Allen & Overy Pension Scheme

Annual Allowance Factsheet

What is the Annual Allowance?

Since 6 April 2006, the amount of pension savings for which you can benefit from tax relief for a given tax year is limited to the Annual Allowance. This includes pension savings to all registered pension schemes made by you or on your behalf, for example by your employer. If your savings go above this level, you may be liable to a tax charge.

What is the level of the Annual Allowance?

For tax year 2020/21, the standard Annual Allowance is £40,000.

For tax years between 2011/12 and 2013/14, the Annual Allowance was £50,000. It reduced to £40,000 for tax year 2014/15 and it has remained at this level. For tax years between 2006/07 and 2010/11, the Annual Allowance varied by tax year but was £255,000 in the 2010/11 tax year.

If you are a high-income individual then you may be subject to a lower Tapered Annual Allowance (explained below).

How do I know whether I am affected by the Annual Allowance?

In order to establish whether you will be affected by the Annual Allowance, it is necessary to calculate the increase in your pension savings (known as a Pension Input Amount) across all schemes over a set period of time (known as a Pension Input Period).

If your Pension Input Amount within a scheme exceeds the Annual Allowance then the scheme administrator will automatically send you a statement with the necessary information you require in relation to that scheme. This is known as a Pension Savings Statement.

Even if your pension savings don't exceed the Annual Allowance for a particular scheme, you can still request a Pension Savings Statement which will show your Pension Input Amount and what tax year it relates to. If you have made savings in multiple schemes, we would strongly recommend that you request statements from each scheme so that you can add these amounts together for all of your schemes to assess whether your pension savings have exceeded the Annual Allowance.

What is a Pension Input Period?

All pension schemes have a Pension Input Period and this is simply the period over which the Pension Input Amount is measured.

Historically, pension schemes were able to set their own Pension Input Period but the Government changed the rules and since the 2016/17 tax year onwards the period has been aligned to the tax year.

How are pension savings calculated for Annual Allowance purposes?

If you are a member of a defined contribution scheme, your pension savings are calculated based on the total contributions paid by you, or by someone on your behalf, during the Pension Input Period. The result is your Pension Input Amount. Investment return is ignored for the purposes of this calculation.

Your contributions (including tax relief)	+	Any other contributions made on your behalf, e.g. by your employer	=	Pension Input Amount

If you are a member of a defined benefit scheme, your pension savings are calculated based on the difference between your pension at the end of the last Pension Input Period and the current one, after allowing for the effects of inflation. This difference is then multiplied by a factor of 16. This can be expressed as shown below:

Pension at end of **current** Pension Input Period	–	Pension at end of **last** Pension Input Period increased by September CPI inflation	X	Factor of 16	=	Pension Input Amount

If you pay money purchase AVCs, then the amount paid in during the period would be added to the Pension Input Amount to work out your total Pension Input Amount within the scheme.

What happens if I exceed the Annual Allowance?

Even if your total pension savings over the year are more than the Annual Allowance, you may still not have to pay a tax charge. You can carry forward any Annual Allowance that you have not used from the previous three tax years. If your unused allowance is more than the amount by which you have exceeded the Annual Allowance in the current tax year, then you will not be liable for a tax charge and you will not be required to report anything to HMRC.

If you have exceeded the Annual Allowance, then your pension scheme will provide you with details of the Annual Allowance used up in the last three years within that scheme on your Pension Savings Statement.

If you have also exceeded the Annual Allowance in any previous tax years, then you may also require information on your pension savings made in earlier tax years than the three previous ones that are already displayed within this Pension Savings Statement. This will enable you to accurately calculate your total available carry forward. This information should be available on any previous Pension Savings Statements that you have received.

What if I am still above the Annual Allowance even after carry forward?

If you have checked and you do not have sufficient unused Annual Allowance available from previous tax years, then you will be liable to the Annual Allowance tax charge on your pension savings above the Annual Allowance.

To find out the amount of your Annual Allowance charge you first need to work out by how much you have exceeded the Annual Allowance after you have deducted any unused carry forward Annual Allowance from the previous three tax years.

