Pension Tax Limits: Summary Factsheet

Co-op Section

This factsheet provides a summary of the rules on pension tax limits.

The information was updated
and is current as at August 2023.

This factsheet is for members of The Co-op Section of Pace. If you're a member of The Co-operative Bank Section, you should visit the Bank's pensions website at **www.co-operativebank.co.uk/pensions** for pension information that's relevant to you.

Pension tax limits: an overview

You can pay 100% of your salary into your pension (or £3,600 if higher), but there is a limit on how much of your pension savings (including AVCs) can benefit from tax relief. Tax relief on pensions is limited by:

- An **Annual Allowance**, which is the total amount of pension savings you can make each year (running from each 6 April to 5 April in line with the tax year) without paying tax. Up until 5 April 2023, the Annual Allowance was £40,000. From 6 April 2023, the Annual Allowance has increased to £60,000 for most people but it may be lower in some circumstances. You'll start to pay income tax at your marginal rate on any pension savings you make which are more than the Annual Allowance.

  You'll have a lower Annual Allowance if:

  - You're earning more than £260,000 a year
  - You have taken flexible benefits from your money purchase/defined contribution (DC) pension savings while still paying into a DC pension. In this case, your Annual Allowance may be restricted to £10,000 (the **Money Purchase Annual Allowance**). Before 6 April 2023, the Money Purchase Annual Allowance was £4,000.

- A **Lifetime Allowance**, which is the total value of pension savings you can build up over your lifetime before you have to pay a tax charge, known as the Lifetime Allowance tax charge.

  The Government removed the Lifetime Allowance tax charge from 6 April 2023. This was a one-off tax charge of 55% where pension savings above the Lifetime Allowance were taken as a lump sum, or 25% plus income tax where they were taken as pension.

  The Government has announced its intention to remove the Lifetime Allowance completely from 6 April 2024. We're still waiting for details on how this will be implemented and will update this factsheet once further information becomes available as we know many colleagues will be planning to take their pension savings after 6 April 2024.

  References to the Lifetime Allowance in this factsheet therefore only apply to colleagues who are planning to take their pension savings during the 2023/2024 tax year.

The Lifetime Allowance is still in place for the 2023/2024 tax year and is currently £1,073,100. If you take your pension savings this tax year, any pension savings you have above the Lifetime Allowance will now be taxed at your marginal rate of income tax, and will not be subject to the Lifetime Allowance tax charge. This means all your pension savings, apart from any tax-free cash, will be taxed as earned income under PAYE, including any pension savings above the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.

If your financial adviser advises you to opt out of Pace due to pensions tax reasons, the Co-op has an arrangement in place to allow you to do this and to receive a non-pensionable cash allowance instead.

The Pensions Protections Factsheet at **coop.co.uk/pensions** also provides information about the various types of HMRC pension protections available if you're affected by the Lifetime Allowance.

If you have any questions about your pension savings, please contact the Co-op Pensions Department: **PensionSavings@coop.co.uk**

The pension tax limits will not affect the majority of colleagues. However, it's important you consider whether they might affect you.

More detailed information can be found in the Annual Allowance Factsheet and Lifetime Allowance Factsheet at **coop.co.uk/pensions**

The law and tax rates relating to pensions may change in the future and will depend on your individual circumstances.

This factsheet reflects the changes to pensions tax relief which were announced by the Government in the Budget of 15 March 2023. However, the draft legislation needed to implement the changes does not fully align with the announcement, and the details of the changes were in the process of being finalised by HMRC at the time this factsheet was published. Accordingly, the position summarised in this factsheet reflects the pensions industry's general understanding of the changes as at April 2023 but may be subject to change.

Pension tax legislation is complicated so make sure you seek financial advice or guidance when deciding what action to take. You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, **www.moneyhelper.org.uk** (the website offers contact options of live webchat, enquiry form and social media channels). You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them.

What is the Annual Allowance?

This is the maximum tax-free build up of pension savings that you can make each year (running from each 6 April to 5 April in line with the tax year).

- Up until 5 April 2023, the Annual Allowance was £40,000. From 6 April 2023, the Annual Allowance is £60,000 for most people although there are some exceptions to this.
- **If you draw some of your money purchase/defined contribution (DC) pension savings under the flexible retirement rules and you have continued to make pension savings, your allowance may be restricted to £10,000 (the Money Purchase Annual Allowance). The restriction applies to Pace DC and any other DC pension arrangements you have. You should have been advised by your pension provider at the time you started to take your money out if this applies to you.**
- The Annual Allowance is also reduced on a sliding scale for people with 'Adjusted Income' over £260,000 (at a rate of £1 for every £2 of income).

