

ALACE

‘Stronger Together’

Association of Local Authority Chief Executives and Senior Managers

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ALACE

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ALACE's NEW PENSIONS ANNUAL ALLOWANCE AND TAX RETURN SERVICE

- What Individual Pensions Services does ALACE offer?
- Why is a new Pensions Tax Return Service needed?
- What is the Annual Allowance – what is ‘tapering’, how is the AA tax charge calculated, and how do I pay the charge?
- How does the new service work and how much does it cost?
- Can I reduce my AA tax charge?
- Other pension issues
- Next steps
- Any questions?

ALACE's Individual Pensions Services

1. Personal support from ALACE's Pensions Consultants – Cheryl Miller and Pete Morris
2. Individual Pensions Calculation Service – Hymans Robertson
3. Financial Planning Service – Close Asset Management/Brothers
4. NEW – Annual Allowance and Self-Assessment Tax Return Completion Advisory Service

Why is a new service needed?

- April 2016 Government introduces changes to the Lifetime Allowance (LTA) and the Annual Allowance (AA)
- Changes designed to hit high-earners particularly
- LTA changes don't hit until retire but AA changes can hit every year
- Many ALACE members found themselves facing unexpected large (£10,000 +) tax bills in relation to 2016/17 tax year
- Hugely complex to work out what tax you owe and fill in your self-assessment tax return correctly and it's **your** responsibility
- ALACE pension consultants and Close overwhelmed with late calls for help
- More ALACE members likely to be affected; most will have to do this every year from now on

What is the Annual Allowance (AA)?

“The AA is the amount by which your total pension pot is allowed to increase during a ‘pension input period or PIP’ (roughly equivalent to a single financial year) before the excess above it becomes subject to an income tax charge”

- The current AA is £40,000 unless the tapering rules apply
- Calculating annual pension growth for AA includes a multiplier of 16
- If your pension growth exceeds the AA you will be taxed at your highest marginal income tax rate on the excess. Any growth is added to your taxable income
- If the tax charge is under £2,000 you will need to pay it direct to HMRC; if over, you can use the ‘Scheme Pays’ option instead if you wish
- Offset – any unused AA from the previous 3 tax years can be used to offset the tax charges

How do the tapering arrangements work?

From 2016/17 the AA is tapered for individuals who have a '**Threshold Income**' in excess of £110,000, and an '**Adjusted Income**' in excess of £150,000. For every £2 that your Adjusted Income exceeds £150,000, your AA is reduce (tapered down) by £1 (to a minimum of £10,000)

	Definition	
Threshold Income	Broadly your taxable income after the deduction of your pension contributions (including AVCs deducted under the net pay arrangement)	£110,00
Adjusted Income	Broadly your threshold income + pension savings built over the tax year	£150,000

How do the new tapering arrangements work? (2)

- This means that the AA for high earners is now

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	£10,000 (minimum AA)

Examples of calculating AA Tax Charge

(Examples take no account of carry forward)

	William	George	Katherine
	£	£	£
Gross salary	120,000	130,000	180,000
Less employee pension contributions	13,680	14,280	22,500
Plus taxable income from property	-	30,000	-
Threshold Income	106,320	145,180	157,500
Pension savings in year	39,200	42,500	60,000
Adjusted Income	145,520	187,680	217,000
Tapered AA	-	21,160	10,000
In excess of AA	-	21,340	50,000
AA Tax charges	-	8,536	22,800

Paying an AA tax charge

- Your LGPS pension fund has to inform you by 6 October in the financial year following the relevant one (e.g. by 6 October 2018 for the 2017/18 financial year) if you have exceeded your AA in respect of your LGPS pension
- The AA has to take account of **all** your taxable income e.g. from growth in any other pensions, from any interest on any savings, from rent from any property you own etc..
- It is difficult to calculate whether you have a tapered AA, whether you have exceeded it and, if so, by how much, whether you face an AA tax charge and for how much
- If your AA tax charge is under £2,000 you have to pay it via your self-assessment tax return – so, with online forms, that gives you until 31 January 2019 for the 2017/18 tax year
- If your charge is more than £2,000 you have the choice of using the ‘Scheme Pays’ option to pay it but you have to tell HMRC on your tax return that you intend to do that (i.e. by 31 January 2019 for the 2017/18 tax year if making the return on line)
- It is therefore complicated to fill in your tax return correctly in respect of the AA and, if you fill it in incorrectly, it can take months to put right

