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Dear Sir/Madam

Local Government Pension Scheme (LGPS)
Tapered Annual Allowance 2017/18

As a scheme member of the LGPS with the City of London Pension Fund you may be aware of Annual Allowance (AA). This is the limit by which your pension can grow in any tax year before you may be liable to further taxation.

The standard AA limit for 2017/18 is £40,000. For the tax year 2017/18 a Tapered Annual Allowance (TAA), between £10,000 and £40,000 may also affect scheme members with a Threshold Income in excess of £110,000 per year. In the factsheet enclosed the criteria is explained.

The inclusion of all types of taxable contributable income in the definition of Threshold Income has made the identification of scheme members affected by the TAA difficult. The City of London Pension Fund will not know about any contributable income external to the City of London LGPS employment and only the scheme member or their accountant/advisor will hold <u>all</u> the required information.

Pension schemes have a legal requirement to issue a Pension Saving Statement declaring AA used by a scheme member, only when that member has pension growth exceeding the standard £40,000 AA limit. It is, however, possible for a scheme member to have pension growth of less than £40,000 but still have a tax charge because they are affected by TAA.

To assist scheme members, the 2018 Annual Benefit Statement included an estimated AA figure used from the City of London LGPS employment. However, if you feel you are affected by TAA and you have not already received a separate Pensions Saving Statement for 2017/18 (because you didn't exceed the standard £40,000 AA limit) you may wish to consider requesting one.

Should you have any questions please contact me on the details provided below.

Yours Sincerely

Matt Mott Pension Manager

Information about the Tapered Annual Allowance
From 6 April 2018

Tapered Annual Allowance

The Government has introduced Tapered Annual Allowance from 6 April 2016 as a means to further reduce the Annual Allowance. It works by reducing a person's Annual Allowance by £1 for every £2 of 'adjusted income' earned over £150,000, up to a maximum reduction of £30,000 leaving a minimum Tapered Annual Allowance of £10,000.

Members with an adjusted income of between £150,000 and £210,000 will be affected by the Tapered Annual Allowance in the 2017/18 tax year. Those with an adjusted income of over £210,000 will have a Tapered Annual Allowance of £10,000.
Members with a threshold income of **less than** £110,000 will be exempt from the Tapered Annual Allowance.

As at present, any unused Annual Allowance from the three previous tax years can be carried forward and added to the individual's Annual Allowance. Where this Annual Allowance is reduced by the taper, the carry forward will be the balance of the tapered amount.

Tapered Annual Allowance is based on an Annual Allowance of £40,000, so the rate of the taper may vary if the annual allowance is changed in the future.

How does the taper work?

The taper reduces the Annual Allowance by £1 for every £2 of adjusted income received over £150,000, until a minimum Annual Allowance of £10,000 is reached. This means that from 6 April 2017 the Annual Allowance for high earners is as follows:

Adjusted Income	Annual Allowance
£150,000 or below	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or above	£10,000

Adjusted income (£150,000 and over)

Adjusted Income	Broadly, your threshold income plus pensions savings built up over the tax year	£150,000

Adjusted income is the total of all sources of taxable income falling in the tax year plus the value of any pension saving in that year. This is to ensure that the restriction applies fairly and cannot be avoided, for example, through using salary sacrifice.

There are six steps for members to consider when calculating their adjusted income.

1. Identify the amounts of income on which the member is charged income tax for the tax year.

The main types of chargeable income are:

- employment income,
- trading income (income from trades and professions),
- property income,
- pension income,
- social security income (where it is taxable),
- savings income,
- dividend income, and
- Miscellaneous income.

2. Deduct from total income the amount of any relief under a provision listed in the Income Tax Act 2007 to which the member is entitled for the tax year.

There are two pension related reliefs:

- excess relief where relief under a net pay arrangement is not sufficient, and
- relief on making a claim.

There are numerous other reliefs set out in the Income Tax Act 2007 that may be deducted at this step.

3. Add back in the amount of any claim for excess relief under net pay and relief on making a claim (described in step 2 above).

4. Add in the amount of any pension contributions made from any employment income of the individual for the tax year under net pay (but not any elements already added back in under step 3 above). This is to ensure fairness between those who have contributions deducted via net pay.

5. Add in the amount of relief claimed where non-domiciled individuals make contributions to overseas pension schemes.

6. Add in the value of any employer contributions for the tax year. The normal calculation basis for the Annual Allowance should be used. In the LGPS, this is the pension input amount for the tax year minus the amount of member contributions.

Threshold income (£110,000 and over)

Threshold Income	Broadly, your taxable income after the deduction of your pension contributions (including AVCs deducted under the net pay arrangement)	£110,000

To provide some certainty for Scheme administrators and members over who may be affected, and to ensure that lower paid individuals are not affected, the taper restriction will be subject to an income floor. The threshold income will be £110,000 (being £150,000 less the Annual Allowance) of what is normally a member's net income for the tax year and will be known as threshold income.

Where an individual has threshold income of £110,000 or less they **cannot** be subject to the tapered Annual Allowance regardless of the level of their adjusted income.

There are four steps for members to consider when calculating their threshold income. Steps 1 and 2 are the same as for adjusted income above.

3. Add in the amount of any employment income given up for pension provision as a result of any salary sacrifice made on or after 9 July 2016.

4. Deduct the gross amount of any pension contribution made via the relief at source method.

Maximum tax relievable contributions

If, in a tax year, a member does not know what their final earnings and other income will be then they will not know where they fall within the taper range for the Annual Allowance (unless they are definitely above or below the range). Consequently they will not know how much their maximum tax relievable pension contributions can be for that year. This uncertainty might be because a member receives a large pensionable or non-pensionable payment at the end of the tax year or receives separate income from outside the LGPS employment.

Money Purchase Annual Allowance

In defined contribution (DC/Money Purchase) arrangements, such as the LGPS AVC arrangement or other personal pensions, the test against the Annual Allowance is simply the amount of contributions paid (by the employee and the employer).

Accessing 'Flexible Benefits'

From 6 April 2017, members who have flexibly accessed their defined contribution pension savings will have a money purchase Annual Allowance of £4,000 leaving £36,000, against which their defined benefit savings are tested.

This will also be restricted by the Tapered Annual Allowance rules. This means that for those with incomes of £210,000 or more, may have a reduced alternative Annual Allowance although any available unused Annual Allowance can be carried forward and added to this.

Annual Allowance Charge

Members have an obligation to include the Annual Allowance Charge information on their tax return by 31 January 2019.

Voluntary Scheme Pays

Where a member is subject to a tapered annual allowance, they can elect to enter into a voluntary arrangement with the City of London to pay the tax charge on amounts in excess of the tapered annual allowance. The charge, however, must be in excess of £2,000 and the members pension benefits will be permanently reduced to reflect the payment of the charge made by the Fund on their behalf.

If you wish to take advantage of voluntary scheme pays please contact your Fund for an election form.

Where can I find more information?

Information about the Annual Allowance can also be found on HMRC’s website at: www.gov.uk/tax-on-your-private-pension/annual-allowance

How can I access independent financial advice?

If you would like personal independent financial advice about any decisions you need to make, you must consult an Independent Financial Advisor. For help in choosing an independent financial advisor visit www.moneyadviceservice.org.uk