PSIT Independent Trustees

Briefing note – February 2014

The annual allowance: enough to give trustees the PIP?

Overview

The amount an individual can save in their pension each year before incurring a tax charge is reducing. As more scheme members become caught by the limit, what impact does it have on pension schemes that trustees need to consider?

This is, unfortunately, quite a technical topic so some definitions up front may be helpful:

Annual allowance: the maximum value of pension savings a person can make to all registered pension schemes in a tax year before incurring an additional tax charge (the annual allowance charge).

Pension input amount (PIA): the term used under tax rules to describe a person's annual pension savings. The PIA is measured by reference to the scheme's **pension input period (PIP)**.

A PIP can be chosen by the trustees of a pension scheme and may or may not coincide with the tax year. This means an individual who has savings in more than one scheme may have several different PIPs.

To check against the annual allowance in a given tax year, you add up all pension input amounts for pension input periods ending in the same tax year.

What are the issues?

The annual allowance is once again reducing from 6 April 2014 – this time from £50,000 to £40,000. **Significantly more people are therefore likely to exceed it in future.**

Furthermore, whilst it is relatively easy for people to monitor the contributions they make to a defined contribution (DC) scheme in any PIP, it is much more difficult for defined benefit (DB) schemes.

How do you work out who is affected?

In DB schemes, the PIA is calculated by applying a flat rate factor of 16 to the increase in the annual pension built up over the PIP, allowing for inflation in line with the Consumer Price Index (CPI). This means **DB pensions that increase by over £2,500 a year (in excess of CPI) in PIPs ending on or after 6 April 2014 will exceed the allowance**.

As the legislation permits unused allowance from earlier tax years to be applied first, few individuals have been caught by the tax charge so far. As the annual allowance reduces and more members use up previous allowances, **more people will become liable for the annual allowance charge**.

What responsibilities do schemes have?

Any member who exceeds the annual allowance in a scheme must be given a pension savings statement that shows their PIA in the last PIP and the three preceding PIPs. This provides them with information they need to complete their tax return. Members below the annual allowance are also free to request a pensions savings statement.

In our experience, the information needed to produce these statements is not always readily available, which can make it **time-consuming and costly for scheme administrators to set up**. Trustees may also want to seek assurance from their consultant that the statements have been set up correctly.

The annual allowance charge is an individual's responsibility. However, where certain conditions are met, **scheme members may exercise their right to ask trustees to pay the annual allowance charge in return for a reduction in benefits**. This approach is known as **'scheme pays'**.

A scheme's trustees and administrator need to be prepared for a member to choose to make use of this facility. **A policy and process must be in place** for administrators to follow for applying the reduction, and ensuring all relevant procedures and deadlines are met.

For 2014, the key dates relating to 2012/13 annual allowance tax charges that must be met are:

Activity	Actioned by
Member completes self-assessment form, but does not pay the annual allowance charge	31 January 2014
Member makes irrevocable election for 'scheme pays'	31 July 2014
Scheme includes annual allowance charge on accounting for tax (AFT) return	31 December 2014
Scheme pays annual allowance charge	14 February 2015

Read our case study

See how we helped one of our clients manage PIPs within multiple pensions arrangements in our case study:

Annual allowance issues: managing multiple pension input periods.

Find out more

If you have any questions about how the annual allowance, pension input amounts and pension input periods, please contact Gillian Graham.

Gillian Graham

- 0118 313 0889
- gillian.graham@psitl.com

PS Independent Trustees and PSIT are trading names of PS Independent Trustees Limited
Registered office: 11 Strand, London WC2N 5HR • Registered in England and Wales No. 3021321