

## **Pensions Taxation - Annual Allowance**

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## Introduction

HM Revenue and Customs (HMRC) limits the amount of pension savings you can make without having to pay extra tax. This limit is in addition to any income tax you pay on your pension once it is being paid to you.

Before the 2023 Spring Budget there were two mechanisms for taxing pensions, the Annual Allowance and the Lifetime Allowance. However, in that Budget, the Chancellor announced that nobody would face a Lifetime Allowance charge from 6 April 2023 onwards, and that it will be abolished entirely in April 2024.

If you are affected by the age discrimination remedy, please refer to the [Age Discrimination Remedy – Annual Allowance factsheet](#)

## What is the Annual Allowance?

The Annual Allowance (AA) is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. This is in addition to any income tax you pay on your pension once it is in payment.

If the value of your pension savings in any one year, including pension savings outside of the Firefighters' Pension Scheme (FPS) are in excess of the annual allowance, the excess will be taxed as income.

The standard annual allowance has increased to £60,000 from 6 April 2023. For the tax years 2016/17 to 2022/23 it was £40,000.

Additional changes to the annual allowance were made for higher earners from 6 April 2016, which resulted in special transitional rules for the 2015-16 tax year. These changes, known as the [tapered annual allowance](#) are covered in more detail later in this factsheet.

Table 1: Annual allowance limits from 2011

Pension Input Period	Annual Allowance
1 April 2011 to 31 March 2012	£50,000
1 April 2012 to 31 March 2013	£50,000
1 April 2013 to 31 March 2014	£50,000
1 April 2014 to 31 March 2015	£40,000
1 April 2015 to 5 April 2016	£80,000 (transitional rules apply)
6 April 2016 to 5 April 2023	£40,000 (unless tapering applies)
6 April 2023 to 5 April 2024	£60,000 (unless tapering applies)

## Changes to Annual Allowance

The Finance (No 2) Act 2015 introduced two important changes to the AA with effect from 6 April 2016.

1. An annual allowance taper for high earners from 6 April 2016 and
2. To adjust the 'pension input period' during 2015/16 so that it became aligned with the tax year from 6 April 2016.

## Am I likely to be affected by the Annual Allowance?

Most people will not be affected by the AA tax charge because the value of their pension saving will not increase in a year by more than £60,000 (from 2023/24) or if it does, they are likely to have unused allowance from previous years that can be carried forward.

You are most likely to be affected if:

- you have a lot of scheme membership, and you receive a significant pay increase, and/or;
- you pay a high level of additional contributions, and/or;
- you are a higher earner, and/or;
- you transfer pension rights into the FPS from a previous public sector pension scheme<sup>1</sup> under the preferential club transfer rules and your salary (full time equivalent) upon joining the FPS is somewhat higher than the salary you earned when you left the previous scheme, and/or;
- you combine a previous FPS pension benefit that was built up in the final salary section of the FPS with your current pension account and your salary (full time equivalent) has increased significantly since leaving and re-joining the scheme.
- You have accessed flexible benefits since April 2015.

Your pension administrator will inform you if your FPS pension savings exceed the standard AA in any year by no later than 6 October of the following tax year.

## What are flexible benefits?

Flexible benefits are ways that members of defined contribution pension schemes can take money from their pension pots after age 55. The FPS is not a defined contribution pension scheme. The introduction of flexible benefits in 2015 did not bring in any new ways that you can take your FPS pension.

There are four main ways that members of defined contribution pension schemes that offer flexible benefits can take money from their pension pots. Those four ways are:

- to purchase an annuity (yearly pension) or scheme pension
- take a number of lump sums at different times
- take the entire pot as cash in one go
- flexi-access drawdown.

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<sup>1</sup> A public service pension scheme includes a pension scheme covering civil servants, the judiciary, the armed forces, any scheme in England, Wales or Scotland covering local government workers, or teachers, or health service workers, or fire and rescue workers or members of the police forces; or membership of a new public body pension scheme.

