

August 2014



**Ministry
of Defence**

**AFPS Members Guide to
Taxation of Pension Benefits**

**Lifetime Allowance (LTA)
and Annual Allowance (AA)**

INDEX

PART ONE - LIFETIME ALLOWANCE	PAGE
Key Messages	2
Introduction	2
What is the LTA?	2
What are the changes to the LTA?	2
When do I need to calculate whether I have exceeded LTA?	3
How do I know if I have exceeded the LTA at retirement?	3 – 4
What happens if I breach the LTA?	4 – 5
LTA Protection	5
LTA Factor Tables	6 - 8
PART TWO - ANNUAL ALLOWANCE	
Key Messages	10
Introduction	10
What is Annual Allowance?	11
How to determine if the AA has been exceeded	11
Illustrative Example	11
Carry Forward	12 - 13
How is the tax calculated?	13
If a tax charge is due, how is this paid?	13 - 14
Scheme Pays	14 - 15
In Year Leavers	15 - 16
Pensions Calculator	16
Scheme Pays Calculator	16
Pension Sharing on Divorce	16
Specific circumstances where adjustments to the Opening and Closing Values in the AA calculations are made	16 - 17
Important information for Self Assessment Returns	17
Question and Answer Brief	17 – 19
Points of Contact Details	19

ANNEXES

- A.** Guidance on calculating pension entitlements.
- B.** Scheme Pays worked examples
- C.** Fully illustrative worked examples

PART 1 - LIFETIME ALLOWANCE

KEY MESSAGES

- With effect from 6 Apr 14, LTA was reduced, by the Government, from £1.5m to £1.25m:
- The LTA is the overall value of the member's pension pot and is tested at the point of discharge or retirement.
- Any excess above the LTA is taxed at 25% and an actuarial factor applied to calculate the reduction in annual pension to meet the charge.
- LTA will impact individuals whose pension (including non-AFPS pension benefits, such as Free Standing Additional Voluntary Contributions) on retirement is expected to be in excess of £54,348 per annum (predominantly, but not exclusively, 1* officers (OF6) and above).
- HM Treasury has introduced an additional form of transitional protection - Individual Protection 14 (IP14), for members who will be affected by the reduction in LTA. Members will have until 5 Apr 17 to apply for IP14.

Introduction

1. The Lifetime Allowance (LTA) is the maximum amount of pension savings¹ (pension and lump sum) that an individual can build up over their life from **all** registered pension schemes.
2. The LTA is assessed when a pension benefit (e.g. pension and lump sum) comes into payment. If you accrue pension savings worth more than the LTA you will be subject to an LTA tax charge² on the excess. For members of the AFPS, the tax charge is automatically recovered from the members' pension benefits through an annual reduction.
3. LTA was introduced in Tax Year (TY) 2006/07, set at £1.5m. Transitional protection was made available in the form of Primary and Enhanced Protection. LTA was increased over the next four TYs, reaching £1.8M in TY10/11. However, on 6 Apr 12 the LTA limit was reduced from £1.8m to £1.5m and FP12 member status was offered by the MOD in order to reduce the impact³. Those electing FP12 were given FP member status which entitled them to Death in Service and Ill Health benefits whilst ceasing any further pension accrual.
4. Members can confirm the value of pension savings by requesting a forecast from Veterans UK. Scheme members are entitled to receive one forecast free of charge per year. The forecast will highlight projected pension benefits and the amount of the LTA that has been used. This guide should be read in conjunction with HMRC's latest guidance⁴.

What is the LTA?

5. Since 6 Apr 06 no absolute limit has been placed on the amount of pension benefits an individual can receive from a single or amalgamation of, registered pension scheme(s). However, there is a maximum level of benefits (pension and /or lump sum) that can be drawn from all registered pension schemes without triggering certain tax charges; this maximum amount is called the LTA.

What are the changes to the LTA?

6. The LTA reduced from £1.5m to £1.25m from financial year 2014/15.

¹ Within AFPS 05 & 15 EDP is not a pension benefit and therefore not subject to LTA regulations.

² Pension savings in excess of LTA are taxed at 25%. Where the lump sum is worth more than a ¼ of the LTA, the excess on the lump sum is subject to 55% tax.

³ [2012DIN01-006](#)

⁴ [HMRC Full Guidance](#)

When do I need to calculate whether I have exceeded the LTA?

7. Any event which results in payment of benefits (e.g. pension and /or lump sum) is known as a Benefit Crystallisation Event (BCE). When a BCE takes place the value of the pension plus lump sum will need to be tested against the individual's LTA. As an example, a BCE in the Armed Forces would be when leaving the Services and a pension and /or a lump sum is payable immediately.

How do I know if I have exceeded the LTA at retirement?

8. The LTA calculation is the same for all Armed Forces Pension Schemes; there are two parts to calculating whether you have exceeded the LTA:

- First, you must check whether your final lump sum, which is 3 x Annual Pension on retirement, is greater than $\frac{1}{4}$ of the LTA ($\frac{1}{4}$ of £1.25m is £312,500). If it is the excess is liable for tax⁵.
- After calculating the lump sum, you must calculate the size of the pension pot. This is conducted by multiplying the amount of your annual Pension on retirement⁶ by a factor of 20 and adding the Lump Sum (if it has not already been subject to tax in the first calculation).

Example – no LTA tax liability

An individual retires in Jul 14 with an annual pension of £40,000.

Lump Sum	= £40,000 x 3	= £120,000
----------	---------------	------------

This is less than $\frac{1}{4}$ of £1.25m LTA (£312,500), therefore no tax is due on the lump sum and it must be included in the total pension pot calculation below.

Lump Sum	= £40,000 x 3	= £120,000
Annual Pension x Factor	= £40,000 x 20	= £800,000
Total pension pot value	= £800,000 + £120,000	= £920,000
LTA for 2014/15		= £1,250,000

This is within the LTA limit and therefore there is no tax liability and no further action to be taken.

9. The table below illustrates which rank, salary and pension amount are likely to attract an LTA charge. This is based on the assumption that this is the only pension provision and that the individual has served a full career (excludes those on specialist career paths e.g. Medical and Dental Officers (MODOs)).

⁵ If the lump sum is greater than £312,500, the excess will be taxed at 55%.

⁶ Estimating Annual Pension: for AFPS 75 - Identify expected annual pension using the [May 14 AFPS 75 Pension Codes](#); for AFPS 05 - Multiply annual salary by number of years reckonable service/70.

Lifetime Allowance	Those likely to be affected by an LTA charge will have an annual pension (£pa) in excess of:	AFPS 75		AFPS 05	
		Likely to affect those on salary (£pa) in excess of:	Ranks likely to be affected:	Likely to affect those on salary (£pa) in excess of:	Ranks likely to be affected:
£1.25m	£54,348	£110,463 ⁷	OF 7 ⁸ & above and OF4 MODOs ⁹	£95,000	OF6 ¹⁰ and above

Note. Those on AFPS 05 could be affected at the rank of OF6 as AFPS 05 allows up to 40 years service to count towards the pension, whilst AFPS 75 allows up to 34 years.

What happens if I breach the LTA?

