Annual allowance

I have exceeded the annual allowance – what happens now?

You have received the enclosed statement(s) because you have exceeded the annual allowance (AA) in relation to your membership of USS during either (or both) the 2011/12 and 2012/13 years.

Although this does not necessarily mean that you will incur a tax charge, there is a possibility that you could be liable to pay additional tax.

To find out whether you will be liable for an additional tax charge, you need to determine whether you can carry forward any unused allowance from the previous three years to the year in which you have exceeded the AA.

Pension input period (PIP)

For USS the PIP is 1 April to 31 March each year. Your AA in respect of USS benefits will be measured based on any service you have in the scheme between those dates. If you are a member of another pension arrangement, you will need to find out the PIP for that arrangement from your pension provider. For each tax year, you need to report the AA values for any arrangements where the PIP ends within the tax year in question.

For example, if you had pension savings in USS and another arrangement as follows:

- USS PIP 1 April 2012 to 31 March 2013, and
- Arrangement 2 PIP 1 May 2011 to 30 April 2012

Your pension savings for the 2012-13 tax year are the total of your pension savings in both USS and the other arrangement because the end date for both of them is in that tax year.

Calculating your unused allowance – ‘carry forward’

If your total pension savings for the PIP in question are more than the AA, you can carry forward any unused allowance from the previous three years. You must use the AA in the current PIP before you go back to the earliest of the three carry forward years available.

You will only have to pay tax if you are still in excess of the AA having taken account of any unused allowances.

You can only carry forward unused allowance if, during the tax year, you were a member of either:

- a registered pension scheme (such as the USS or Teachers’ Pension Scheme and the majority of other occupational pension schemes in the UK); or
- an overseas pension scheme and either you or your employer qualified for UK tax relief on pension savings in that scheme

The calculation is complicated and we strongly suggest you seek advice.

If you have received a statement for both the 2011/12 and 2012/13 years, you will need to carry out the carry forward calculation for the 2011/12 year first, to work out if you have a tax charge for that PIP. You will then need to account for any carry forward used in 2011/12 before calculating your available AA, including carry forward, for 2012/13.

Please note: you do not need to make any claim to HMRC to carry forward unused allowance and you do not need to show this on your tax return if your unused allowance means that an AA excess tax charge is not due.

It is important to note that any unused AA in the PIPs that ended in the 2009/10 and 2010/11 tax years is based on a notional AA of £50,000 even though the actual allowance for those years was considerably higher.
HM Revenue & Customs (HMRC) have developed a calculator to help you work out whether or not you are liable for any tax.

You will find this on HMRC's website: www.hmrc.gov.uk/tools/pension-allowance/calculator.htm

Enter the information from the statement(s) we have provided and remember to include the values from any other pension arrangements you are a member of, into this calculator. If your pension savings for the year in question are still in excess of the AA then you will be subject to a tax charge.

You do not need to complete a tax return in relation to those years where you do not exceed the AA once you have taken into account any carry forward, but you will need to keep a record of your calculations in case your pension savings exceed the AA in a subsequent tax year.

Prudential Money Purchase AVC (MPAVC)

Any MPAVC contributions that you have paid during a PIP will count towards your AA for that PIP.

When we draw up your annual allowance statement, we include the amount that you have contributed based on information provided by Prudential (our MPAVC provider). Unfortunately, Prudential are unable to identify the month in which your MPAVC contributions were actually deducted from your pay, only the month in which contributions are received. So we make an assumption based on the date of receipt. For example, if we are looking at the PIP 2012/13 and a contribution is received by Prudential on 6 April 2013, we have assumed that the contribution was deducted from your March pay and is in respect of the 2012/13 PIP and not the 2013/14 period.

We encourage members that have paid MPAVC contributions to check the MPAVC values reported. The best way to do this is to look at your payslips for each month during the PIP in question. For the 2012/13 PIP you should check your payslips from April 2012 to March 2013 inclusive. If you do not have a full record of your payslips, you should contact your employer to establish the amounts deducted.

You will need to do this for each PIP, including those for the previous three years. Should any of the MPAVC figures be different, you should then adjust the AA value reported before sending this information (if required) to HMRC.

Prudential Money Purchase AVC (MPAVC)

Any MPAVC contributions that you have paid during a PIP will count towards your AA for that PIP.

When we draw up your annual allowance statement, we include the amount that you have contributed based on information provided by Prudential (our MPAVC provider). Unfortunately, Prudential are unable to identify the month in which your MPAVC contributions were actually deducted from your pay, only the month in which contributions are received. So we make an assumption based on the date of receipt. For example, if we are looking at the PIP 2012/13 and a contribution is received by Prudential on 6 April 2013, we have assumed that the contribution was deducted from your March pay and is in respect of the 2012/13 PIP and not the 2013/14 period.

We encourage members that have paid MPAVC contributions to check the MPAVC values reported. The best way to do this is to look at your payslips for each month during the PIP in question. For the 2012/13 PIP you should check your payslips from April 2012 to March 2013 inclusive. If you do not have a full record of your payslips, you should contact your employer to establish the amounts deducted.

