Cabinet Office

Pensions Tax Workshop

Pensions Tax Workshop 2013

Cabinet Office

Basic structure

1. Background context
2. Lifetime Allowance
3. Annual Allowance

Cabinet Office

Why are we here today?

To help you

To help staff

To help themselves

But remember......

Cabinet Office

THE GOLDEN RULE:

WE MUST NOT OFFER ADVICE

Cabinet Office

The Civil Service Pension Scheme on a page: a quick reminder

Defined Benefit

classic
- Final Salary
- NPA 60
- Accrual rate 1/80
- Lump Sum
- Closed to new entrants in 2002

premium
- Final Salary
- NPA 60
- Accrual rate 1/60
- Closed to new entrants in 2007

classic plus
- Hybrid of classic and premium, for former classic members

nuvos
- Career Average
- NPA 65
- Accrual rate 1/43
- Will close to new entrants in 2015

"2015 scheme"
- Career Average
- NPA = SPA
- Accrual rate 1/43
- Only scheme for further accrual for most staff, and all new entrants, from 2015

Defined Contri-bution

AVCs
- Fully purchased by member, facilitated by scheme

partnership (stakeholder pension with employer contribution)
- non-contributory and employer match funding up to 3%

Cabinet Office

Pensions taxation: How did we get here?

Pre-2006 pensions tax regime

Lots of rules
Lots of rules
Lots of rules
Lots of rules
Lots of rules
Lots of rules

“A- Day”

6th April 2006

Lifetime allowance

Annual allowance

Other changes

Cabinet Office

Key Concept: Valuing pension benefits

60	61	62	………	75	76	77	78
£10,000	£10,000	£10,000	………	£10,000	£10,000	£10,000	£10,000

Q: What is a pension of £10,000 a year "worth"?

A: The Net Present value of the discounted sum of expected pension payments between retirement and death

A: (in English) The total amount of money you expect to pay someone between when they retire and when they die

Eg: if using a factor of 20: a pension of £10,000 a year is "worth" £200,000. This is the size of someone's pension benefits

To note: the answer is dependent on the factor you use (20, 16, 12.....)

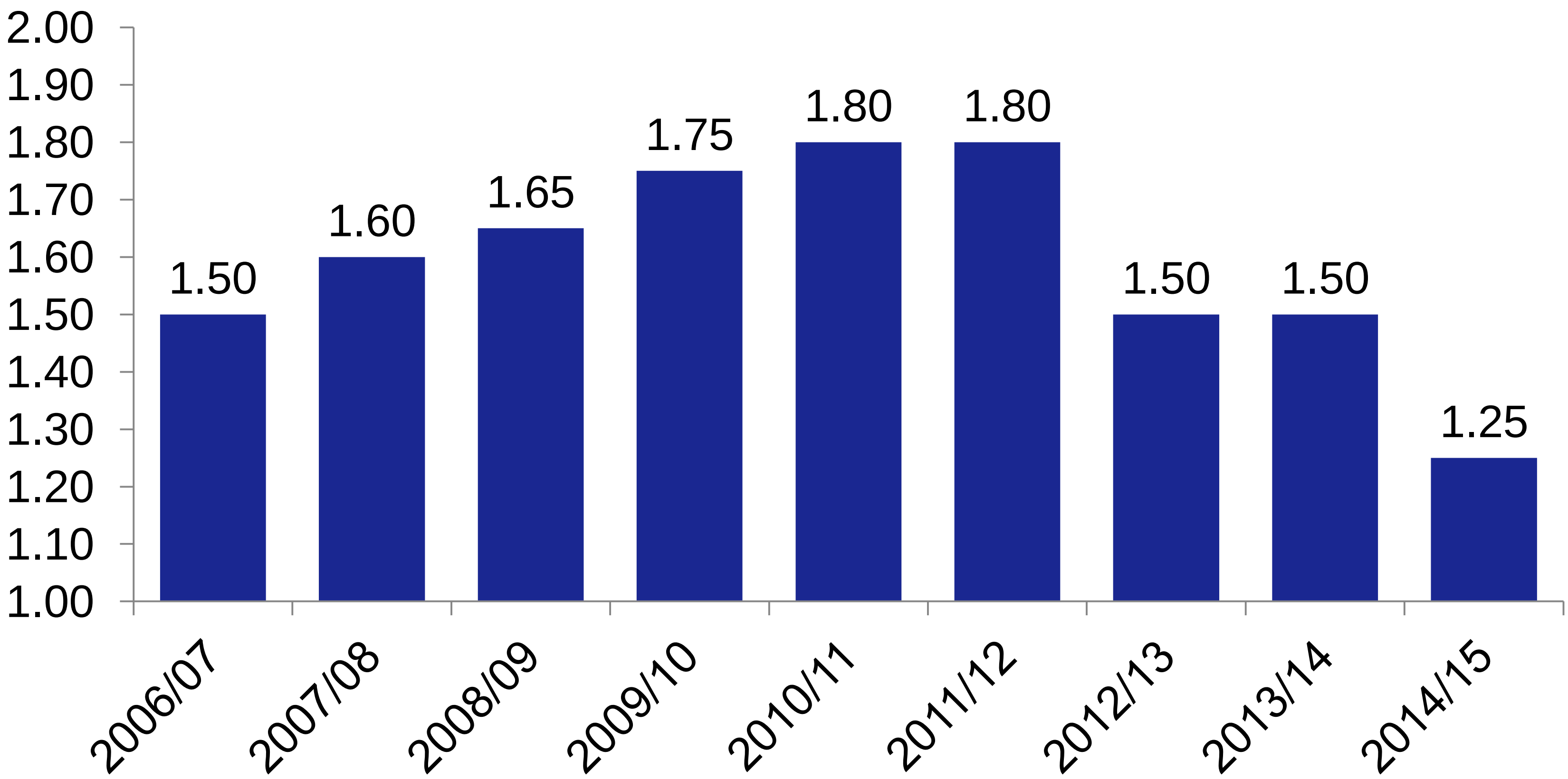
What is the Lifetime Allowance (LTA)