10. An LTA tax charge may be levied on the lump sum and/or the annual pension. Where the Lump Sum exceeds $\frac{1}{4}$ of the LTA of £1.25m (£312,500) the excess is taxed at 55% and recovered from the Lump Sum payment. Where the value of the pension pot exceeds the remaining available LTA the excess is taxed at 25%. This tax charge is then recovered from the Annual Pension, for the life of the pension, using age related factors based on age at last birthday.

Example – no tax on Lump Sum but tax liable on pension pot

A 58 year old female retires in Jul 14 with an annual pension of £70,000.

Lump Sum	= £70,000 x 3	= £210,000 ¹²
Annual Pension x Factor	= £70,000 x 20	= £1,400,000
Total pension pot value	= £1,400,000 + £210,000	= £1,610,000
LTA for 2014/15		= £1,250,000
Excess over LTA		= £360,000
Taxed at 25%		= £90,000
Reduction in pension per annum	= £90,000/20.41 ¹¹	= £4,410
New Annual Pension per annum (for life)	= £70,000 - £4,410	= £65,590

11. If the Lump Sum exceeds a $\frac{1}{4}$ of the LTA the excess of the Lump Sum is taxed at 55%.

Example – tax liable on Lump Sum and pension pot

A 61 year old male retires in Jul 14 with an annual pension of £130,000.

Lump Sum Taxation @ 55%

Lump Sum	= £130,000 x 3	= £390,000 ¹³
Excess	= £390,000 - £312,500	= £77,500
Excess taxed at 55%		= £42,625
New Lump Sum	= £390,000 - £42,625	= £347,375

⁷ OF7, Salary Point 1.

⁸ Dependant on Salary Point and number of years reckonable service.

⁹ Dependant on accredited/non-accredited status and number of years served.

¹⁰ Dependant on Increment Level and number of years served.

¹¹ Age related factor for a 58 year old female taken from column 1 Table E1: Pensioner Lifetime Allowance Factor table.

¹² Not greater than $\frac{1}{4}$ of £1.25m LTA (312,500) therefore there is no tax charge in the lump sum.

¹³ Greater than $\frac{1}{4}$ of 1.25m LTA (312,500) therefore there is a tax charge on the lump sum.

Annual Pension Taxation @ 25%

A second calculation must also be done to work out whether the annual pension element exceeds the LTA. As the Lump Sum has now been taxed against £312,500 of the LTA, the second calculation must discount both the Lump Sum and the element of LTA it was assessed against in order to avoid taxing the same amount twice. Therefore the remaining available LTA to test the pension value against is £937,500 (i.e. 3/4 of £1.25m).

Annual Pension x Factor	= £130,000 x 20 (note no lump sum)	= £2,600,000
Excess over £937,500	= £2,600,000 - £937,500	= £1,662,500
Excess taxed at 25%		= £415,625
Reduction in pension per annum	= £415,625/18.14 ¹⁴	= £22,912
New Annual Pension per annum (for life)	= £130,000 - £22,912	= £107,088

LTA Protection

12. **Fixed Protection 2014.** FP14 was available to members' whose total pension value was, or was expected to exceed, the revised LTA on 5 Apr 14. FP14 enabled individuals to 'fix' their LTA at £1.5m. Further pension savings could not be accrued beyond 5 Apr 14 but an individual's pension pot will continue to increase in line with CPI. Where the value of the pension pot exceeds £1.5m through CPI growth, the excess will be subject to the LTA tax charge. If an individual elected for FP14 they cease to be an active member of the AFPS and will not receive in service AFPS benefits, such as, Death in Service or Ill Health benefits. Breach of the fixed £1.5m LTA other than CPI growth, will result in FP14 being lost and any associated tax charges will apply. Full details have been published by HMRC¹⁵.

13. **Individual Protection 2014.** IP14 is available to members whose pension benefits were worth more than £1.25m on 5 Apr 14. An individual may fix their LTA at the value of their pension pot (a personalised LTA) on 5 Apr 14 (up to a maximum of £1.5m). IP14 is not available to those members who have Primary Protection.

14. Individuals may accrue pension savings in excess of this personalised LTA with any excess (including CPI growth) being subject to the LTA tax charge. Individuals will remain active members of the AFPS.

15. Although IP14 will be introduced from 6 Apr 14, individuals will not be able to apply until after the Finance Bill 2014 has received Royal Assent in Aug 14. Individuals will have until **5 Apr 17** to submit their application form to HMRC. If an individual is due to leave the Services prior to the application form being available and they wish to apply for IP14, they can provide Veterans UK with a Notice of an Intention.

16. AFPS members who leave after 5 Apr 14 and before 20 Aug 14 will have their LTA calculated as if they have selected IP, as long as their Notice of Intention has been submitted to Veterans UK 1 month prior to discharge.

Disclaimer: This guide is not to be taken as a recommendation to pursue (or not pursue) a particular course of action. The MOD or its employees are not qualified financial advisors and cannot accept any responsibility or liability for any tax liability arising from any act or omission made in respect to the contents of this guide. This guide may not be relied upon in relation to an individual's own circumstances. **Individuals are reminded that it is their responsibility to understand and manage their finances and further are strongly advised to seek advice from their own Independent Financial Adviser or other professional adviser as appropriate.**

¹⁴ Age related factor for a 61 year old male taken from column 1 Table E1: Pensioner Lifetime Allowance Factor table.

¹⁵ [Fixed Protection 14 Member Guidance](#)

AFPS LTA Factor Tables for calculating the reduction in members pensions - TY 2014/15

How to use the factor tables:

1. To calculate the factor by which the pension will be reduced the member needs to identify the correct table.
2. Tables:
 - a. E1 - Retirement not on grounds of ill health males & females.
 - b. E2 - Retirement on grounds of ill health males & females.
3. Members should use column 1, referring to the age at their last birthday.
4. Once the factor has been established the tax charge should be divided by this factor to establish the yearly reduction.

Table E1: Pensioner Lifetime Allowance Factor TableRetirement *not* on grounds of ill health

Age last birthday at relevant date	Gross Pension of £1 per Annum	
	Male	Female
16	24.27	24.58
17	24.31	24.62
18	24.34	24.67
19	24.38	24.71
20	24.41	24.75
21	24.43	24.79
22	24.46	24.82
23	24.48	24.85
24	24.49	24.88
25	24.50	24.91
26	24.51	24.92
27	24.51	24.94
28	24.51	24.95
29	24.51	24.96
30	24.49	24.96
31	24.47	24.95
32	24.45	24.94
33	24.42	24.92
34	24.38	24.89
35	24.34	24.86
36	24.28	24.82
37	24.22	24.77
38	24.15	24.71
39	24.07	24.64
40	23.97	24.56
41	23.87	24.46
42	23.75	24.36
43	23.62	24.24
44	23.47	24.11
45	23.31	23.97
46	23.13	23.81
47	22.93	23.63
48	22.71	23.43
49	22.48	23.22
50	22.22	22.99
51	21.93	22.73
52	21.63	22.46
53	21.30	22.16
54	20.95	21.84
55	20.57	21.50
56	20.18	21.14
57	19.79	20.78
58	19.38	20.41
59	18.97	20.03
60	18.56	19.64
61	18.14	19.24
62	17.71	18.83
63	17.27	18.41
64	16.83	17.98
65	16.37	17.54