  This reduces the Annual Allowance to £10,000 for anyone with 'Adjusted Income' of £360,000 or more. 'Adjusted Income' is generally all of your taxable income plus any pension savings you make, or The Co-op makes on your behalf. So this means that those colleagues whose basic salary, bonus and other taxable benefits are likely to total less than £260,000 may still be affected as you need to add on any taxable income from other sources plus any pension savings made by you and The Co-op. If your 'Threshold Income' is £200,000 or less, you won't need to calculate your 'Adjusted Income' and your Annual Allowance won't be reduced. The box on the next page gives you further information about 'Threshold Income' and 'Adjusted Income'.

Jargon buster

Threshold Income: Threshold Income is effectively your taxable income, so it includes salary (after any pension contributions paid by you), bonus, car allowance, P11D benefits, bank interest, dividend payments, rental income and any other taxable income. This is reduced by any tax-relievable items such as charity giving.

Adjusted Income: Adjusted Income is very similar to Threshold Income, but it also includes the value of any pension contributions and the value of the increase in any final salary linked benefits. This is reduced by any tax-relievable items such as charity giving. Because your Adjusted Income depends on the total level of income and pension savings during the year, you might only know your Adjusted Income towards the end of the tax year.

What happens if I exceed the Annual Allowance?

If your savings to all pension schemes in a year (running from each 6 April to 5 April in line with the tax year) are more than the Annual Allowance, then a tax charge payable at your highest marginal rate of income tax may be payable. This is based on the amount by which you exceed the Annual Allowance.

Pension savings for these purposes is the amount of contributions paid to Pace DC or any personal pensions you may have. If you have final salary benefits, then the value of any increase in these benefits will also count as pension savings.

To avoid a tax charge, you may be able to 'carry forward' any unused allowances from the previous three tax years. Any unused allowances up to 5 April 2023 will be restricted to £40,000 a year (or any lower amount that applied to you because you were a high earner).

Similarly, if you start to take flexible benefits from a DC pension and in a single tax year you and/or your employer also pay contributions into a DC pension of more than £10,000, then a tax charge payable at your highest rate of income tax may be payable. This is based on the amount by which you exceed the Money Purchase Annual Allowance.

Please note that if the Money Purchase Annual Allowance applies to you, unused allowances can't be brought forward to pay DC pension contributions which are more than £10,000. If this happens, you'll be subject to a tax charge on any contributions above the £10,000 limit.

What can I do if I expect to exceed the Annual Allowance?

If you think that your total level of pension savings in a tax year will exceed your Annual Allowance and you cannot carry forward sufficient unused Annual Allowance from the previous three tax years (or if you think you will exceed the Money Purchase Annual Allowance, if applicable), then you may wish to reduce your pension savings to avoid paying an Annual Allowance tax charge.

Action!

You can find more details on how to work out if you are affected and what you can do about it in the Annual Allowance Factsheet which is available from the Co-op pensions website: coop.co.uk/pensions. Please note, there are two separate versions depending on when you joined Pace DC.

Pensions taxation is complicated. If you think you may be affected by the Annual Allowance, you should consider getting independent financial advice before taking any action.

What is the Lifetime Allowance?

This is the maximum build up of pension savings that you can have over your lifetime before you have to pay a tax charge and is measured whenever benefits are taken from a pension fund. If you are unsure whether or not your current pension savings will exceed the Lifetime Allowance, we strongly recommend you seek independent financial advice.

- In March 2023, the Government announced its intention to abolish the Lifetime Allowance from April 2024. For the 2023/2024 tax year, the Lifetime Allowance is £1,073,100.
- The Lifetime Allowance tax charge (of 55% where the excess pension savings are taken as a lump sum or 25% plus income tax where they are taken as pension) has been removed from April 2023.
- The Lifetime Allowance is measured against all pension savings, including any you may have outside of The Co-op.

What happens if I exceed the Lifetime Allowance?