## How is the Annual Allowance calculated?

The increase in the value of your pension savings in the FPS in a year is calculated by working out the value of your benefits immediately before the start of the 'pension input period', increasing the value by inflation (Consumer Prices Index (CPI)) and then comparing it with the value of your benefits at the end of the 'pension input period'.

The 'pension input period' (PIP) is the period over which your pension growth is measured. From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Before 2016-17 the PIP for the FPS was 1 April to 31 March, except for the year 2015-16 when special [transitional rules](#) applied.

The value of your FPS benefits is:

- your annual pension multiplied by 16, plus,
- Any lump sum that you commute (give up) your pension to provide for

If the difference in the value of pension benefits at the end of the PIP less the value of your pension benefits immediately before the start of PIP (adjusted for inflation), is more than the AA then you may be liable to pay a tax charge.

It is important to note that the assessment for the AA applies to all pension schemes, not just the FPS. If you pay into more than one pension scheme in a year, you will need to find out the total increase in pension savings across all schemes to find out the total increase in pension savings across all schemes to find out if you have exceeded the AA.

For example, if the increase in the value of your FPS benefits was calculated as £30,000 in 2022-23 when the AA was £40,000, but you also had an increase in the value of other pension benefits of £15,000 in the same year, that would mean you had a total increase in pension benefits of £45,000. If you did not have any carry forward (see below for more information), you would be liable for a tax charge for the amount you exceeded the AA by; even though at face value you did not breach the AA in either scheme.

## Carry forward

The carry forward rule allows you to carry forward unused annual allowance from the previous three years. This means that even if the value of your pension savings increases by more than the AA in a year you may not be liable to the AA tax charge. To carry forward unused annual allowance from an earlier year, you must have been a member of a tax-registered pension scheme in that year.

For example, if the value of your pension savings in 2023-24 increased by £70,000 (i.e. by £10,000 more than the AA) but in the three previous years had increased by £25,000, £28,000 and £30,000, then the amount by which each of these previous years fell short of the AA for those three years would more than offset the £10,000 excess pension saving in the current year. There would be no AA tax charge to pay in this case.

## Tapered Annual Allowance for higher earners

From the tax year 2016/17 onwards, the AA is tapered for high earning individuals. The AA will be reduced if your 'Threshold Income' and 'Adjusted Income' exceed the limits in a year. For every £2 that your Adjusted Income exceeds the limit, your AA is tapered down

by £1. Your AA cannot be reduced below the minimum that applies. The Government has changed these limits since they were first introduced. Table 2 shows the limits that apply.

Table 2 – tapered annual allowance limits

	Definition	Limit 2016/17 to 2019/20	Limit 2020/21 to 2022/23	Limit 2023/24 onwards
<b>Threshold Income</b>	Broadly your taxable income after the deduction of your pension contributions (including AVCs)	£110,000	£200,000	£200,000
<b>Adjusted Income</b>	Broadly your threshold income plus pensions savings built up over the tax year	£150,000	£240,000	£260,000
<b>Minimum AA</b>	If your AA is tapered, the minimum AA that can apply	£10,000	£4,000	£10,000

Threshold income includes income from all sources that is taxable e.g. property income, savings income, dividend income, pension income, social security income (where taxable), state pension income etc.

You are not allowed to deduct from taxable income any amount of employment income given up for pension provision because of any salary sacrifice made on or after 9 July 2015.

## How does the taper work?

From the 2023/24 year, the taper reduces the AA by £1 for £2 of adjusted income received over £260,000, until a minimum AA of £10,000 is reached. The AA that applies for high earners from 6 April 2023 is shown in table 3.

Table 3 - The tapered AA from 2023/24 onwards

Adjusted Income	Annual Allowance
£260,000 or below	£60,000
£280,000	£50,000
£300,000	£40,000
£320,000	£30,000
£340,000	£20,000
£360,000 or above	£10,000

Tables 4 and 5 shows the effect of the tapered annual allowance in the years up to 2022/23.