Table E2: Pensioner Lifetime Allowance Factor Table**Retirement on grounds of ill health**

Age last birthday at relevant date	Gross Pension of £1 per Annum	
	Male	Female
16	29.15	29.52
17	28.99	29.37
18	28.83	29.22
19	28.67	29.07
20	28.50	28.91
21	28.33	28.75
22	28.15	28.59
23	27.97	28.42
24	27.78	28.24
25	27.59	28.06
26	27.39	27.87
27	27.19	27.68
28	26.98	27.49
29	26.76	27.28
30	26.55	27.07
31	26.32	26.86
32	26.09	26.64
33	25.85	26.41
34	25.61	26.18
35	25.36	25.94
36	25.10	25.69
37	24.83	25.44
38	24.56	25.18
39	24.27	24.92
40	23.98	24.64
41	23.68	24.36
42	23.37	24.07
43	23.06	23.78
44	22.73	23.47
45	22.39	23.16
46	22.04	22.84
47	21.69	22.52
48	21.32	22.18
49	20.95	21.84
50	20.57	21.50
51	20.18	21.14
52	19.79	20.78
53	19.38	20.41
54	18.97	20.03
55	18.56	19.64
56	18.14	19.24
57	17.71	18.83
58	17.27	18.41
59	16.83	17.98
60	16.37	17.54
61	15.90	17.09
62	15.43	16.63
63	14.94	16.16
64	14.44	15.68
65	13.94	15.19

INTENTIONALLY BLANK

PART 2 - ANNUAL ALLOWANCE

KEY MESSAGES

For Tax Year (TY) 2013/14, Annual Allowance (AA) is £50,000:

- AA is the amount an individual's pension pot can grow each year.
- In normal circumstances Other Ranks and Junior Officers (below OF3) are very unlikely to be affected. OF3 on promotion to OF4 may result in a charge depending on individual circumstances
- Those most likely to receive a tax charge will be OF3 and above who receive a significant pay increase as a result of promotion; Medical Officers / Dental Officers on accreditation; very senior officers (OF7 and above).
- A process called Scheme Pays is available to assist individuals with meeting part or all of any tax charge arising. AFPS members who incur an AA tax charge exceeding £2,000 may elect for the tax due to be paid by the AFPS. The amount will then be recovered by a reduction in the pension benefits paid on retirement. If the bill is less than £3,000 this can be met by an adjustment to your tax code.
- Members who are in the process of getting divorced and / or considering purchasing Added Years, making Additional Voluntary Contributions or contributing to an Independent Pension Scheme should seek independent financial advice on the implications such decisions may have on their AA.
- Individuals who have exceeded the AA in the AFPS will be informed by Veterans UK by the end of September following the end of the TY.
- From TY 2014/15, AA will be reduced to £40,000 as announced in [2012DIN01-253](#).

Introduction

1. Significant changes to the AA¹⁶ came into effect on 6 Apr 11 when the annual tax free allowance was reduced from £255,000 to £50,000. In the 2012 Autumn Statement the Chancellor announced, that AA would be reduced further to £40,000 wef TY 2014/15. Only a small number of Service Personnel will exceed the £50,000 limit on the basis of their Armed Forces pension alone. Other Ranks are highly unlikely to be affected, but some officers may incur a tax liability on promotion. This is likely to start to impact on promotion from OF3 to OF4; particularly for those promoting late in their career; the most pronounced effect is expected at the ranks of OF5 and above. Additionally, the most senior officers (OF7 ie 2* and above) may also incur a tax liability as a consequence of annual pay increments.

2. Individuals who exceed the AA because of the growth in the value of their AFPS benefits will be alerted by Veterans UK, via pension statements sent by the end of Sept following the end of the tax year. Where the AA has been exceeded and there is an AA tax charge (due to insufficient carry forward being available), individuals will need to declare this to HMRC. The Self Assessment Tax Return is due no later than 31 Jan following the end of the tax year for online submissions and 31 Oct of this year for manual submissions. Veterans UK cannot take into account any personal pension arrangements that individuals may have made when calculating potential AA tax charges. Individuals who believe that they may have exceeded the AA because of a combination of personal and AFPS pension savings must make their own independent calculations for the cumulative value of all pension schemes. Service personnel may request an annual pension statement to assist them with this calculation free of charge¹⁷ from Veterans UK, using [AFPS Form 12](#). Additionally, the online [Pension Calculator](#) will provide Members with an indication of whether their AA has been breached.

¹⁶ [HMRC Guidance](#)

¹⁷ Scheme members are entitled to receive one forecast free of charge per year.

What is the Annual Allowance?

3. The AA limits the amount of tax privileged savings (pension and lump sum) which may be made in a tax year to a registered pension scheme. For defined benefit pension schemes (such as the AFPS) the amount of tax privileged savings is deemed to be the increase over the year in the value of an individual's overall pension 'pot'. Where the increase in the pension pot exceeds the AA in relation to a tax year, a tax liability may arise.

How to determine if the AA has been exceeded

4. To determine whether the AA has been exceeded for a tax year, it is necessary to know the Pension Input Amount (PIA). The PIA is the net increase in the value of the pension pot between the beginning and end of the Pension Input Period (PIP), which is 6 Apr to 5 Apr for the AFPS.

5. The PIA is calculated by multiplying the annual pension at the start of the PIP (6 Apr) by 16 (which is the factor set by the Treasury) and adding the pension lump sum (3 x annual pension), which gives an overall multiplication factor of 19. This value is then up-rated for inflation, using the Consumer Price Index (CPI) rate as at Sep of the previous TY (e.g. for TY 2014/15 this would be CPI at Sep 13). To calculate the pension pot at the end of the PIP, repeat the calculation using the pension value as at the following 5 Apr multiplied by 19, but without any up-rating for inflation. Where the difference in these two figures is greater than £50,000¹⁸ then the AA threshold may have been exceeded and an AA tax charge may have incurred.

Illustrative Example

6. **Promotion from OF5 to OF6.** In Apr 13 an OF5 who is a member of AFPS 05 and earning £91,000 pensionable pay and has completed 30 years' reckonable service. By Apr 14 he/she has been promoted to OF6 and has pensionable pay of £99,500 and 31 years' reckonable service. The rate of CPI in Sep 12 was 2.2%.

Example 1

£91,000 x 30 x 1/70 = £39,000 annual pension.	
Pension pot at start of Input Period:	
Annual pension £39,000 x 16	= £624,000
Lump Sum £39,000 x 3	= <u>£117,000</u>
	= £741,000
Uprated by CPI at 2.2%	= <u>£ 16,302</u>
Opening value of Pension Pot	= £757,302
£99,500 x 31 x 1/70 = £44,064 annual pension.	
Pension pot at start of Input Period:	
Annual pension £44,000 x 16	= £704,000
Lump Sum £44,000 x 3	= <u>£132,000</u>
Closing value of Pension Pot	= £836,000
Increase in Pension Pot	= £78,698
The increase of £78,698 means the AA limit for 2013/14 of £50,000 has been exceeded by £28,698 and a tax charge may have been incurred.(see below for details)	
(Note: More detailed examples and guidance on calculating pension entitlements are illustrated at Annexes B and C to this guide)	

¹⁸ With effect from 6 Apr 15, AA will be reduced from £50k to £40k for TY 2014/15.