This amount is added to your 'reduced net income' (broadly taxable income following deduction of personal allowances), which will determine whether the excess pension savings will be taxed in whole or in part at the relevant income tax rates which apply to you. This may vary dependent on where you pay tax within the UK..

Further guidance is available here: http://www.hmrc.gov.uk/manuals/ptmanual/ptm056000.htm.

How do I report the Annual Allowance charge to HMRC?

You will be responsible for paying any Annual Allowance charge that is due. You will need to complete a Self-Assessment tax return and you will need to register with HMRC for this if you don't normally complete one. Information about the Annual Allowance will need to be included within the Additional Information form, SA101. Further guidance is available here:
http://www.hmrc.gov.uk/helpsheets/hs345.pdf.

The deadline for completion and submission of the Self-Assessment tax return online is normally 31 January following the end of the tax year to which the Annual Allowance tax charge relates. If it is completed in paper format, the deadline is earlier, it is 31 October following the end of the tax year to which the Annual Allowance tax charge relates.

If you are filing your tax return online, HMRC will automatically work out the amount of the Annual Allowance tax charge for you based on your marginal rate of income tax.

What options do I have to pay the Annual Allowance tax charge?

You may choose to pay the tax charge directly to HMRC, in which case your scheme benefits will be unaffected. Alternatively, you may be able to ask the Trustee to pay some or all of the tax charge on your behalf. In return your scheme benefits would be reduced by a corresponding amount. This is known as the Scheme Pays option.

In certain circumstances, you will have a statutory right to have all or part of the tax charge paid from the scheme (this is known as mandatory Scheme Pays). Even if you aren't eligible for mandatory Scheme Pays, you may be able to use voluntary Scheme Pays if the Trustee and the Firm agree.

The table below describes some of the key features of mandatory and voluntary Scheme Pays. For more information about the Scheme Pays option, please contact Capita.

	MANDATORY SCHEME PAYS	**VOLUNTARY SCHEME PAYS**[1]
Overview	If the Eligibility Requirements are met and you make a valid election to the Trustee by the deadline, you will have a statutory right to use Scheme Pays	If you are ineligible for mandatory Scheme Pays, you may use voluntary Scheme Pays if the Trustee and the Firm agree
Eligibility Requirements	For the tax year to which the charge relates: • the tax charge (arising from all of your pension arrangements) is more than £2,000; and • the value of scheme benefits you built up is more than the standard annual allowance (i.e. £40,000).	May be suitable if: • you exceed the standard annual allowance across all of your pension arrangements (but not in the scheme alone); and/or • the tax charge arises because the you exceed the tapered annual allowance, but not the standard annual allowance.
Deadline for notifying HMRC that you are using Scheme Pays	31 October 2021, for the paper process 31 January 2022, for the online service	31 October 2021, for the paper process 31 January 2022, for the online service
Deadline for making an election to the Trustee[2]	31 July 2022	30 November 2021
Liability	The Trustee will be jointly and severally liability with you for payment of the tax charge	Liability to pay the tax charge remains with you
How much may be paid	The Trustee may only pay the tax charge that relates to the scheme benefits you built up over and above the standard annual allowance (i.e. £40,000)	As agreed with the Trustee and the Firm
When is the tax charge due to HMRC	February 2023	31 January 2022

[1] These are the terms on which voluntary Scheme Pays is currently offered by the scheme.

[2] Your election to use Scheme Pays must be received by the Trustee before your scheme benefits are put into payment, you transfer your benefits out of the scheme and/or before you reach age 75.

What is the Tapered Annual Allowance?

The Tapered Annual Allowance was introduced from the 2016/17 tax year. It applies to you if in a tax year you are a 'high-income individual'. From the 2020/21 tax year, you will be a high-income individual if both of the following apply:

- You have a Threshold Income of more than £200,000 in the tax year; AND
- You have an Adjusted Income of more than £240,000 in the tax year.

At a high level, Threshold Income is an individual's taxable income after allowing for certain reliefs plus the value of certain pension-related salary sacrifice arrangements. The definition of Adjusted Income is complex but notably includes the value of your pension savings (employer contributions as well as your own contributions) in the tax year. The definitions of Threshold Income and Adjusted Income are explained in further detail on this HMRC webpage:
https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100.