Table 4 - The tapered AA from 2020/21 to 2022/23

Adjusted Income	Annual Allowance
£240,000 or below	£40,000
£250,000	£35,000
£260,000	£30,000
£270,000	£25,000
£280,000	£20,000
£290,000	£15,000
£300,000	£10,000
£312,000 or above	£4,000

Table 5 – The tapered AA from 2016/17 to 2019/20

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

For an example of the tapered annual allowance see [Appendix 1](#).

## Annual Allowance 'Flexible Benefit' access

If you have any benefits in a money purchase (defined contribution) pension arrangement which you have flexibly accessed on or after 6 April 2015 then the Money Purchase Annual Allowance (MPAA) rules may apply. However, the MPAA will only apply if your total contributions to a money purchase arrangement in a Pension Input Period exceed the MPAA.

Generally, if you have flexibly accessed any benefits in a money purchase arrangement on or after 6 April 2015, any further contributions you make to a money purchase scheme in subsequent tax years will be tested against the MPAA. If your contributions exceed the MPAA your defined benefit pension (FPS) savings will be tested against the alternative AA and you will pay a tax charge in respect of your money purchase saving in excess of the MPAA.

Table 6: Money Purchase Annual Allowance limits from 2016

<b>Tax Year</b>	<b>MPAA</b>	<b>Alternative annual allowance if MPAA is exceeded</b>
<b>2016-17</b>	£10,000	£30,000
<b>2017-23</b>	£4,000	£36,000
<b>2023/24</b>	£10,000	£50,000

Special transitional rules applied for the tax year 2015-16 – contact your pension administrator for more information, if applicable.

If you access flexible benefits, you will be provided with a flexible access statement; you should provide your administrator with a copy of this statement.

Flexible access means taking a cash amount over the tax-free lump sum from a flexi-access drawdown account, taking an uncrystallised funds pension lump sum (UFPLS), purchasing a flexible annuity, taking a scheme pension from a defined contribution scheme with fewer than 12 pensioner members or taking a stand-alone lump sum if you have primary but not enhanced protection<sup>2</sup>.

## Exceeding the Annual Allowance

If you exceed the AA in any year, you are responsible for reporting this to HMRC on a self-assessment tax return, even if you don't normally complete one. Your pension administrator is obliged to notify you if your FPS benefits exceed the standard AA, or if they believe you have exceeded the MPAA, in a year. They must inform you by no later than 6 October of the following tax year. However, your pension administrator is not obliged to inform you if you exceed the tapered annual allowance.

If you have an AA tax charge that is more than £2,000 and your pension savings in the FPS alone have increased in the year by more than the standard AA, you may be able to opt for the scheme to pay some or all the tax charge on your behalf. The tax charge would then be recovered from your pension benefits when you retire.

If you want your Fire and Rescue Authority (FRA) to pay some or all an AA tax charge on your behalf, you must notify them no later than 31 July in the year following the end of the year to which the AA charge relates. However, if you are retiring (and draw all your benefits from the FPS) and you want the scheme to pay some or all of the tax charge on your behalf from your benefits, you must tell your employer before you become entitled to those benefits.

<sup>2</sup> A stand-alone lump sum is a lump sum relating to pre 6 April 2006 where the whole amount can be taken as a lump sum without a connected pension

Your FRA, at their discretion, may also agree to pay some or all of an AA charge on your behalf in other circumstances e.g. where your pension savings are not in excess of the standard AA but are in excess of the tapered or money purchase AA, or where part of the charge relates to pension savings outside of the FPS. Contact your FRA for more information.