Carry Forward

7. Where the AA is exceeded in a tax year, you may carry forward any unused AA from the three preceding tax years – calculated using the same method and at the limit of £50,000¹⁹ against the excess. For example, carry forward of unused AA from the years, 2010/11, 2011/12 and 2012/13 may be used against an excess of AA in TY 2013/14. Individuals **must** also take into account any private pension schemes they may also be contributing to. Carry forward is always taken from the oldest year first.

8. In Example 1, the AA limit has been exceeded by £28,698 (£78,698 - £50,000). However, any unused excess from the three preceding tax years can be offset against this amount. These calculations include up-rating the opening pension value for inflation by using the CPI rate. The following table shows the Sep CPI rates for the last 6 years:

Year	2008 for use in TY 2009/10	2009 for use in TY 2010/11	2010 for use in TY 2011/12	2011 for use in TY 2012/13	2012 for use in TY 2013/14	2013 for use in TY 2014/15
CPI Rate	5.2%	1.1%	3.1%	5.2%	2.2%	2.7%

9. Applying the carry forward methodology to Example 1:

Three years prior to TY 2013/14			
	2010/11	2011/12	2012/13
Opening Pension	£31,000	£33,000	£36,000
CPI	1.1%	3.1%	5.2%
Uprated Opening Pension	£31,341	£34,023	£37,872
Closing Pension	£33,000	£36,000	£39,000
Difference Pension Pot	£1,659	£1,977	£1,128
Increase (x19)	£31,521	£37,563	£21,432
Annual Allowance	<u>£50,000</u>	<u>£50,000</u>	<u>£50,000</u>
Unused AA carried forward	£18,479	£12,437	£28,568
Total unused AA = £18,479 + £12,437 + £28,568 = £59,484			

10. Using the examples above, available carry forward minus the excess of AA for the year is therefore:

Unused AA Carry Forward:	£59,484
<u>Less – excess AA amount:</u>	<u>£28,698</u>
Excess Carry Forward:	£30,786

11. In this example, the individual has not used all their available carry forward and there is not tax charge; therefore any further carry forward from these three years will be available to offset any excess that may occur in subsequent tax years.

12. Veterans UK, will automatically calculate the amount of carry forward you have available to offset any charge, but can only do so based on your Armed Forces pension. Whilst they can include Additional Voluntary Contributions or Added Years that you are purchasing, they cannot

¹⁹ With effect from 6 Apr 15, AA will be reduced from £50k to £40k for TY 2014/15.

include any other pension arrangements which you may have, including the Armed Forces Stakeholder Pension arrangements. Members therefore you must also factor in any such arrangements to your Pension Input Amount.

How is the tax calculated?

13. An excess of AA is treated by HMRC as a freestanding tax liability and is added to earnings when calculating the tax due. For individuals who exceed the AA, tax will be calculated at 40% on all earnings up to £150,000 and at 45% of earnings above £150,000 as detailed in the following examples.

An individual has an excess of AA of £26,860 after offsetting all available unused AA. He/she receives an Armed Forces salary of £98,000, with no earnings from other sources. Tax will be charged on the excess of AA as follows:

Salary	£98,000
Excess of AA	<u>£26,860</u>
Total	£124,860

As this amount is under £150,000 tax due = 40% x £26,860 = £10,744

If the above individual was in receipt of an Armed Forces salary of £125,000 with no earnings from other sources, the tax payable would be as follows:

Salary	£125,000
Excess of AA	£ 26,860
Total	£151,860

Tax due:	
£150,000 - £125,000 = £25,000 @ 40% =	£ 10,000
£151,860 - £150,000 = £ 1,860 @ 45% =	<u>£ 837</u>
Total	£ 10,837

(Note: The term “marginal tax rate” is sometimes used to represent the tax rate to be paid on the next pounds worth of income. In example 5 above the next pound that the member earns will be taxed at 45%).

If a tax charge is due, how is this paid?

14. It is an individual responsibility to declare any excess over the AA to HMRC via a Self Assessment Tax Return (SA101). In addition arrangements need to be made to pay HMRC by 31 Jan for electronic returns or 31 October for manual returns, following the tax year in which the charge has incurred.

15. For those members who have a tax liability there are a number of options available to them:

a. **Elect Scheme Pays.** Individuals who have a tax charge which is £2,000 or greater may elect Scheme Pays. Under Scheme Pays, the pension scheme meets the up-front tax charge, but the members’ benefits will be reduced as a consequence when the pension comes into payment. For further information on the eligibility to elect Scheme Pays see paragraphs 16-23.

b. **Meet the charge personally.** Individuals who have a tax charge which is less than

£2,000 must arrange to either pay this personally to HMRC, or request to have their tax code adjusted. **Individuals whose tax charge is over £2,000 can also elect to pay the full amount personally to HMRC.**

c. **Adjustment to tax codes.** For tax charges below £3,000 individuals can request HMRC to adjust their tax code in order to allow the tax charge to be recovered. A request for a tax code adjustment needs to be made directly to HMRC in the normal self assessment process. Individuals who would like further information can visit the HMRC website²⁰ or contact HMRC directly²¹; Veterans UK will not be able to provide advice or guidance with regards to meeting the tax charge via tax code adjustments.

d. **Combination.** A combination of the above options can also be used to offset the charge.

Scheme Pays

16. In 2011 the government introduced a mechanism to assist pension scheme members meet AA tax charges in excess of £2,000 - this mechanism is called Scheme Pays. Members with tax charges in excess of £2,000 can elect for the scheme to meet the tax charge on their behalf, which will be repaid by a subsequent reduction in their pension benefits once they come into payment. Scheme Pays is a voluntary payment mechanism and some members may prefer to meet the charge directly or through a change in their tax code.

17. Scheme Pays will only meet tax charges in excess of £2,000 which arise as a result of membership of the AFPS. Members who have exceeded the AA through membership of multiple pension schemes **cannot** elect for AFPS to meet those charges as well, but may approach their other pension scheme(s) with a request to do so on their behalf.

18. The reduction in pension benefits is calculated using actuarial factors, which are based on a number of criteria including the age of the individual at the time the tax charge is incurred and an assumed retirement age of 65. If an individual starts to receive their pension benefits earlier than 65, their Scheme Pays reduction will be adjusted accordingly. In practice the earlier you start to receive your benefits the lower the reduction, as you will have a longer period in which to pay back the debt. Members of AFPS 05 should note that Early Departure Payments (EDP) are unaffected by Scheme Pays. Therefore, for individuals in receipt of EDP, the reduction in pension benefits does not take effect until their AFPS 05 pension comes into payment at age 65. The relevant factor [Scheme Pays tables](#) and the [conversion tables](#) are also available on the Defence Intranet.