You will need to do this for each PIP, including those for the previous three years. Should any of the MPAVC figures be different, you should then adjust the AA value reported before sending this information (if required) to HMRC.

Temporary pay increases

In calculating your AA in respect of USS benefits, the standard pensionable salary calculation has been used. If you are aware that you have received a temporary pay increase in the last three years, up to the end of the PIP in question, you should notify USS in order that a revised calculation can be carried out, otherwise your pensionable salary used will be too high and therefore your AA over-stated.

More information about the AA and carry forward allowances can be found at: www.hmrc.gov.uk/pensionschemes
Other pension arrangements

This factsheet has covered what to do if you have exceeded the AA solely as a result of your membership of USS. But it is extremely important to remember that HMRC value all of your pension benefits earned when looking at your AA.

When working out your total pension savings during any year, you must include pension savings from any other pension scheme that you have been a member of during the year. You will therefore need to contact the administrators of any other pension arrangements, whether they are occupational or personal pension arrangements, to obtain this pensions savings figure from them. The combined value of the pension you have built up across all your pension schemes in that PIP is then your total pension savings for the tax year.

How do I carry forward unused allowance?

You are able to carry forward unused allowance automatically. You do not need to make any claim to HMRC to carry forward unused allowance and you do not need to show this on your tax return if your unused allowance means that an AA excess tax charge is not due.

What if I have exceeded the annual allowance after allowing for ‘carry forward’?

If you have exceeded the AA and you do not have any/ enough carry forward to use, you will need to pay additional income tax.

The onus is on you to provide information to HMRC via a Self Assessment tax return. If you don’t normally complete a Self Assessment tax return you’ll need to register with HMRC to complete one. The latest you should register is by 5 October after the end of the tax year for which you need a tax return. You should be aware that once you have registered online, HMRC will send you a letter with your Unique Tax Reference code that you will need to submit your tax details online. Naturally, this can take several days so you need to ensure you leave plenty of time to go through the process before the deadline.

How is my tax charge calculated?

Once you have taken into account any carry forward, the amount by which your pension savings exceed the AA is added to any other taxable income you receive for that tax year. After your allowable expenses and any tax-free allowances have been taken into account, the amount of tax you pay is calculated using different tax rates and a series of tax bands. Therefore the tax you pay on your excess pension savings will depend on the relevant tax band once you take into account all of your taxable income.

It is your responsibility to ensure that the amount of the AA tax charge is correctly calculated, neither the scheme nor your employer will be in a position to calculate your tax for you and once again we strongly recommend you seek financial advice.

How can the charge be paid?

You could choose to settle the charge yourself through the self assessment process, by any means accepted by HMRC.

A member of a registered pension scheme, such as USS, will in certain circumstances be able to require the scheme to pay an AA tax charge on their behalf. This would be in return for an appropriate deduction to the member’s benefits. This is called ‘Scheme Pays’. Although this sounds simple in theory, in practice there is a lot to consider. For example, it is only required that a scheme offers the ‘Scheme Pays’ option where the tax payable exceeds £2,000.

In return for the scheme paying the AA tax charge on your behalf, a deduction will be made from your pension and lump sum benefit. The deduction is the equivalent pension amount to the cash value paid to HMRC. The amount of the deduction will be confirmed when you inform USS of the tax charge to be paid.

HMRC have a helpsheet which you may find useful.

Helpsheet HS345 Pensions - tax charges on any excess over the lifetime allowance, annual allowance, special annual allowance and on unauthorised payments is available from: www.hmrc.gov.uk/helpsheets/h5345.pdf
The pension debit will be increased each year in line with standard USS pension increases until your benefits are drawn. The benefits payable to you on retirement will therefore be calculated after deducting the revalued Scheme Pays pension debit. One important thing to note is that the debit is applied to your pension before income tax is deducted so it is a very tax efficient way of making the payment to HMRC.

Financial advice

USS is not able to provide advice, nor is it able to assist with the calculation of your carry forward allowances and potential tax charge.

You may feel able to undertake this yourself or you may wish to appoint a tax or financial adviser.

Once you know what your tax charge will be in respect of USS benefits, you can use the Scheme Pays calculator available on the website www.uss.co.uk to work out how much the deduction will be from your USS benefits.

Further information on Scheme Pays is available in the factsheet ‘Limits to tax relief and tax-free benefits’.

The difference between this list and others available is that the USS list contains only advisers who are qualified as Chartered Financial Advisers, the highest level of qualification obtainable.

Further information

HMRC guidance about the AA: www.hmrc.gov.uk/pensionschemes

HMRC modeller – helping you find out if you’re liable for a tax charge: www.hmrc.gov.uk/tools/pension-allowance/calculator.htm

USS factsheet on tax relief limits.

There are several websites to help you locate a financial adviser. These include www.unbiased.co.uk and www.findanadviser.org.

USS also has a list of financial advisers on its website www.uss.co.uk

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter prevail. Every effort has been made to present accurate information at the date of publication and members are advised to check with their employer contact for the latest information regarding the scheme, and any changes that may have occurred to its rules and benefits.