Table 7: Sample timescales that would apply for an Annual Allowance tax charge incurred in respect of the 2023/24 tax year

Date	Event
<b>5 April 2023</b>	Tax year ends
<b>6 July 2023</b>	FRA provides pay information to pension administrator
<b>6 October 2023</b>	Pension administrator provides pension saving statement to the scheme member who has breached the annual allowance
<b>31 January 2024</b>	Deadline for scheme member to submit Self-Assessment Tax Return stating how Annual Allowance tax will be paid.
<b>31 July 2024</b>	Scheme Pays election deadline (if scheme member elects for scheme pays).
<b>31 December 2024</b>	This is the quarter end date relating to the mandatory Scheme Pays election received.
<b>31 January 2025</b>	Deadline for scheme to submit HMRC event report.
<b>14 February 2025</b>	Deadline for scheme to pay tax to HMRC (if member elected for scheme pays).

## Am I affected?

If you think you are affected by the AA more information is available on the Government's website - <https://www.gov.uk/tax-on-your-private-pension/annual-allowance>.

[Appendix 2](#) to the factsheet shows some examples within the Firefighters' Pension Schemes.

## Lump sum limits

On 6 April 2024 two lump sum limits were introduced. If the total of all lump sums you take from your pensions is more than one of these limits, you will need to pay extra tax. Tax on any excess is charged at your marginal rate.

Under FPS 2015, FPS 2006 and Special FPS 2006, you can commute (give up) part of your pension to provide for a lump sum within the HMRC permitted maximum. Therefore, most members will not be affected because the maximum lump sum they can take is lower than the new limits.

Under FPS 1992, however, it may be possible for you to have a lump sum which is higher than the HMRC permitted maximum, and therefore the new limits may affect you.

### Lump sum allowance

Your administrator must check your lump sum allowance when you take a lump sum from the FPS. If you have already taken payment of a lump sum from the FPS or a different UK pension scheme, this will use up some of your lump sum allowance. The types of lump sum that will use up your lump sum allowance are:



- [pension commencement lump sum](#)
- [uncrystallised funds pension lump sum](#)
- [stand-alone lump sum](#).

### **Pension Commencement Lump Sum (PCLS)**

The FPS allows members to receive a tax-free lump sum payment when they retire, this is called a Pension Commencement Lump Sum (PCLS). To be a PCLS, the lump sum must meet all the payment conditions and one of these conditions limits the amount of the lump sum. This limit is known as the permitted maximum (also called HMRC maximum lump sum). Anything paid above the permitted maximum limit is not a PCLS.

As mentioned in the previous section, whilst the FPS 2015, FPS 2006, and special FPS 2006, allow for you to provide for a lump sum, and this will keep you within the HMRC limits, therefore being defined as a PCLS. If you were a member of FPS 1992 your lump sum may be higher than the PCLS and therefore may be subject to additional tax charges. Further information is available in our member factsheet – [age discrimination remedy - Unauthorised payments](#).

It is important to note that you could receive an uncrystallised funds lump sum or a stand-alone lump sum from a different pension scheme.

### **Lump sum and death benefit allowance**

The lump sum and death benefit allowance is £1,073,100. Your pension administrator must check this allowance when you take payment of a lump sum. Your personal representatives will do this check when a death grant is paid. The lump sum and death benefit allowance is used up when any of these lump sums are paid:

- pension commencement lump sum
- uncrystallised funds pension lump sum
- stand-alone lump sum
- lump sum death benefit.

### **Transitional protection**

If you took payment of a benefits before 6 April 2024, the lump sum will have used up part of your lump sum allowance and lump sum and death benefit allowance. Before the next time you take a lump sum, your pension scheme must work out how much of your allowances you have used. Under HMRC rules, they must assume that you took the maximum lump sum allowed.

There is a process for members who took a pension or reached age 75 before 6 April 2024, if they did not take the maximum tax-free lump sum. They can apply for a transitional tax-free amount certificate:

- the certificate includes the total lump sums that they have taken instead of the assumed amount
- they must apply for the certificate before they take a pension lump sum after 6 April 2024
- they can apply to any scheme they are a member of for a certificate. HMRC recommends applying to the scheme that is paying the first pension lump sum after 5 April 2024 or the scheme that is paying the biggest pension that started before 6 April 2024.

