JSS Pensions Administration

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Information for members of the Research Councils' Pension Scheme

Changes to the Annual Allowance

What Do I Need To Know

On 8 July 2015 the Government announced a number of changes to the Annual Allowance;

- Aligning pension input periods to the tax year
- Introducing transitional rules to protect some pension savings
- Tapering of the Annual Allowance for incomes over £150,000

Aligning pension input periods

As from 6 April 2016, the amount of your annual allowance for a tax year will be restricted if you have income of over £150,000 for that tax year. To ensure the measure works as intended it is necessary to align pension input periods with the tax year.

The pension input period normally runs for a year, for example for the Research Councils' Pension Scheme this was from 1 January to 31 December. For the 2015-16 tax year there will be two input periods; 1 January 2015 to 8 July 2015 (pre-alignment) and then 9 July 2015 to 5 April 2016 (post-alignment). Thereafter the pension input period will be aligned to the tax year 6 April to 5 April.

Transitional rules for pension input periods

All existing arrangements on 8 July 2015 will have 2 pension input periods ending in tax year 2015-16, which means that some individuals may have put in pension savings of more than £40,000 prior to the Budget, on the expectation that these savings would be tested against the annual allowance for tax years 2015-16 and 2016-17 but which will now be only tested against the annual allowance for 2015-16. Transitional rules are therefore being introduced to ensure that in these circumstances pre-Budget savings of up to £80,000 are protected from an annual allowance charge.

Example 1

Alex has pension savings of £73,000 for pension input periods ending in 2015-16 of which £61,000 was made before 9 July 2015 and £12,000 after. Alex is not subject to the money purchase annual allowance. As Alex's total savings are less than £80,000 and the post-budget savings are less than £40,000, Alex will not have an annual allowance charge for 2015-16.

Carry Forward

Carry forward will continue to apply as currently, that is any unused annual allowance from the 3 previous tax years can be carried forward to the current tax year. However there are special rules that apply for tax year 2015-16.

Example 2
Chris has unused annual allowance from the 2012/13, 2013/14 and 2014/15 tax years totaling £50,000 and pension savings of £83,000 for pension input periods ending in 2015-16 of which £30,000 was made before 9 July 2015 and £53,000 after. Unused annual allowance for the pre-alignment tax year is £50,000 (£80,000- £30,000) meaning that Chris is able to carry forward the maximum £40,000 to the post-alignment tax year. None of the unused annual allowance from the three tax years immediately prior to 2015/16 has been used in the pre-alignment tax year, meaning that an additional £50,000 is available for the post-alignment tax year giving a total of £90,000 (£40,000 + £50,000) therefore Chris will not have an annual allowance charge for 2015-16.

Paying any annual allowance charge for 2015-16

An individual's annual allowance charge for 2015-16 will be the total of any charge arising from either the pre-alignment tax year or the post-alignment tax year or both. You will be advised of any tax charge arising from your RCPS membership in your Pension Savings Statement.

Any annual allowance charge for 2015-16 should be reported on the 2015-16 Self-Assessment Tax return as normal.

Tapering of the Annual Allowance

From 6 April 2016, individuals who have income for a tax year of greater than £150,000 will have their annual allowance (£40,000) for that tax year restricted. It will be reduced, so that for every £2 of income they have over £150,000, then their annual allowance is reduced by £1. The maximum reduction to the annual allowance will be £30,000, so that anyone with adjusted income of or above £210,000 will have an annual allowance of £10,000.

The income definition for this restriction will not be the same as taxable income, but will include the value of pension savings. This is known as "adjusted income". This will ensure the restriction applies fairly and cannot be avoided for example through salary sacrifice.

To provide some certainty for scheme administrators and individuals over who may be affected, and to ensure that lower paid individuals are not affected by the addition of pension savings, this restriction will be subject to an income floor of £110,000 which will normally be an individual's net income for the tax year. This is known as "threshold income".

Where an individual has threshold income of £110,000 or less they cannot be subject to the restriction regardless of the level of their adjusted income.

As at present, any unused annual allowance from the 3 previous tax years will be able to be carried forward and added to the individual's annual allowance. Where this annual allowance is reduced by the taper, the carry forward will be the balance of the tapered amount.

HM Revenue & Customs provide further guidance on transitional provisions for aligning pension inputs, tapered annual allowance and the definition of "adjusted income" on their website here.