THE ASTON UNIVERSITY PENSION SCHEME (AUPS)
HM REVENUE & CUSTOMS
LIMITS ON BENEFITS AND CONTRIBUTIONS

The Finance Act 2004, which came into effect on 6 April 2006, introduced reforms intended to simplify the complex tax regimes which previously regulated pension schemes. The changes introduced new measures for regulating saving in all UK tax approved pension schemes and arrangements.

Contributions and benefits built up by individuals in tax approved pension arrangements in the UK are now subject to two maximum allowances permitted by HM Revenue and Customs (HMRC). These are the Lifetime Allowance and the Annual Allowance and they are explained in more detail below.

THE LIFETIME ALLOWANCE (LTA)

The **Lifetime Allowance (LTA)** is the maximum value of benefits that can be built up *in total* from all UK pension schemes and receive favourable tax treatment. The LTA, which had risen to £1.8 million from its introduction in 2006/2007, has been reduced to £1 million with effect from 6 April 2016. Benefits are checked against the LTA whenever a "crystallisation event" occurs. This would usually be on retirement or death.

The following formula will be used to calculate the value of your AUPS benefits on retirement. The value will then be measured against any remaining LTA, after taking into account any LTA used by earlier crystallisation events, for example a pension already in payment from another tax approved pension scheme:

Annual pension x 20 +
retirement cash sum +
money purchase AVC Fund (if applicable) = value of benefits

Generally, the value of your AUPS pension will not exceed the LTA unless your uncommuted pension (i.e. before you have given up any pension for a cash sum) is greater than £50,000.00 per annum (calculated using the 2016/2017 LTA and assuming that you do not have benefits in any other pension arrangement, including money purchase AVCs).

Any lump sum benefit payable on death will be measured against your remaining LTA.

If your benefits exceed the LTA they will still be payable, but any amount above the LTA would be subject to a tax charge.

Pensions already in payment prior to 6 April 2006 are required to be included in the measurement of the LTA when other benefits become payable after that date. In this circumstance the value of the pension will be calculated as:

Your annual pension x 25 = value of benefits

THE ANNUAL ALLOWANCE (AA)

The **Annual Allowance (AA)** restricts the amount of tax-relievable contributions and increase in the value of benefits that may be built up in any single year. This period is called the pensions input period (PIP) by HMRC. The year runs from 6 April to 5 April.

Although initially the AA was set at over £200,000 in a year, it has been reduced substantially in recent years, to £40,000 from 2016/2017. (If you have income of over £110,000 or have taken a lump sum from a money purchase scheme you may have a reduced AA. You can find further information on HMRC's website: www.hmrc.gov.uk.)

The calculation of the value of your pension to be measured for the AA is explained briefly below:

Step 1 “The Opening Value”: your pension is calculated at the beginning of the PIP. It is then revalued by the increase in the Consumer Prices Index (CPI) to ensure that it takes some account of inflation. This revalued pension is then multiplied by 16.

Step 2 “The Closing Value”: your pension is calculated again at the end the PIP. This amount is then multiplied by 16.

Step 3: your “Opening Value” is subtracted from your “Closing Value”. This gives the amount which is considered to be the increase in the value of your pension over the year.

If you are making contributions to the money purchase AVCs, then the amount of contributions which you have paid will be added to the value at step 3.

It remains unlikely that pensions building up in AUPS year on year will exceed the AA. However, if you have a significant amount of **Pensionable Service** prior to 1 January 2004 and have a large increase in your **Pensionable Salary** from the previous 1 April, the possibility that the AA may be exceeded is increased.

The AA may also be exceeded when ill-health retirement is granted, due to the enhancement to pension which is often added dependent on length of AUPS membership.

If the AA is exceeded, the excess over the £40,000 is subject to a tax charge, but there is a measure in place which may protect against one off events, such as an isolated large increase in pay. This is called carry forward. If you do exceed the AA in a PIP, any unused AA from the three PIPs immediately prior to the one for which the tax charge would be due, can be carried forward to offset the AA charge. You may have sufficient spare AA to carry forward from the earlier years to reduce the tax charge, possibly to zero. If your AUPS accrual exceeds the AA you will automatically receive a savings statement within 6 months of the end of the tax year in which the relevant PIP ended. This statement will include the information on your AUPS values for the three previous PIPs.

Should you incur an AA tax charge over £2,000 you can require that AUPS pay some, or all, of the charge due. This is called scheme pays. If you elect to use scheme pays, your AUPS benefits will be permanently reduced by an amount determined by the Scheme’s Actuary. There are deadlines for electing to use scheme pays, particularly if you are retiring. Further information will be provided if it is anticipated that this circumstance will apply to you for your AUPS benefits.

The AA is a personal taxation matter. It is therefore your responsibility to account to HMRC if you exceed the AA in any year. You should particularly note the AUPS only has information on your accrual in AUPS. If you are also currently contributing to another pension scheme you will need to ensure that your combined accrual does not exceed the AA. If you need confirmation of the amount of the value of your AUPS benefits you should contact the University’s Pensions Officer.

Deferred pensions are not included in the value of your benefits.

Further information can be found on the HMRC website at: www.hmrc.gov.uk

DISCLAIMER

This leaflet does not cover every aspect of the tax rules and changes introduced by HMRC. It is meant to be a brief, general explanation of the key points most likely to affect AUPS benefits. The information contained within this leaflet cannot override the legislation and confers no rights or entitlements.

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