If you are thinking about applying for a transitional tax-free amount certificate, you may wish to seek specialist independent financial advice. Some members could be worse off if they apply, than they would be without a certificate.

## Disclaimer

This factsheet provides an overview of the Annual Allowance rules as at July 2024. It should not be treated as a complete and authoritative statement of the law. The rules governing AA can be complex and are subject to change.

If you are unsure how to proceed, you are advised to obtain independent financial advice.

For help in choosing an independent financial advisor you can visit the [money advice website](#).

Some of the examples shown in the appendix have been rounded to the nearest whole pound in order to simplify the calculations.

## Appendix 1: Taper Annual allowance examples

### Annual allowance example 1 – Sanjay

This example shows Sanjay’s annual allowance position for the 2023/2024 year.

#### Example 1 - Basic information

Sanjay’s financial information	Amount
Gross salary 2023/2024	£240,000
Less employee pension contributions	£34,800 (14.5% FPS 2015)
Plus, taxable income from property	£60,000
Plus, savings income	£15,000
<b>Threshold income 2023/2024</b>	<b>£280,200</b>
Plus, pension savings in the year	£35,000
<b>Adjusted income 2023/2024</b>	<b>£315,200</b>

Sanjay’s Threshold income is more than £200,000 and his Adjusted income is more than £260,000. His annual allowance is tapered for the 2023/2024 year.

#### Example 1 – Tapered annual allowance position

Sanjay’s financial information	Amount
Tapered annual allowance	£32,400*
In excess of annual allowance	£7,600 (£40,000 - £32,400)
<b>Annual allowance tax charge</b> at marginal rate	<b>£3,420</b> (45% rate assumed)

\*Taper = £315,200 - £260,000 = £55,200 / 2 = £27,600. Standard AA £60,000 less £27,600 = £32,400

### Annual allowance example 2 – Cerys

Cerys is a higher earner who exceeds the standard annual allowance in the 2023/24 year.

#### Example 2 – Basic Information

Cerys	
Gross Salary 2023/24	£140,000
Less employee pension contributions	£23,100 (16.5% FPS 1992)
<b>Threshold Income 2023/24</b>	<b>£116,900</b>
Pensions saving in the year	£19,500

Cerys’s Threshold income is less than £200,000. Her annual allowance will not be tapered in 2023/24. Cerys’s pension savings will be measured against the standard annual allowance of £60,000.

## **Annual allowance examples – assumptions**

No allowance has been made for any carry forward in these examples. In working out the pension savings in the year we have assumed:

- inflation adjustment of zero
- the members have no final salary benefits in the FPS, and
- the members are not paying any additional contributions.

## Appendix 2: example AA calculations

### Example 1 - Permanent promotion from Crew Manager to Watch Manager B on 1 September 2020 - FPS 1992.

Work out the opening value of the member's benefits for 2019/20:

At 5 April 2020		
<b>Pensionable pay</b>		
06/04/2019 – 30/06/2019	£33,851 / 366 x 86 days	£7,954
01/07/2019 – 05/04/2020	£34,528 / 366 x 280 days	£26,414
	Total	£34,368
<b>Scheme membership</b>		
26 years	20 years at 1/60 <sup>th</sup> and 6 years at 2/60 <sup>ths</sup>	32/60 <sup>ths</sup>
<b>Opening Value</b>		
Annual Pension	£34,368 x 32/60 <sup>ths</sup>	£18,330
Multiply by 16	x 16	£293,280
Increase by CPI at Sept 2018	x 1.024 (2.4%)	£300,319
	<b>Total opening value</b>	<b>£300,319</b>

Work out the closing value of the member's benefits for 2020/21:

At 5 April 2021		
<b>Pensionable pay</b>		
06/04/2020 – 30/06/2020	£34,528 / 365 x 86 days	£8,135
01/07/2020 – 31/08/2020	£35,219 / 365 x 62 days	£5,982
01/09/2020 – 05/04/2021	£38,611 / 365 x 217 days	£22,955
	Total	£37,072
<b>Scheme membership</b>		
27 years	20 years at 1/60 <sup>th</sup> and 7 years at 2/60 <sup>ths</sup>	34/60 <sup>ths</sup>
<b>Closing Value</b>		
Annual Pension	£37,072 x 34/60 <sup>ths</sup>	£21,007
Multiply by 16	x 16	£336,112
	<b>Total closing value</b>	<b>£336,112</b>

The increase in the member's benefits over the year to 5 April 2021 is £336,112 less £300,319 = £35,793.