19. An election to pay an AA tax charge through Scheme Pays is usually made whilst still in service and, once made, is irrevocable. Members who have exceeded the AA limit in the year of retirement will be notified by Veterans UK. Due to a legislative amendment, with effect from 6 Apr 14 a member may elect Scheme Pays after leaving the Armed Forces (see para 24).

20. Individuals who wish to elect for Scheme Pays must inform HMRC of their intent by 31 Jan following the end of the tax year. For TY 2013/14 this will be 31 Jan 15. The Scheme Pays time line for the AFPS is as follows:

Timeline	Activity
By end of Sept	Veterans UK issue pension statements confirming excess over AA for the tax year just ended, including any AA carried forward.
By 31 Oct	Latest date for submission of paper Self Assessment Tax Return (SATR) forms SA100/101 to HMRC.

²⁰ [HMRC Tax Code Guidance](#)

²¹ [HMRC Contact Details](#)

	HMRC will send back confirmation of the tax owed.
By 31 Jan (following the conclusion of the tax year)	Latest date for submission of on-line SATR Forms to HMRC. Tax due will be automatically calculated.
By 31 Jan (following the conclusion of the tax year)	Individual decides to pay tax due direct to HMRC or via Scheme Pays. Individual pays tax to HMRC or reports they intend to pay tax through Scheme Pays.
From 31 Jan (following the conclusion of the tax year)	Individual notifies Veterans UK they wish to elect for Scheme Pays. Veterans UK notifies individual of impact upon pension benefits. Individual confirms to Veterans UK they wish to proceed.
By 31 Jul	Latest time that an irrevocable election for Scheme Pays can be made to Veterans UK.

21. Veterans UK will write to all members of the AFPS who have exceeded their AA by the end of September following the end of the tax year, Veterans UK will use the information annotated on JPA to contact you, therefore please ensure that these details are accurate. In advance of individual notification letters being sent by Veterans UK, a DIN on the notification process will be published. Members will fall into two categories:

a. Members who have exceeded their AA, but have **sufficient** Carry Forward available to offset their charge will be sent a copy of their pension statement and a proforma to confirm that they are not a member of any other pension scheme. Members should return the proforma to Veterans UK who will confirm receipt and that no further action will be required by the member.

b. Members who have exceeded their AA, but have **insufficient** Carry Forward available will be sent a series of letters, including a copy of their pension statement. Veterans UK will provide an estimate of their Scheme Pays reduction (note: only HMRC can provide the actual tax charge. When the tax charge has been confirmed by HMRC Veterans UK will be able to provide an Actual illustration). This process takes several months to complete and members are asked to respond promptly to Veterans UK correspondence.

22. Members should give careful consideration as to which method of meeting the tax charge is most appropriate for them given their financial circumstance and seek independent financial advice if needed. **Veterans UK will not be able to assist members in making their payment decision.**

23. Individuals may receive a number of tax charges throughout their career and there is no limit on the number of times a member can elect to use Scheme Pays. A member can adopt different approaches for each tax charge, e.g. pay one charge directly, pay another charge by Scheme Pays, or use a mixture of both approaches for another. If the member exceeds their AA in a subsequent year, Veterans UK will notify them, an election for Scheme Pays in one year does not result in an automatic election in subsequent years. Each Scheme Pays election is treated in isolation to a previous election.

In Year Leavers

24. In previous years, a member has had to elect Scheme Pays whilst still serving, however,

HMRC²² announced that wef TY 2013/14 a legislative amendment would allow a pension in payment to be reduced for the purposes of Scheme Pays. Therefore, with effect from 6 Apr 14 members who incur a tax charge are eligible to elect Scheme Pays **after they have left the Service**.

25. Upon request Veterans UK will issue a pension statement normally within 20 working days. Any Scheme Pays reduction will be based on an estimated tax charge, if your actual tax charge is lower than that estimate then your pension will be adjusted upwards; you are responsible for notifying Veterans UK of this change. If your actual tax charge is greater than you estimated, you will be responsible for meeting the excess as a pension in payment can not be reduced.

26. The entire Scheme Pays election process can take several months to complete and members of the AFPS are urged to factor this timescale in to their resettlement and retirement preparations.

Pensions Calculator

27. The Pensions Calculator²³ has been developed to **estimate** whether the AA has been exceeded and whether there is any unused allowance from the previous three years available to carry forward to offset a current excess. Only Veterans UK can provide you with an accurate illustration of the growth in your pension for AA purposes.

28. If there is still an AA excess after the carry forward stage, the calculator will also estimate the effect on pension benefits if Scheme Pays is to be used to meet the resulting tax charge.

Scheme Pays Calculator

29. There is also a standalone version of the calculator, which allows members to enter their AA tax charge (when known) to estimate the effect of electing Scheme Pays without going through the Armed Forces Pension Calculator first²³. Actual tax charges will be confirmed by HMRC as part of the Self Assessment tax return process.

Pension Sharing on Divorce

30. Pension Sharing on Divorce (PSOD)²⁴ is very complex, but members should be aware that there is a correlation between their PSOD order and an AA tax charge. Members of both AFPS 75 and AFPS 05 who divorce with a PSOD order which was implemented before they reached their Immediate Pension (IP) point (16 years on AFPS 75 and age 55 on AFPS 05); will have their PSOD order recalculated when they reach the IP point for the relevant scheme to which they are a member. Members who divorced post IP on the AFPS 75 then transferred under the Offer to Transfer to the AFPS 05 should contact Veterans UK to discuss their specific circumstances. Members who are in the process of getting divorced should familiarise themselves with Pension Scheme booklet [MMP/131 Pension Benefits on Divorce and Dissolution of Civil Partnership](#).

Specific circumstances where adjustments to the Opening and Closing Values in the AA calculations are made

31. Adjustments may be made to opening/closing values of a pension for certain events. Veterans UK make the necessary adjustment when calculating an individual's pension benefits. This includes:

- a. **Additional Voluntary Contributions (AVC)**. Individuals who are paying to either an in-house AVC or a Free Standing AVC through a third party will need to include the additional voluntary contributions they pay in their AA calculations. Individuals who are considering

²² [HMRC Legal Guidance](#)

²³ [Pensions Calculator](#)

²⁴ Including dissolution of Civil Partnership.

entering into a contract for AVCs may wish to consult an independent financial advisor to ascertain the impact of AVCs on their AA.

b. **Added Years.** Individuals who are purchasing Added Years under the AFPS need to include the additional pension benefits that they have accrued in respect of the added years, not the amount of additional contributions.

c. **Pension Supplements.** Members of AFPS 75 who receive daily supplements to their pension e.g. Divers, Aviators, Medics etc, will need to include these in their AA calculations. Supplement codes²⁵ are published annually alongside the [AFPS 75 Pension Codes](#). The supplement is based on the number of days you have served since 1 Apr 92 multiplied by the daily supplement for the relevant rank. This supplement is then added to the relevant pension code.

Important Information for Self Assessment Returns

32. Members who are completing a Self Assessment return are requested to include the following information on their return:

- Employer Ref: 948/02/WZ82056
- Unique Taxpayer Reference (UTR)²⁶
- Pensions Inquiry Team Glasgow Reference: 4487080
- For AFPS 75 use reference – 00330146RV
- For AFPS 05 use reference – 00597994RX

Question and Answer Brief

Q) Do the changes to AA affect me?

