

Annual Allowance

Fact Sheet for Civil Service pension scheme members leaving on ill-health retirement

Do I need to read this information?

Yes, if you are leaving on ill-health retirement then you should read all the information in this fact sheet, as there is a possibility that you could incur an HM Revenue & Customs (HMRC) Annual Allowance tax charge. It is also possible that your medical condition may give you exemption from the potential tax charge. This fact sheet explains the Annual Allowance and the process you need to go through in order to be assessed against the exemption criteria.

What is the Annual Allowance?

The Annual Allowance sets the amount of pension saving that is allowed tax free in any one year. The tax regime has gone through some major changes for the tax year 2011-12, and this includes reducing the Annual Allowance to £50,000, and changing the method used to work out the Annual Allowance.

How is the Annual Allowance worked out for defined benefit schemes such as classic, classic plus, premium and nuvos?

Full details are available on the HMRC website, but in basic terms it is the increase in the value of your pension from one year to the next multiplied by 16, plus the increase in value of your automatic pension commencement lump sum (**classic/classic plus** only), with a measure for inflation taken into account.

How might this affect me if I am leaving on ill-health retirement?

Under some circumstances leaving on ill-health retirement gives an enhancement to your pension benefits and this may result in a large increase in the value of your pension from one year to the next. For some individuals the enhancement will mean that the amount their pension benefits increase from one year to the next will go over the Annual Allowance limit. Please see the enclosed illustrative annual allowance estimate. Information on how to calculate your personal tax liability can be found at www.hmrc.gov.uk.

Are there any exemptions from the Annual Allowance tax charge for people leaving on ill-health grounds?

Yes, there are exemptions for people leaving because of what HMRC term 'severe ill-health'; however the criteria are different to those that we use in the Civil Service pension scheme to determine if you qualify for ill-health retirement.

What are the HMRC criteria for 'severe ill-health'?

That someone is suffering from ill health which makes the individual unlikely to be able (other than to an insignificant extent) to undertake gainful work in any capacity up to at least State Pension age.

How does this differ from the Civil Service pension scheme criteria for ill-health retirement for classic plus, premium, and nuvos?

It varies depending on which scheme you are in. The HMRC criteria for severe ill health are similar to those used for upper tier in **classic plus, premium** and **nuvos**. The HMRC assessment needs to be up to State Pension age, whereas the upper tier assessments are to the specific Civil Service scheme pension ages. Where you meet the criteria for upper

tier ill-health retirement, we would expect there to be very little, if any, additional information required for the Scheme Medical Adviser to complete the extra assessment. If you are assessed as meeting the lower tier, but not the upper tier criteria, in **classic plus, premium, and nuvos** then you will not meet the HMRC severe ill-health criteria. In these circumstances you are less likely to receive an enhancement to your pension benefits that would mean you exceed the Annual Allowance. Please see the ill health retirement booklets on the Civil Service Pension website www.civilservice.gov.uk/pensions under Publications for information about upper and lower tier criteria.

How does this differ from the Civil Service pension scheme criteria for ill-health retirement for classic?

The ill-health retirement criteria in **classic** are that the person concerned is prevented by ill health from discharging their duties and that the ill health is likely to be permanent (in this case permanent means up to scheme pension age, which for most people is age 60). The **classic** ill health retirement assessment only considers whether a person cannot do their own job, rather than any gainful employment. It is possible that the additional HMRC severe ill-health assessment could take longer to complete than just the **classic** ill health retirement assessment.

There is a greater chance that someone in **classic** may meet the scheme criteria (and receive an enhancement), but may not meet the HMRC severe ill health criteria, and therefore not be exempt from the Annual Allowance tax charge.

Will I be able to be assessed against the HMRC severe ill-health criteria?

Where we are able to identify individuals who are at risk of incurring an Annual Allowance tax charge we have arranged for the Scheme Medical Adviser to carry out the additional assessment at the same time as the assessment for ill-health retirement. This requires you to complete a consent form, which is attached to this fact sheet.

Do I have to go ahead with the additional medical assessment?

No, if you feel you will not meet the HMRC severe ill health criteria, or if you would simply prefer not to go through the additional assessment then you do not have to go ahead. Please be aware that you will not have to pay for the additional medical assessment. If you do not proceed with the assessment you may be liable to an Annual Allowance tax charge. You could still be liable for an Annual Allowance tax charge if you go ahead with the assessment but do not meet the HMRC severe ill-health criteria.

Will I be able to appeal against the Scheme Medical Adviser's decision if I am assessed as not meeting the HMRC severe ill health criteria?

We are not providing an appeal facility. Our understanding is that you could pursue this privately, at your own cost, with any registered medical practitioner. You should contact HMRC if you require further information on this issue.

Where can I find out more about the Annual Allowance?

The HMRC website provides all the guidance you should need, and the following is a link to the main HMRC page - www.hmrc.gov.uk

The following link will take you to the specific guidance on the Annual Allowance - www.hmrc.gov.uk/annual-allowance

Contact your tax office – 0845 300 0627

MyCSP may not provide financial, investment or other professional advice to members. Nothing on this communication should be interpreted as constituting financial advice. You should obtain independent advice on any specific issues concerning you.

IHR 3	Request for medical advice – HMRC severe ill health criteria
Section 1 - MEMBER completes	

Medical Advice request: member details and consent form

- i** **Capita Health Solutions are medical advisers to the Civil Service pension scheme. They are being asked to consider whether you satisfy the HMRC criteria for severe ill-health. If you meet the criteria for severe ill-health you will be exempt from any Annual Allowance tax charge, in relation to your Civil Service pension, in the year that you leave service on ill health grounds. Please complete this form as fully as you can, sign the Declaration and return the form to your employer as soon as possible.**

<i>Please tick one of the following options</i>	
I do wish to go ahead with the HMRC severe ill-health assessment	<input type="checkbox"/>
I do not wish to go ahead with the HMRC severe ill-health assessment	<input type="checkbox"/>

Your Details	Title	
	Surname	
	Forename(s)	
Your home address		
	Post code	
Your date of birth		
Your day time telephone number		
Alternative telephone number		
<p><i>I consent to the information in my occupational health records, and any information obtained in relation to my application for ill health retirement to be used for the purpose of assessment against the HMRC severe ill health criteria. I also consent to my GP / specialist providing medical information to CHS in connection with such an assessment. I further consent to the disclosure of that information by Capita Wellbeing and Health to my former employer and to MyCSP, the pension administrator.</i></p>		
Signature		
Date		
State Retirement Age		to be entered by employer