NASUWT
The Teachers' Union
NORTHERN IRELAND

Briefing

Changes to pensions taxation in April 2016

The Annual and Lifetime Allowances

The general principle of the pensions taxation regime is that pensions saving is exempt from tax and when the pension is taken, it is taxed. However, the Annual and Lifetime Allowances set limits to this principle.

The Annual Allowance (AA) restricts tax relief on pensions growth and the Lifetime Allowance (LTA) restricts the benefits taken from a pension scheme, before giving rise to additional tax charges. If these allowances are breached, tax is payable before the pension is in payment.

The Annual Allowance

The AA sets a limit of the tax-free growth or input a pensions saver can have in all registered pension schemes in a tax year. If the AA is exceeded, this gives rise to an AA tax charge. The AA for the 2016 tax year (beginning on 6 April) is £40,000, which is identical to the 2015 tax year. Circumstances such as a large increase in salary or purchasing additional pension could lead to the AA being exceeded. If the AA is exceeded, the teacher is responsible for declaring this to HM Revenue and Customs (HMRC) through a tax self-assessment.

If a Teachers' Pension Scheme (TPS) member exceeds the AA, Teachers' Pensions (TP) will provide them with a Pensions Savings Statement. TPS members can also request a Pensions Savings Statement if they believe that they are close to the AA. Pensions Savings Statements provided by TP are only as accurate as the information that is provided by employers on the Annual Service Return (ASR) to TP, and if an employer does not submit their ASR, or submits it late, the Pensions Savings Statement may be incomplete.

The NASUWT runs annually a very successful ASR information campaign, to advise members if their employer has not submitted their ASR to TP. However, if members are concerned about this issue, they should contact TP direct, who will be able to advise if the ASR has been submitted by their employer.

The Lifetime Allowance

Pension savers will pay tax if the value of their pension pot exceeds the LTA, which reduces from £1.25 million to £1 million on 6 April 2016.

The value of the pension pot is calculated for TPS members by multiplying the pension coming into payment by 20 and adding the value of the lump sum, to give a capitalised figure.

For example, a pension of £40,000 per year, with a lump sum of £200,000, would reach the LTA limit of £1 million. Any additional pension savings would also count towards the LTA. Any excess on the LTA would be liable to an additional tax charge of 25 per cent, which TP is responsible for paying to HMRC.

It is possible to apply for protections against the impact of the reduction in the LTA and NASUWT members should contact HMRC direct to do this, on www.gov.uk/tax-on-your-private-pension/lifetime-allowance.

The NASUWT strongly recommends that members should take individual financial advice if they believe that they may be affected by the reduction in the LTA, or if they believe that they are close to the AA limit. Unions by law, cannot give individual financial advice and the NASUWT recommends Wesleyan, as their approved provider of financial advice to members, for this purpose. Wesleyan is available via www.wesleyan.co.uk/teachers or 0800 316 7183.

The TPS website provides additional information on the AA and LTA, on www.teacherspensions.co.uk/members/faqs/new-and-working-years/annual-and-lifetime allowances.aspx.

The NASUWT meets regularly with TP and has made it clear that a high priority for TP is to reform data-collection processes so that TPS members receive real-time information on their accrued pension, in order to enable teachers to financially plan effectively to avoid unnecessary tax bills.

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