

NHS Pension Schemes 2019/07

Who should read:	Please make all staff aware of this circular
Action:	For information
Subject:	Annual Allowance (AA) and Lifetime Allowance (LTA) tax charges
Date:	5 July 2019

The purpose of this circular is to provide general awareness for scheme members of the AA and LTA charges

There has been considerable media coverage that the AA and LTA tax charges are impacting on senior medical staff delivering critical NHS services. The Scottish Government is working with employers and the BMA in considering the extent of this impact but this circular is issued to make members aware of what the AA and LTA charges are and what affected members can do where a charge applies.

The AA and LTA are reserved tax policies and are used to limit the tax relief provided on contributions paid to a pension scheme. Generally pension contributions are deducted from an individual's taxable income which provides tax relief on that contribution at source.

The LTA sets the total value of a member's pension benefits that can be taken on retirement before any tax charges are applied. The LTA for 2019-20 is £1.055m which equates to an annual pension of £52,750. An individual's LTA is calculated by multiplying their pension by 20 and adding any automatic lump sum. Where the LTA is exceeded a tax charge of 25% is applied to any excess taken as a pension and 55% to any excess taken as a lump sum.

[More details about the LTA are available on the SPPA website.](#)

The Annual Allowance (AA) is the amount that an individual's pension benefits can increase in any year before a tax charge is triggered. This is £40,000 and equates to annual pension growth of £2,500 where a lump sum is not automatically paid. An individual's AA is calculated by multiplying the annual increase in pension in excess of inflation by 16 and adding any automatic lump sum. A tax charge based on the member's marginal tax rate is applied to any pension growth in excess of the AA.

Changes to the AA in 2016-17 introduced a taper for those with a threshold income of more than £110,000 and an adjusted income of £150,000. The £40,000 AA limit is reduced by £1 for every £2 of excess adjusted income, to a maximum reduced AA of £10,000 for those with an adjusted income of £210,000 or more. Threshold income is essentially total taxable income from all sources (not just a member's scheme income) less the net value of any employee contributions. Adjusted income is total taxable income from all sources plus the real growth value of the pension benefits over the year less employee contributions.

Any unused AA from the previous 3 years can be used to either reduce or extinguish any AA charge.

[More details about the AA are available on the SPPA website.](#)

Charges arising from exceeding the AA and LTA limits can be significant and affected individuals have a choice on whether to pay those charges themselves or request that the scheme pays them on their behalf. The scheme pays facility allows an affected member to request that their AA tax charge is paid to HMRC with the cost reflected in a permanent reduction in their pension when claimed. The question of whether it is better to pay any AA charge directly or elect for the scheme to pay is down to an individual's circumstances and their general pension planning. Pension reductions to reflect LTA charges are deducted at the point the pension is crystallised.

The factors used to calculate the pension debit applicable for scheme pays are available on the SPPA website and are based on the member's age and scheme where the debit is to be applied.

Annex A to this circular provides two examples of how schemes pays is applied
[More details about the Scheme Pays are available on the SPPA website.](#)

[Individuals are strongly advised to take independent financial advice when making any decisions about managing AA or LTA limits or opting out of the scheme.](#)

Details of the benefits the NHS scheme provides are set out in guides covering each section of the scheme and are also available on the SPPA website.

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ANNEX A

Example 1

- A member of the 1995 Scheme
- Age 56
- 20 Years' Service
- Nil Unused AA to carry over
- Pay increases in 2018/19 from £95,000 to £112,000

The increases in pay and additional years' service result in an increase in pension of £4,937.50 and an increase in lump sum of £14,812.50.

For the purposes of the AA those increases equate to an AA input value of £93,812.50.

There is no unused AA to carry over so the excess is calculated as £93,812.50 less the AA limit of £40,000 = £53,812.50.

The tax charge due on this excess is £22,853.

Applying scheme pays results in a reduction to the member's pension of £1,054.11 and £3,162.33 from their lump sum.

The following table shows the net impact of scheme pays for example 1

Pension value at start of tax year 2018/19	Pension value at end of 2018/19	Pension after deduction of scheme pays at end of 2018/19	Pension growth before scheme pays at end of 2018/19	Pension growth after scheme pays at end of 2018/19	Lump sum growth before scheme pays at end of 2018/19	Lump sum growth after scheme pays at end of 2018/19
£24,462.50	£29,400	£28,345.89	£4,937.50	£3,883.39	£14,812.50	£11,650.17

Example 2

- A member of the 1995 Scheme
- Age 56
- 20 Years' Service
- Nil Unused AA to carry over
- Has the same pension growth as in example 1 but has additional non-pensionable/non scheme income that results in an adjusted income of £213,000. This results in full tapering with the member's AA reducing to £10,000 for 2018-19.

The pension growth for the purposes of the AA is £93,812.50.

As there is no unused AA carry over and the member is subject to the AA taper the excess is calculated as $£93,812.50 - £10,000 = £83,812.50$.

The tax charge due on this excess is £37,053.

Applying scheme pays results in a reduction to the member's pension of £1,709.09 and £5,127.27 from their lump sum.

The following table shows the net impact of scheme pays for example 2

Pension value at start of tax year 2018/19	Pension value at end of 2018/19	Pension after deduction of scheme pays at end of 2018/19.	Pension growth before scheme pays at end of 2018/19	Pension growth after scheme pays at end of 2018/19	Lump sum growth before scheme pays at end of 2018/19	Lump sum growth after scheme pays at end of 2018/19
£24,462.50	£29,400	£27,690.91	£4,937.50	£3,228.41	£14,812.50	£9,685.23