The Lifetime Allowance is currently £1,073,100. If you take any of your pension savings this tax year and the total value of your pension savings is above the Lifetime Allowance at that time, you'll pay income tax on the excess at your marginal rate instead of the Lifetime Allowance tax charge. You'll pay this tax if you take your excess benefits as either income or cash. So all of your pension savings, apart from any tax-free cash, will now be taxed as earned income under PAYE, including any pension savings above the Lifetime Allowance and there will be no additional Lifetime Allowance tax charge.

The value of pension savings for Lifetime Allowance purposes is the fund value of any defined contribution savings (such as Pace DC or personal pensions) and 20 times the annual pension payable at retirement from any defined benefit scheme such as Pace DB, plus the amount of any tax-free cash lump sum you choose to take.

Are there any limits on how much tax free cash I can take?

For the 2023/2024 tax year, the amount of tax-free cash you can take from your benefits is limited by reference to the Lifetime Allowance.

You won't now be able to take any of your benefits above the Lifetime Allowance as tax-free cash. So if you take any of your pension savings this tax year and the total value of your pension savings is more than the

Lifetime Allowance, the maximum tax-free cash you'll be able to take will be £268,275 (i.e. 25% of the Lifetime Allowance). The maximum amount of tax-free cash you can take at retirement is expected to remain frozen at £268,275 and this limit would apply to you if you take your benefits in a future tax year.

If you have a protected right to a higher tax-free lump sum as at 5 April 2023 or if you successfully apply for such a protected right, you'll still be able to access this right. Please see the separate Pensions Protections Factsheet for more information about tax-free lump sums and protected rights. You must apply for the pension protections before you take any benefits.

Speak to a financial adviser

If you're not sure how the Lifetime Allowance will affect you, it's best to speak to a financial adviser. They'll be able to advise you on the impact of the Lifetime Allowance, how much tax you'll need to pay, and whether it would be in your interests to opt out of pension savings due to pensions tax reasons.

If your financial adviser advises you to opt out of Pace due to pensions tax reasons, the Co-op has an arrangement in place to enable you to do this and to receive a non-pensionable cash allowance instead. The **Lifetime Allowance Factsheet** gives you more details.

Can I protect my pension benefits if I exceed the Lifetime Allowance?

Yes, potentially. The Government introduced two forms of 'protection' in April 2016, when the Lifetime Allowance was reduced from £1.25 million to £1 million.

The protections only help those individuals who had pension savings at April 2016 which were affected by the reduction in the Lifetime Allowance to £1 million at that time, or are likely to be affected by this reduction by the time they come to access their pension savings.

Please see the separate Pensions Protections Factsheet for more information about Individual Protection (2016) and Fixed Protection (2016). The Pensions Protections Factsheet also provides information on alternative forms of pension protection that you may already hold.

Action!

It's difficult to generalise about who the Lifetime Allowance might affect as it depends greatly on what pension savings you have already made and what your pension planning objectives are.

Full details of how the Lifetime Allowance may affect you and how you may be able to protect yourself are set out in the Lifetime Allowance Factsheet and the Pensions Protections Factsheet which you can find on the Co-op pensions website at: coop.co.uk/pensions.

Remember

If you believe that you might be affected by either the Lifetime Allowance or the Annual Allowance, you're strongly encouraged to consider how this might affect your personal circumstances.

Dealing with your personal pension tax position is your responsibility. The Co-op, the Pace Trustees and the Co-op Pensions Department are unable, by law, to provide you with advice. You are strongly recommended to seek independent financial advice before making any pension planning decisions. You can find an adviser in your area who is regulated by the Financial Conduct Authority (FCA) by searching for 'retirement adviser' on the MoneyHelper website, www.moneyhelper.org.uk. You should check the specialist advice areas of any adviser, as well as the cost of their advice, before appointing them. Legal & General offer a way of paying for pensions and retirement advice called a Facilitated Adviser Charge (FAC). You can ask Legal & General to make a payment directly to your financial adviser by making deductions from your Pace DC pension pot.

FAC can only be used if the advice you receive relates to your relevant Legal & General pension plan, in this case, Pace DC. Full details of how the FAC works, and how to access this can be found at landg.com/adviserchargeguide

For further information, please contact the Co-op Pensions Department:
PensionSavings@coop.co.uk

This factsheet should not be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this factsheet alone. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances and before making any pension planning decisions.

DATA PROTECTION · THE ENVIRONMENT
Designed and produced by Wordshop
Our environmental and data protection policies can be seen online.
www.wordshop.co.uk

J-073477

08/23