A) Depending on an individual's personal circumstances, the likely impact is expected to start on promotion from OF3 to OF4 (particularly for those promoting late in their career) or who become an accredited Medical or Dental officer (MODOs). The most pronounced effect will be for very senior officers (OF7 and above) who may incur a tax liability as a consequence of annual pay increments. Individuals at OF6 rank and below are highly unlikely to receive an actual tax charge however some members may incur a tax charge if they are in receipt of a PSOD order. See paragraph 30.

Q) How will I know if I have exceeded my AA?

A) Veterans UK will provide pension statements to those members who have been identified as having exceeded the AA through AFPS membership. Where there is insufficient carry forward allowance to offset the AA excess, the statement will highlight the amount on which a tax charge will be applied. Veterans UK will only provide statements on AFPS benefits.

Q) How will Scheme Pays affect my pension?

A) Where a tax charge is met through Scheme Pays, pension benefits will be reduced once the pension comes into payment. The exact adjustment will depend on the individual's circumstances but will include factors such as age and the amount of the tax charge. Illustrated examples are provided in Annex B of this guide. Members should note that the reduction is for the life of the pension. Therefore, the value of the reduction in the pension may, over time, exceed the original tax charge as the reduction is for the life of the pension and depends on how long the pension is in payment. Members of AFPS 05 are reminded that Scheme Pays does not affect EDP payments.

²⁵ [Tri-service pension codes: April 2014](#)

²⁶ The individual's UTR will be printed next to the headings 'Tax Reference', 'UTR' or 'Official Use' on their HMRC correspondence.

Q) Is there a threshold for Scheme Pays?

A) There is a £2,000 lower threshold, but there is no upper limit. For example if your tax charge is £1,500 you cannot elect for Scheme Pays to meet the charge. If your tax charge is £2,000 or higher then you can elect for the scheme to meet up to the entire charge which will be recovered from your pension, once it comes into payment.

Q) I have active private pension arrangements in addition to AFPS – how will Scheme Pays help me to meet a proportion of my AA tax bill if I exceed the AA threshold?

A) The AFPS Scheme Pays will only meet tax charges over £2,000 which directly arises from exceeding the AA threshold within the AFPS. Members can approach their private pension scheme administrator with a request to do the same on their behalf.

Q) How can I pay my tax charge?

A) For those members who have a tax liability there are a number of options available to them:

a. **Elect Scheme Pays.** Individuals who have a tax charge which is £2,000 or greater may elect Scheme Pays. Under Scheme Pays, the pension scheme meets the up-front tax charge, but the members' benefits will be reduced as a consequence when the pension comes into payment. For further information on the eligibility to elect Scheme Pays see paragraphs 16-24.

b. **Meet the charge personally.** Individuals who have a tax charge which is less than £2,000 must arrange to either pay this personally to HMRC, or request to have their tax code adjusted. **Individuals whose tax charge is over £2,000 can also elect to pay the full amount personally to HMRC.**

c. **Adjustment to tax codes.** For tax charges below £3,000 individuals can request HMRC to adjust their tax code in order to allow the tax charge to be recovered. A request for a tax code adjustment needs to be made directly to HMRC in the normal self assessment process. Individuals who would like further information can visit the HMRC website²⁷ or contact HMRC directly²⁸; Veterans UK will not be able to provide advice or guidance with regards to meeting the tax charge via tax code adjustments.

d. **Combination.** A combination of the above options can also be used.

Q) In the event that I exceed the AA limits more than once in my career can Scheme Pays be used again?

A) Yes. There is no limit on the number of times which an election for Scheme Pays can be made. Each time Scheme Pays is used it will result in a reduction being made to your pension benefits. If you wish to, you could choose to pay a tax charge directly on some occasions and use Scheme Pays on others.

Q) Is there any charge for using Scheme Pays such as an administration charge?

A) No. You will not be charged any administration fees or other fees if you elect for Scheme Pays. Your pension will be reduced and this is calculated through the use of factors. These factors do not include fees.

Q) How do I calculate whether I have exceeded the AA limit if I don't want to wait to see if I receive a Pension Statement?

²⁷ [HMRC Tax Code Guidance](#)

²⁸ [HMRC Contact Details](#)

A) An online calculator has been developed to assist individuals in performing their AA calculations. The AA calculator is an integral part of the Armed Forces Pension Calculator and can be accessed via: <http://www.mod-abc.co.uk/>. A stand alone Scheme Pays calculator is also available via this link.

Point of contact details:

Veterans UK Pensions Tax Team at Mail Point 480, Kentigern house, 65 Brown St, Glasgow, G2 8EX or by email at JPAC@spva.mod.uk.

Pers Trg-Rem-AFPS GRP Mailbox (MULTIUSER): Pers Trg-Rem-AFPS GRP Mailbox (MULTIUSER)@mod.uk

GUIDANCE ON CALCULATING PENSION ENTITLEMENTS

1. To assist individuals in determining their pension entitlements undertaking their AA calculations, the following Annexes have been provided:

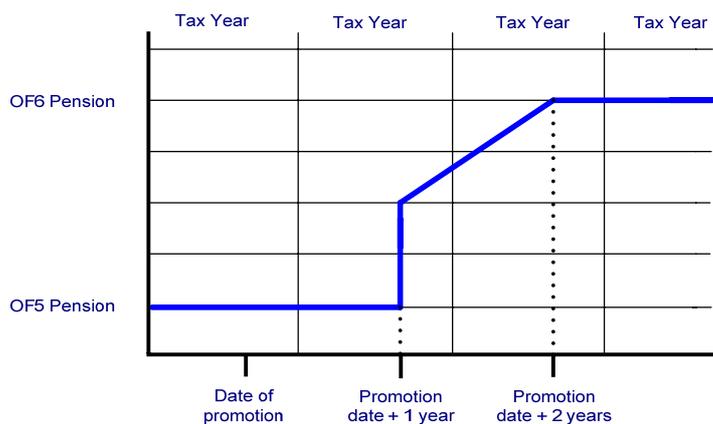
- A. Guidance on calculating pension entitlements.
- B. Scheme Pays worked examples.
- C. Fully illustrative worked examples.

Disclaimer: This guide is not be taken as a recommendation to pursue (or not pursue) a particular course of action. The MOD and its employees are not qualified financial advisors and cannot accept any responsibility or liability for any tax liability arising from any act or omission made in respect to the contents of this guide. This guide may not be relied upon in relation to an individual's own circumstances. **Individuals are reminded that it is their responsibility to understand and manage their finances and further are strongly advised to seek advice from their own Independent Financial Adviser or other professional adviser as appropriate.**

2. Pension entitlements in the two main Armed Forces Pension Schemes (AFPS 75 and AFPS 05) are calculated differently, and within AFPS75 there are different calculations depending on your rank and whether you have reached the Immediate Pension Point (IP) point or not. The IP point is 16 years Reckonable Service (RS)²⁹ for Officers and 22 years RS for Other Ranks.