'Scheme Pays' option

- Only relevant to any AA charge arising from your LGPS pension
- Pension Fund pays your AA tax charge in respect of the LGPS to HMRC and then makes a consequent reduction to your pension. This is a complicated calculation which takes account of your gender, age and normal retirement age. Reductions vary hugely but are of the order of 8-15% of your pension. The earlier you retire, the smaller the reduction.
- To use the 'Scheme Pays' option you must notify your funds by 31 July in the year after the year to which the AA tax charge applies e.g. for 2017/18 tax year by 31 July 2019 – CHECK your fund's rules re. Scheme Pays decisions
- LGPS pension funds only have to let you use the 'Scheme Pays' option for that part of your AA tax charge which arises in response to the standard AA of £40k. If your AA is subject to tapering they have the discretion not to let you use it for that part of the AA tax charge that arises from your tapered AA and you then have to pay that charge direct to HMRC – check their policy!
- Paying your AA tax charges through the 'Scheme Pays' option may help reduce your LTA tax charges when you retire because the value of your benefits will generally be less than they would otherwise have been
- In the year you retire, if you retire early, the AA test will be applied to your actuarially reduced benefits.

How does the new AA and Tax Return Service work?

- Available now
- Accessed via Cheryl and Pete who will help you with the information and calculations you need before approaching Close – takes time!
- They will send you electronically a pack of 6 documents some of which you need to complete and some which explain the information Close will need from you – vital to give Close full and accurate information.
- They will give you Close's contact details – **it is entirely at your own risk and discretion if you contact Close and appoint them**
- Service supplied by Close's tax specialists, not its financial planners
- Service all provided by telephone
- Close's tax specialist will liaise with HMRC on your behalf about any queries

What does the new service cost?

- £300
- If you decide to use Close's full Financial Planning Service and appoint them as your Independent Financial Advisers (IFAs), for which the charge is £1,250 + VAT, the £300 will be deducted from this charge
- If you become a full client of Close the new service will be a standard part of their service to you every year
- If you don't become a full client you will need to approach them every year and pay £300 each time you use the service
- No obligation on those using the new service to become a full client.
- Full details in the Members' Zone of the ALACE website

Can I reduce my AA tax charge?

VERY DIFFICULT!

Possible options:-

- Leave the LGPS completely – usually a bad idea because of unintended negative consequences, very risky
- Reduce your taxable income – complex and risky
- Go for the 50:50 option – possible but risky
- Refuse or ‘stage’ any pay rises – very complicated and risky
- Consider taking Flexible Retirement – not open to all and risky

You should not do any of the above without first taking good independent professional accredited financial advice from an IFA who understands the LGPS!

Other pension issues

- Lifetime Allowance (LTA)
- LTA personal protections
- State Pension Age
- Actuarial reduction on pension benefits on voluntary early retirement
- 85 year rule protections
- Commuting (reducing) annual pension into a larger lump sum
- Transferring pension benefits between funds
- Cashing in of pensions
- Alternative investments to LGPS
- Future policy changes by the Government – exit payments etc..

Next steps

- ALACE Pensions Seminar in the Autumn
- Lobbying Government on adverse implications of pension, particularly AA, issues with other unions
- Lobbying LGPS pension funds to be more helpful to members on AA
- Alerting members if any movement on Exit Payments front
- Joining ALACE - £370 annual subscription (£380 from Jan 2019)
 - General news and information
 - Expert individual support – pensions, complaints, grievances, restructuring, potential departures, compromise agreements
 - Negotiating pay, terms and conditions including statutory protection
 - Submissions to Inquiries etc.

Conclusion

- Any questions?