It is the maximum overall value of pension benefits (except state pensions) that an individual can build up over their lifetime before a tax charge is paid.

The current LTA is £1.5m

Cabinet Office

Standard Lifetime Allowance (£m)



Cabinet Office

When is the LTA calculated

It is calculated, and falls due, when there is a 'Benefit Crystallisation Event' e.g:

- Taking your pension benefits
- Reaching age 75
- Death

•You can pay a LTA charge via the scheme

•Excess benefits above the LTA are taxed at 55% on lump sums, or 25% on pensions in payment

Cabinet Office

How to calculate pension benefits against the LTA

For DB schemes:
Pension x 20 + Lump Sum (if applicable)

For DC schemes (personal pensions, AVCs etc):

The value of the pension benefits is the fund value

Example

A **classic** member earns £40,000 and has 25 years' service so has built up a pension of £12,500 plus a lump sum of £37,500. The member also has AVC's valued at £15,000.

The value of these benefits for LTA purposes is:

Pension: £12,500 x 20	= £250,000
Lump Sum	= £37,500
AVC fund	= £15,000
Total	= £302,500

LTA % = £302,500 / £1,500,000 x 100 = 20.17%

THE GOLDEN RULE

PROTECTIONS

AGAINST LIFETIME ALLOWANCE

Cabinet Office

THE GOLDEN RULE

Historic

Primary Protection

- Benefits in excess of £1.5m as at 5 April 2006 are protected
- % of standard LTA with Standard LTA underpinned at £1.8m
- Had to be applied for by 5 April 2009

Historic

Enhanced Protection

- No further accrual, in real terms, after 5 April 2006 of pension benefits above £1.5m
- Failure to comply - protection is lost
- Had to be applied for by 5 April 2009

Historic

Fixed Protection

- No further accrual, in real terms, if pension benefits above £1.5m at 5 April 2012
- Protected up to £1.8m (or standard LTA)

Cabinet Office

THE GOLDEN RULE

Future

Fixed Protection 2014

•No further accrual, in real terms, if pension benefits above £1.5m at 5 April 2014
•Protected up to £1.5m (or standard LTA)

Future

Personalised Protection

•LTA is an amount between £1.25m and £1.5m
•Further accrual possible
•Details still being decided by HMRC

What is the Annual Allowance (AA)

•Limit on how much someone’s pension benefits can grow in real terms, from one year to the next, without having to pay extra income tax.