AFPS 75

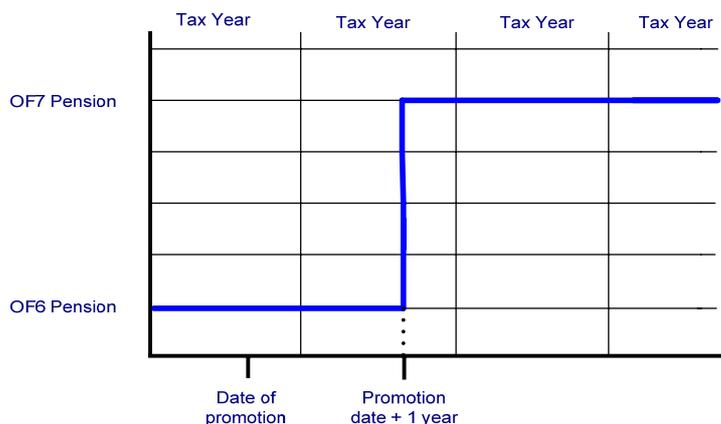
3. **OF6 and below.** The pension entitlement for AFPS 75 members of OF6 rank and below are based on representative rates of pay, which are reissued annually on 31 Mar, which can be found at the following links: [2011](#), [2012](#), [2013](#) and [2014](#). A member of AFPS 75 at the rank of OF6 and below does not accrue full pension benefits in a specific rank until that rank has been held continuously for 2 years. After one year's continuous service in the new rank, as long as the individual is substantive, 50% of the higher rank pension will have been built up. Over the next year, the pension benefit will increase proportionally until it reaches 100% of the higher rank pension at the end of the second year.³⁰ The profile is illustrated below:



²⁹ For Pension purposes Service for officers which starts at age 21 (or date of entry; if later) for a maximum of 34 years.

³⁰ Where an Officer holds acting higher rank for at least one year (and retires before being made substantive) full pension benefits for the higher rank are earned pro-rata over 3 years (33.33% at the end of Year 1, 66.67% by the end of Year 2 and 100% by the end of Year 3). Where an Other Rank holds acting higher rank for at least one year (and retires before being made substantive) full pension benefits for the higher rank are earned pro-rata over 2 years (50% at the end of Year 1 and 100% by the end of Year 2).

4. **Promotion to OF7.** For promotion from OF6 to OF7 the individual only needs to hold the substantive rank for 1 year before the full pension benefits³¹ are earned. The profile is therefore as follows:



5. **OF7 and above.** Officers of OF7 rank and above begin to accrue full pension benefits once they have held substantive rank for 1 year. Pensions for these individuals are based on pensionable earnings, not representative pay. The percentage rates are published annually alongside the pension codes.

6. **Pre IPP.** Members of the AFPS 75 who have not yet reached their IP point need to use the following formula to establish their pension input (using 2014³² pension codes):

- a. Officers: Full Career Pension (FCP) at 34 years service in the current rank x Accrual Rate (3%) x RS, e.g. OF4 with 14 years service = £37,644 x 3% x 14 = £15,810
- b. Other Ranks: FCP at 37 years service in the current rank x Accrual Rate (2.75%) x RS, e.g. OR8 with 20 years service = £19,473 x 2.75% x 20 = £10,710

7. **Pension Supplements.** Members of AFPS 75 who receive daily supplements (Divers, Aviators, Medics etc, need to include these in their AA calculations. The supplement is based on the number of days you have served since 1 Apr 92³³ multiplied by the daily supplement for the relevant rank. This supplement is then added to the relevant pension code.

AFPS 05

8. For members of AFPS 05 pension benefits are based on the Final Pensionable Earnings, which is the highest pensionable salary earned for 365 consecutive days in the last 3 years. Benefits are earned at a rate of 1/70th of Final Pensionable Earnings for each year served. Where the consecutive 365 days is not in the current year, the pensionable salary is up-rated for inflation as appropriate. [JSP 764 Part 1 \(0304A\)](#) contains detailed information on calculating the Final Pensionable Earnings and adjusting previous years earning for inflation.

³¹ OF7 and above pensions are based on Final Pensionable Earnings calculated using percentage rates.

³² [AFPS 75 Pension Codes](#)

³³ Date when specialist pay spines were introduced.

SCHEME PAYS WORKED EXAMPLES

The following are worked examples for both the AFPS 75 and AFPS 05. The examples in this Annex are based on a Pension Statement format and are fully illustrated at Annex C.

Annual Allowance Pension Statement for an Armed Forces Pension Scheme Member for the TY 2013/14

AFPS05 - An OF7 with 32 Years Service and an Annual Pension value of £55,082 and Lump Sum value of £165,246. He is 52 years old and he has an assumed retirement age of 56.								
Tax Year	10/11		11/12		12/13		13/14	
Pension Entitlement As at:	6 Apr 10	5 Apr 11	6 Apr 11	5 Apr 12	6 Apr 12	5 Apr 13	6 Apr 13	5 Apr 14
Annual pension ^{Note 1}	£42,160	£46,597	£46,597	£49,148	£49,148	£51,781	£51,781	£55,082
Value of AFPS pension ^{Note 2}	£674,560	£745,552	£745,552	£786,368	£786,368	£828,496	£828,496	£881,312
Lump sum	£126,480	£139,791	£139,791	£147,444	£147,444	£155,343	£155,343	£165,246
Value of all AFPS pension benefits. ^{Note 3}	£809,851	£885,343	£912,789	£933,812	£982,370	£983,839	£1,005,483	£1,046,558
Pension Input Amount	£75,492		£21,023		£1,489		£41,075	
Annual Allowance ^{Note 4}	£50,000 ³⁴		£50,000		£50,000		£50,000	
Unused Annual Allowance ^{Note 5}	£0		£28,977		£48,531		£8,925	
Total in excess of Annual Allowance in TY 2013/14							£0	
Total carry forward from previous three tax years available to be offset against excess for TY 2013/14							£77,508	
BOX A - Pension Input Amount to be declared to HMRC Self-Assessment Tax Return Form for TY 2013/14 ^{Notes 6}							£0	
Total amount of carry forward remaining for the following TY							£77,508	
Annual Pension							£55,082	
Lump Sum							£165,246	

³⁴An excess over AA in TY 2010/11 is treated as zero in calculating carry forward of AA due to transitional arrangements put in place at the time.

Supporting Notes:

1. Special circumstances (Pension debits for divorced members of all schemes with pension sharing orders, AFPS75 specialists and Additional Voluntary Contributions) **have** been taken into account in arriving at the pension values for the start and end of the Annual Allowance input periods.
2. This is your annual pension multiplied by a factor of 16. This is in accordance with the rules governing the calculation of pension value issued by HM Treasury and HM Revenue and Customs.
3. This is the value of the pension added to the lump sum. The total value at the start of each year has been up-rated by the previous year's September's Consumer Price Index (CPI) rate.