As this is less than the annual allowance limit for 2020/21 of £40,000, there is no annual allowance charge in this example, and they have £4,207 unused annual allowance from 2020/21 to carry forward to 2021/22.

**Example 2 - Permanent promotion from Watch Manager B to Station Manager B (Flexi) on 1 September 2020 - FPS 2015 with previous membership of FPS 1992**

Work out the opening value of the member's benefits for 2019/20:

<b>At 5 April 2020</b>		
<b>Pensionable pay</b>		
06/04/2019 – 30/06/2019	£37,854 / 366 x 86 days	£8,895
01/07/2019 – 05/04/2020	£38,611 / 366 x 280 days	£29,538
	Total	£38,433
<b>Scheme membership</b>		
20 years	20 years at 1/48.75 <sup>th</sup> *	20/48.75 <sup>ths</sup>
CARE pot of £3,421		£3,421
<b>Opening Value</b>		
Final Salary Pension	£38,433 x 20/48.75 <sup>ths</sup>	£15,767
CARE Pension	CARE pot of £3,421	£3,421
	<b>Total Pension</b>	£19,188
Multiply by 16	x 16	£307,008
Increase by CPI at Sept 2018	x 1.024 (2.4%)	£314,376
	<b>Total opening value</b>	<b>£314,376</b>

\* Includes [double accrual guarantee](#)

Work out the closing value of the member's benefits for 2020/21:

<b>At 5 April 2021</b>		
<b>Pensionable pay</b>		
06/04/2020 – 30/06/2020	£38,611 / 365 x 86 days	£9,097
01/07/2020 – 31/08/2020	£39,383 / 365 x 62 days	£6,690
01/09/2020 – 05/04/2021	£53,156 / 365 x 217 days	£31,602
	Total	£47,389
<b>Scheme membership</b>		
20 years	20 years at 1/47.647 <sup>th</sup> *	20/47.647 <sup>ths</sup>
CARE pot of £3,421		£3,421
<b>Closing Value</b>		
Final Salary Pension	£47,389 x 20/47.647 <sup>ths</sup>	£19,892
CARE Pension	CARE pot of £3,421	£3,421
CARE Pension built up in year	£47,389 x 1/59.7	£794
	<b>Total Pension</b>	£24,107
Multiply by 16	x 16	£385,712
	<b>Total closing value</b>	<b>£385,712</b>

The increase in the member's benefits over the year to 5 April 2021 is £385,712 less £314,376 = **£71,336**.

The member has exceeded the annual allowance in the year 2020/21 by **£31,336** (£71,336 - £40,000). However, the member may be able to use any unused allowance in their three previous years to reduce or eliminate the £31,336.

The member had the following pension input amounts in the three previous years:

Tax Year	AA Limit	Pension Input Amount	Remaining AA to carry forward
2017/18	£40,000	£35,000	£5,000
2018/19	£40,000	£20,000	£20,000 + £5,000 (from 2017/18) = <b>£25,000</b>
2019/20	£40,000	£20,000	£20,000 + £25,000 (from 2017/18 + 2018/19)
<b>Total Unused Allowance</b>			<b>= £45,000</b>

The member has £45,000 of unused annual allowance from previous years that they can use to offset the amount of £31,336. They would then have £13,664 (£45,000 - £31,336) remaining to carry forward.