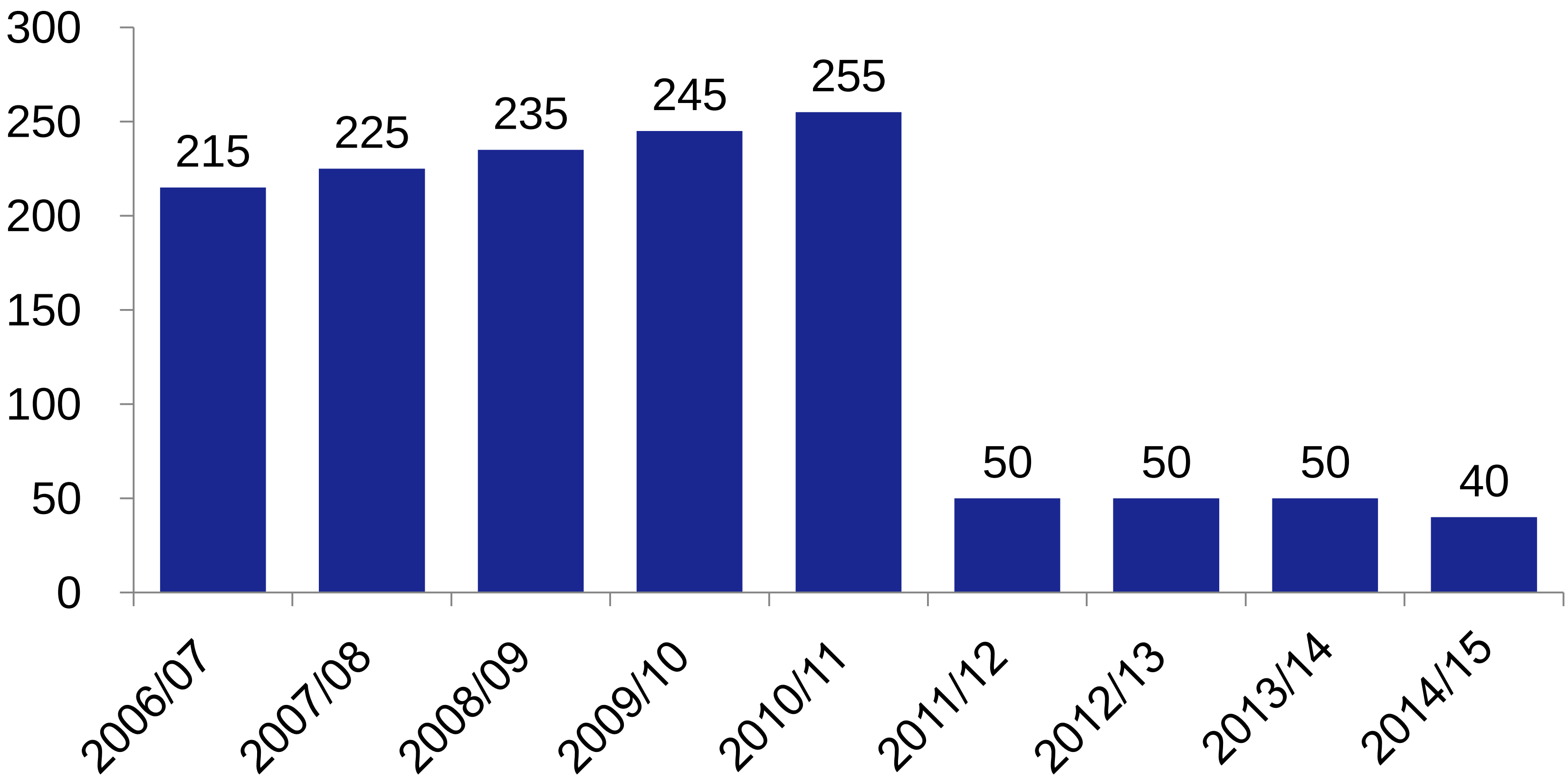
•(So, to recap: The LTA is about the overall size of the pot, the AA is about the growth in the pot in any one year).

•The current AA is £50,000.

•The AA is likely to affect more people than the LTA – for reasons described later.

