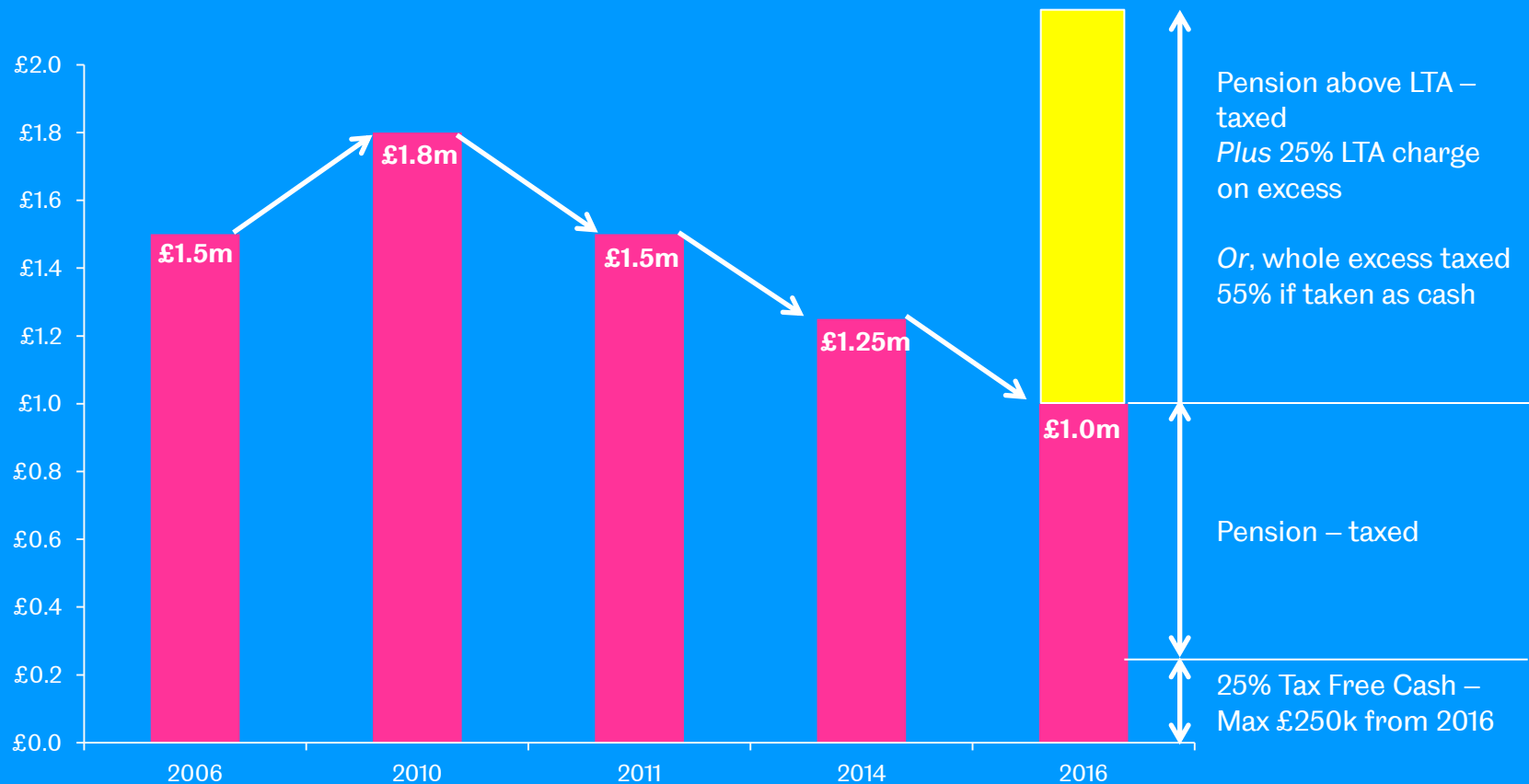
Latest date for member to make election to proceed with “scheme pays” for 2015-16 tax year – inform relevant scheme

31 December 2017

Tax payable from pension scheme comes due – scheme responsibility



Lifetime Allowance (LTA)





How do I calculate LTA?

- DB
 - Value of pension x 20
 - Plus tax-free cash
- DC
 - Value of fund
- LTA includes all funds, AVCs etc
- LTA Tax charges applicable when access benefits



Do I need to worry about LTA?