### Example 3 - Permanent promotion from Station Manager B (Flexi) to Group Manager B (Flexi) from 1 May 2020 - FPS 1992

Work out the opening value of the member's benefits for 2019/20:

At 5 April 2020		
<b>Pensionable pay</b>		
06/04/2019 – 30/06/2019	£52,114 / 366 x 86 days	£12,245
01/07/2019 – 05/04/2020	£53,156 / 366 x 280 days	£40,666
	Total	£52,911
<b>Scheme membership</b>		
23 years	20 years at 1/60 <sup>th</sup> and 3 years at 2/60 <sup>ths</sup>	26/60 <sup>ths</sup>
<b>Opening Value</b>		
Annual Pension	£52,911 x 26/60ths	£22,928
Multiply by 16	x 16	£366,848
Increase by CPI at Sept 2018	x 1.024 (2.4%)	£375,652
	<b>Total opening value</b>	<b>£375,652</b>

Work out the closing value of the member's benefits for 2020/21:

<b>At 5 April 2021</b>		
<b>Pensionable pay</b>		
06/04/2020 – 30/04/2020	£53,156 / 365 x 25 days	£3,641
01/05/2020 – 30/06/2020	£61,530 / 365 x 61 days	£10,283
01/07/2020 - -5/04/2021	£62,761 / 365 x 279 days	£47,973
	Total	£61,897
<b>Scheme membership</b>		
24 years	20 years at 1/60 <sup>th</sup> and 4 years at 2/60 <sup>ths</sup>	28/60 <sup>ths</sup>
<b>Closing Value</b>		
Annual Pension	£61,897 x 28/60ths	£28,885
Multiply by 16	x 16	£462,160
	<b>Total closing value</b>	<b>£462,160</b>

The increase in the member's benefits over the year to 5 April 2021 is £462,160 less £375,652 = **£86,508**.

The member has exceeded the annual allowance in the year 2020/21 by **£46,508** (£86,508 - £40,000). However, the member may be able to use any unused allowance in previous years to reduce or eliminate the £46,508.

The member had the following pension input amounts in the three previous years:

<b>Tax Year</b>	<b>AA Limit</b>	<b>Pension Input Amount</b>	<b>Remaining AA to carry forward</b>
<b>2017/18</b>	£40,000	£35,000	£5,000
<b>2018/19</b>	£40,000	£25,000	£15,000 + £5,000 (from 2017/18) = <b>£20,000</b>
<b>2019/20</b>	£40,000	£55,000	-£15,000 + £20,000 (2017/18 + 2018/19)
<b>Total Unused Allowance</b>			<b>= £5,000</b>

<b>Annual Allowance excess</b>	-	<b>Unused Allowance</b>	=	<b>Adjusted Annual Allowance excess</b>
<b>£46,508</b>	-	£5,000	=	<b>£41,508</b>

This is added to the member's taxable income to determine the marginal tax rate to be used. In this case, it would be 40%.



Adjusted Annual Allowance excess	x	Tax Rate	=	Tax payable
£41,508	x	40%	=	£16,603

The member has two options for how to pay this tax charge:

1. Directly to HMRC through self-assessment, or
2. Via 'scheme pays'

Whatever the member decides to do, they must declare this on a self-assessment tax return, even if they have never had to complete one before.

The member decides to elect for 'scheme pays', so that the scheme pays the charge on the member's behalf, in exchange for the member having a reduction to their pension benefits. This worked out using [actuarial 'scheme pays' factors](#).

The member is age 50 at the date of implementation (i.e. the day after the pension input period ends – 6 April 2021), the actuarial factor for someone aged 50 and in the FPS 1992, is 15.52.

Tax Charge	/	Actuarial Factor	=	Scheme Pays Debit
£16,603	/	15.52	=	£1,069.79

The Scheme Pays Debit will attract appropriate inflation increases up until retirement.

The Scheme Pays Debit assumes retirement at age 60 and the member decides to retire when they are age 55. The scheme pays debit is reduced accordingly:

Scheme Pays Debit	x	Retirement Timing Factor	=	Adjusted Scheme Pays Debit
£1,069.79	x	0.787	=	£841.92