Cabinet Office

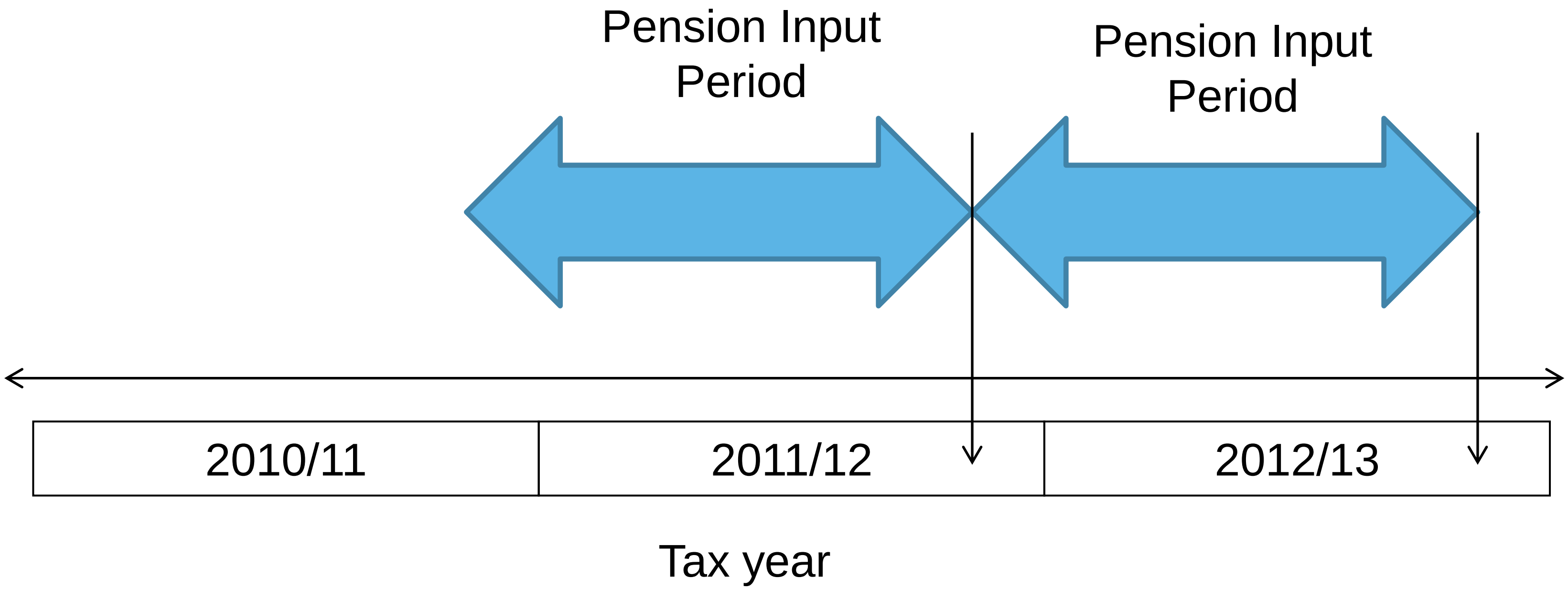
Annual Allowance (£k)



Cabinet Office

Pension Input Period

PCSPS has a pension input period starting on 1st January and ending 31st December



How to calculate an AA

DB:

Calculate the "closing value"
- Pension x 16
- Plus lump sum (if applicable)
- As at end of "Pension Input Period"

Calculate "opening value"
- Pension x 16
- Plus lump sum (if applicable)
- As at the end of the previous "Pension Input Period"
- And increase it by inflation

The difference between the two is the amount to test against the AA

DC: the amount of AA used is the amount of contributions during the Pension Input Period

Cabinet Office

Example

A classic member accrued a pension of £25k and a lump sum of £75k as at 31st December 2011. The pension accrued as at 31 December 2012 was £29k with a lump sum of £87k. The rate of CPI as at September 2010 was 3.1%

CLOSING VALUE

- Multiply £29k by 16

-Add £87k

= £551,000

OPENING VALUE

- Multiply £25k by 16

- Add £75k

-Adjust for inflation by 3.1%

= £489,725

AA USAGE

•Subtract opening from closing

£551,000 - £489,725 = £61,275

(£11,275 above current AA)

Cabinet Office

Carry Forward

Unused AA from last 3 tax years can be carried forward

2011/12	2012/13	2013/14
AA = £50k	AA = £50k	AA = £50k
Actual = £40k	Actual = £44k	Actual = £49k
Unused = £10k	Unused = £6k	Unused = £1k

Total carry forward amount into 2014/2015 = £17k

Cabinet Office

What to do if an AA charge is payable?

- It is the individual's responsibility to inform HMRC

- They will need to record this through Income Tax Self Assessment

- They may be able to pay the charge via Scheme Pays (see later) – otherwise it is counted as taxable income

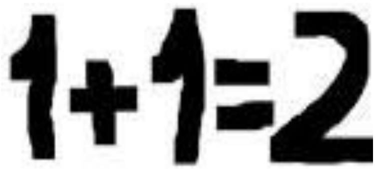
Cabinet Office

THE GOLDEN RULE

Potential triggers

Added Pension

Club Transfer



Aggregation / Linking

Ill Health

Cabinet Office

“Scheme Pays”

- Scheme administrator can pay tax charge by reducing benefits.
- Tax charge £2k and above
- Permanent reduction of benefits
- Scheme pays to HMRC directly
- Individuals also to inform HMRC

Cabinet Office

Responsibilities – LTA and AA

myCSP

Further Information

•HMRC calculator for Annual Allowance:

http://www.hmrc.gov.uk/tools/pension-allowance/index.htm

•Employer Pension Notice

http://resources.civilservice.gov.uk/wp-content/uploads/2011/11/EPN-310-Tax-Changes-and-Pensions.pdf