For those who qualify as high-income individuals, this results in a Tapered Annual Allowance that reduces by £1 for every £2 of Adjusted Income which is in excess of £240,000, but subject to a minimum Annual Allowance of £4,000.

Whether you are a high-income individual and so are affected by the Tapered Annual Allowance is something that only you can determine as these income definitions are not restricted to just employment earnings but cover all the components of your income. These are facts that neither the trustees, nor the scheme administrators, nor the employer can know.

Please bear in mind that your exact level of income in a tax year may only be known once the tax year has ended so your Tapered Annual Allowance may not be known until after the end of the tax year.

What is the Money Purchase Annual Allowance?

From tax year 2015/16, the Money Purchase Annual Allowance is triggered if you flexibly access your money purchase pension savings. The scheme in which you flexibly access your benefits should inform you of this fact and you will then need to let any other schemes in which you, or another party on your behalf, are contributing towards a money purchase benefit.

The Money Purchase Annual Allowance is currently £4,000 and any money purchase pension savings made in excess of this will be subject to an Annual Allowance charge. For tax years prior to 2017/18, the Money Purchase Annual Allowance was £10,000 but special rules applied for the 2015/16 tax year.

If the Money Purchase Annual Allowance is exceeded you will be subject to an Annual Allowance charge but it is worth noting that you cannot carry forward unused allowance from previous years to offset this charge.

If you have informed your scheme that you are subject to the Money Purchase Annual Allowance then you will automatically be provided with a Pension Savings Statement if your money purchase pension savings exceed the Money Purchase Annual Allowance in a tax year.

Where can I get more information?

For further information, HMRC has guidance on the Annual Allowance on its website at http://www.hmrc.gov.uk/pensionschemes/understanding-aa.htm

For further information, please write to:

Allen & Overy Pension Scheme
Capita Pension Solutions
PO Box 555
Stead House
Darlington, DL1 9YT.

Tel: 01227 774654

Email: allenovery@capita.com

Neither Capita nor the Trustee of the Scheme is able to offer financial or tax advice. If you are in any doubt it is recommended you seek professional financial advice.

Allen & Overy Pension Scheme (the Scheme)

Request for further information about Scheme Pays

TO BE COMPLETED BY THE MEMBER

Please return forms to: Allen & Overy Pension Scheme, PO Box 555, Stead House, Darlington, DL1 9YT

Part A **Personal Details**

Title:	Mr / Miss / Mrs / Ms / Dr (delete as applicable) / other ___________		
Surname:		Forenames (in full):	
Date of Birth:		NI Number:	
Address:			
Post Code:			

Part B **Estimated Annual Allowance Tax Charge Details**

Please complete the details below to allow the scheme administrator to assess eligibility for Scheme Pays:

Estimated Annual Allowance tax charge*:	£	
Tax year relevant to the Annual Allowance tax charge stated above:		
Do you expect to be subject to the Tapered Annual Allowance for the tax year stated above?	**YES / NO**	

Within the tax year that applies to the Annual Allowance tax charge as stated herein do you expect to:

		DATE:
• retire from this scheme within the tax year that applies to the Annual Allowance charge as stated above? If YES the date:	**YES / NO**	/ /
OR		
• reach age 75 without having taken all of your benefits from the scheme? If YES then please include the date:	**YES / NO**	/ /

** This is the tax payable on the amount by which you have exceeded the Annual Allowance, having taken into account any unused Annual Allowance which you are allowed to carry forward from the three previous tax years. HMRC guidance on how to calculate the charge can be found here: https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056110.*

Part C

Member declaration

Please send me further information about the Scheme Pays option.

I understand this is not an election for Scheme Pays and further forms will need to be completed if I am eligible and intend to proceed with the Scheme Pays option.

Signed:		Date:	

If you intend to send this form electronically then please confirm the following statement:

In line with the legislative requirements for electronic disclosure, I confirm that I have personally submitted this notice:	**YES / NO**

The information provided will be processed by Capita for purposes only associated with «SchName» and will be used in accordance with its policies and the Trust Deed & Rules and the applicable data protection legislation.