Pensionable salary	Years of service						
	10	15	20	25	30	35	40
£150,000.00	£431,250.00	£646,875.00	£862,500.00	£1,078,125.00	£1,293,750.00	£1,509,375.00	£1,725,000.00
£140,000.00	£402,500.00	£603,750.00	£805,000.00	£1,006,250.00	£1,207,500.00	£1,408,750.00	£1,610,000.00
£130,000.00	£373,750.00	£560,625.00	£747,500.00	£934,375.00	£1,121,250.00	£1,308,125.00	£1,495,000.00
£120,000.00	£345,000.00	£517,500.00	£690,000.00	£862,500.00	£1,035,000.00	£1,207,500.00	£1,380,000.00
£110,000.00	£316,250.00	£474,375.00	£632,500.00	£790,625.00	£948,750.00	£1,106,875.00	£1,265,000.00
£100,000.00	£287,500.00	£431,250.00	£575,000.00	£718,750.00	£862,500.00	£1,006,250.00	£1,150,000.00
£90,000.00	£258,750.00	£388,125.00	£517,500.00	£646,875.00	£776,250.00	£905,625.00	£1,035,000.00
£80,000.00	£230,000.00	£345,000.00	£460,000.00	£575,000.00	£690,000.00	£805,000.00	£920,000.00
£70,000.00	£201,250.00	£301,875.00	£402,500.00	£503,125.00	£603,750.00	£704,375.00	£805,000.00
£60,000.00	£172,500.00	£258,750.00	£345,000.00	£431,250.00	£517,500.00	£603,750.00	£690,000.00
£50,000.00	£143,750.00	£215,625.00	£287,500.00	£359,375.00	£431,250.00	£503,125.00	£575,000.00
£40,000.00	£115,000.00	£172,500.00	£230,000.00	£287,500.00	£345,000.00	£402,500.00	£460,000.00

<https://www.uss.co.uk/members/existing-arrangements/final-salary-information/tax-considerations>



What can I do about the LTA?

Individual Protection 2014

- Personal LTA >£1.25m, up to £1.5m max (as at 5 April 2014)
- Continue to build up pension
- Max tax-free cash = 25% of personal LTA
- Can apply up to 5 April 2017

Fixed Protection 2016

- Keep LTA £1.25m
- Max tax-free cash up to £312,500
- No more pension accrual

Individual Protection 2016

- Personal LTA >£1m at 5 April 2016, up to max of £1.25m
- Continue to build up pension
- Max tax-free cash = 25% of personal LTA

Both available on-line from July 2016. If seeking to access FP16 or IP16 before then, must write to HMRC to secure it and then re-apply on-line after July 2016.



Some options within USS

Note: previous options re temporary cessation of accrual and 'defer and re-start' options will no longer be available after 1 April 2016



Enhanced opt out

- Opt out of scheme – no further pension benefit accrual
- Maintain cover for death in service & ill-health retirement benefits only
- Member contribution 2.5%
- Employer contribution 2.1% (from April 2016)
- Can be cancelled, but must remain in place 12 months
- Can still make contributions to DC part of scheme (no employer match)



Voluntary salary cap (VSC)

- Available from 1 Oct 2016
- Can cap pensionable salary at any level down to £55k
- Elections made each year at 1 April
- Election for a full scheme year (except Oct 2016-Mar 2017)
- Member pays 8% up to VSC/University pays 18%
- University pays 2.1% of salary above VSC – deficit payment
- Employer DC match facility available on salary up to VSC
- Option to retain death in service & ill-health retirement benefits on full salary if member pays 2.5% of salary above VSC



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Actions/Next Steps



What should you do?

- Be aware of the changes
- Calculate (or estimate) impact on you
- Understand choices – payment of tax charge, mitigation, protection etc etc
- Implement decisions – take action
- Look to maximise outcomes, not minimise tax

“Don’t let the tax tail wag the pensions dog”

(a wise pensions expert)



Further information:

- USS:
 - www.uss.co.uk/members/existing-arrangements/final-salary-information/tax-considerations
- NHSPS
 - <http://www.nhsbsa.nhs.uk/Pensions/4200.aspx>
- UoS
 - <http://www.sheffield.ac.uk/hr/guidance/pensions/tax>
 - <http://www.sheffield.ac.uk/hr/guidance/usschanges>
- HMRC
 - <http://www.hmrc.gov.uk/helpsheets/hs345.pdf>