Tax Charges on pension savings for Nationwide Pension Fund (NPF) members

The Annual Allowance

The Annual Allowance is a limit on the total value of your pension savings that can be built up each tax year, without incurring a tax charge. **The information contained in this note shows the position for the tax year 2020/2021.**

These are the main Annual Allowance facts we think you should know:

1. If you exceed your available Annual Allowance (including any unused amount carried forward from the previous 3 tax years) the excess is taxed at your marginal rate of income tax.

2. The standard Annual Allowance of £40,000 will apply to you if your 'threshold income' over the tax year is £200,000 or less. Threshold income is broadly defined as your taxable income from **all** sources (including salary, bonus or severance pay) **plus** any remuneration that has been sacrificed for additional pension contributions. It also includes P60 earnings, P11D benefits and income from outside of Nationwide (e.g. interest on savings, dividend and rental income)

3. If your threshold income is above £200,000, your Annual Allowance will then depend on the level of your 'adjusted income'. Adjusted income is broadly defined as your taxable income from **all** sources **plus** the capital value of your NPF pension and any other pension savings (e.g. contributions made to the Nationwide GPP). It includes P60 earnings, P11D benefits and income from outside of Nationwide (e.g. interest on savings, dividend and rental income).

   As illustrated in the table below, the standard Annual Allowance of £40,000 will reduce by £1 for every £2 your 'adjusted income' which exceeds £240,000 over the course of a tax year. The minimum the Annual Allowance could reduce to is £4,000.

Adjusted Income	£240,000 or less	£250,000	£260,000	£270,000	£280,000	£300,000	£312,000 or more
Annual Allowance	£40,000	£35,000	£30,000	£25,000	£20,000	£10,000	£4,000

NB: If you take retirement benefits from a Defined Contribution scheme such as the Nationwide GPP, and use the flexible retirement options the Government introduced in 2015, this can affect your Annual Allowance available under the NPF. This will only be the case if you continue making contributions to the Defined Contribution pension arrangement. Please contact the Employee Pensions team for further information.

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4. Where you exceed the Annual Allowance in a year, you can utilise any unused Annual Allowance from the three previous tax years to offset against the excess. Any remaining amount will be taxed at your marginal income tax rate.

   The value of your pension accumulated each year is tested against the Annual Allowance, every £1,000 of pension you build up uses £16,000 of your Annual Allowance.

5. The cash value of any Additional Contributions paid to Fidelity, Prudential, or into the Nationwide GPP (including the 6% enhancement), together with any other contributions made to approved pension schemes, needs to be added to the total value of your NPF pension.

6. It's your responsibility for calculating the amount of tax due and reporting this to HMRC. It's calculated by adding the Annual Allowance excess amount to your other taxable income and applying your marginal tax rate. If the Annual Allowance excess causes your income to cross over a tax rate threshold, different tax rates will be applied accordingly to each section of the excess; for example, part may be chargeable at 40% tax rate and part at 45%.

   Further information on how to calculate the Annual Allowance charge can be found in HMRC Helpsheet 345: http://www.hmrc.gov.uk/helpsheets/hs345.pdf.

7. Where your pension savings result in a tax charge, you will be taxed at your marginal income tax rate. If your tax liability is under £2,000 this will need to be paid through your self-assessment tax return. Where the tax liability is more than £2,000 you can elect for the tax to be paid by NPF. In return, there would be an appropriate reduction to your NPF pension benefits.

Key Features about the Lifetime Allowance

The Lifetime Allowance is the total value of all your private and work pensions, but not any state pension, which you can build up without paying extra tax. The standard Lifetime Allowance is currently £1,073,100 and will increase each April in line with inflation. The Lifetime Allowance limit has reduced over recent years however HMRC has allowed individuals who meet certain criteria to protect a Lifetime Allowance amount that is higher than the standard £1,073,100.

When you take your pension the value of your benefits will be tested against your Lifetime Allowance. Any excess amount will be taxed at 55% if taken as a lump sum and 25% if taken as an income.

Further Information

HMRC's website provides further guidance on the Annual and Lifetime Allowances. If you require further any information, please contact the Employee Pensions team.

As this is a complex area you also may want to consider taking independent financial advice. There are various ways of arranging financial advice but one that may prove useful is www.unbiased.co.uk. It's a free service which allows you to find and review advisers in your area.

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