Year	2008 for use in TY 2009/10	2009 for use in TY 2010/11	2010 for use in TY 2011/12	2011 for use in TY 2012/13	2012 for use in TY 2013/14	2013 for use in TY 2014/15
CPI Rate	5.2%	1.1%	3.1%	5.2%	2.2%	2.7%

4. The AA is currently £50,000.
5. Scheme members are permitted to carry forward unused Annual Allowance from the previous three TYs and use it to offset an excess in the current year. Carry forward is taken from the earliest year first.
6. You are liable to pay the tax charge on this amount. Tax will be charged at your marginal rate. If this figure is £0 you will not be liable for tax as you have sufficient carry forward to offset the tax charge, unless you have used some of the carry forward in an independent pension scheme.
7. From TY 2014/15, AA will be reduced to £40,000.

Annual Allowance Pension Statement for an Armed Forces Pension Scheme Member for the TY 2013/14

AFPS75 - An OF8 who has completed 31 Years Service and has an Annual Pension value of £71,882 and Lump Sum value of £215,646. He is 55 years old when he incurs the tax charge – he has an assumed retirement age of 57.

Tax Year	10/11		11/12		12/13		13/14	
Pension Entitlement As at:	6 Apr 10	5 Apr 11	6 Apr 11	5 Apr 12	6 Apr 12	5 Apr 13	6 Apr 13	5 Apr 14
Annual pension ^{Note 1}	£54,461	£59,723	£59,723	£63,799	£63,799	£67,312	£67,312	£71,882
Value of AFPS pension ^{Note 2}	£871,376	£955,568	£955,568	£1,020,784	£1,020,784	£1,076,992	£1,076,992	£1,150,112
Lump sum	£163,383	£179,169	£179,169	£191,397	£191,397	£201,936	£201,936	£215,646
Value of all AFPS pension benefits. ^{Note 3}	£1,046,141	£1,134,737	£1,169,914	£1,212,181	£1,275,214	£1,278,928	£1,307,064	£1,365,758
Pension Input Amount	£88,596		£42,267		£3,714		£58,694	
Annual Allowance ^{Note 4}	£50,000 ³⁵		£50,000		£50,000		£50,000	
Unused Annual Allowance ^{Note 5}	£0		£7,733		£46,286		£54,019	
Total in excess of Annual Allowance in TY 2013/14							£8,694	
Total carry forward from previous three tax years available to be offset against excess for TY 2013/14							£54,019	
BOX A - Pension Input Amount to be declared to HMRC Self-Assessment Tax Return Form for TY 2013/14 ^{Notes 6}							£0	
Total amount of carry forward remaining for the following TY							£45,325	
Annual Pension							£71,882	
Lump Sum							£215,646	

³⁵ An excess over AA in TY 2010/11 is treated as zero in calculating carry forward of AA due to transitional arrangements put in place at the time.

Supporting Notes:

1. Special circumstances (Pension debits for divorced members of all schemes with pension sharing orders, AFPS75 specialists and Additional Voluntary Contributions) **have** been taken into account in arriving at the pension values for the start and end of the Annual Allowance input periods.
2. This is your annual pension multiplied by a factor of 16. This is in accordance with the rules governing the calculation of pension value issued by HM Treasury and HM Revenue and Customs.
3. This is the value of the pension added to the lump sum. The total value at the start of each year has been up-rated by the previous year's September's Consumer Price Index (CPI) rate.

Year	2008 for use in TY 2009/10	2009 for use in TY 2010/11	2010 for use in TY 2011/12	2011 for use in TY 2012/13	2012 for use in TY 2013/14	2013 for use in TY 2014/15
CPI Rate	5.2%	1.1%	3.1%	5.2%	2.2%	2.7%

4. The AA is currently £50,000.
5. Scheme members are permitted to carry forward unused Annual Allowance from the previous three TYs and use it to offset an excess in the current year. Carry forward is taken from the earliest year first.
6. You are liable to pay the tax charge on this amount. Tax will be charged at your marginal rate. If this figure is £0 you will not be liable for tax as you have sufficient carry forward to offset the tax charge, unless you have used some of the carry forward in an independent pension scheme.
7. From TY 2014/15, AA will be reduced to £40,000.

Annual Allowance Pension Statement for an Armed Forces Pension Scheme Member for the TY 2013/14

AFPS05 - An OF3 promoted on 6 Apr 13 to OF4 with 34 years service and has an Annual Pension value of £33,028 and Lump Sum value of £99,084. He is aged 53 when he incurs the tax charge with an assumed retirement age of 55 years.

Tax Year	10/11		11/12		12/13		13/14	
Pension Entitlement As at:	6 Apr 10	5 Apr 11	6 Apr 12	5 Apr 13	6 Apr 12	5 Apr 13	6 Apr 13	5 Apr 14
Annual pension ^{Note 1}	£22,547	£24,287	£24,287	£25,607	£25,607	£26,965	£26,965	£33,028
Value of AFPS pension ^{Note 2}	£360,752	£388,592	£388,592	£409,712	£409,712	£431,440	£431,440	£528,448
Lump sum	£67,641	£72,861	£72,861	£76,821	£76,821	£80,895	£80,895	£99,084
Value of all AFPS pension benefits. ^{Note 3}	£433,105	£461,453	£475,758	£486,533	£511,833	£512,335	£523,606	£627,532
Pension Input Amount	£28,348		£10,775		£502		£103,926	
Annual Allowance ^{Note 4}	£50,000		£50,000		£50,000		£50,000	
Unused Annual Allowance ^{Note 5}	£21,652		£39,225		£49,498		£0	
Total in excess of Annual Allowance in TY 2012/13							£53,926	
Total carry forward from previous three tax years available to be offset against excess for TY 2012/13							£110,375	
BOX A - Pension Input Amount to be declared to HMRC Self-Assessment Tax Return Form for TY 2012/13 ^{Notes 6}							£0	
Total amount of carry forward remaining for the following TY							£56,449	
Annual Pension							£33,028	
Lump Sum							£99,084	

Supporting Notes:

- 1. Special circumstances (Pension debits for divorced members of all schemes with pension sharing orders, AFPS75 specialists and Additional Voluntary Contributions) **have** been taken into account in arriving at the pension values for the start and end of the Annual Allowance input periods.
- 2. This is your annual pension multiplied by a factor of 16. This is in accordance with the rules governing the calculation of pension value issued by HM Treasury and HM Revenue and Customs.
- 3. This is the value of the pension added to the lump sum. The total value at the start of each year has been up-rated by the previous year's September's Consumer Price Index (CPI) rate.

Year	2008 for use in TY 2009/10	2009 for use in TY 2010/11	2010 for use in TY 2011/12	2011 for use in TY 2012/13	2012 for use in TY 2013/14	2013 for use in TY 2014/15
CPI Rate	5.2%	1.1%	3.1%	5.2%	2.2%	2.7%

- 4. The AA is currently £50,000.
- 5. Scheme members are permitted to carry forward unused Annual Allowance from the previous three TYs and use it to offset an excess in the current year. Carry forward is taken from the earliest year first.
- 6. You are liable to pay the tax charge on this amount. Tax will be charged at your marginal rate. If this figure is £0 you will not be liable for tax as you have sufficient carry forward to offset the tax charge, unless you have used some of the carry forward in an independent pension scheme.
- 7. From TY 2014/15, AA will be reduced to £40,000.

Annual Allowance Pension Statement for an Armed Forces Pension Scheme Member for the TY 2013/14

AFPS75 - An OF8 promoted on 6 Apr 13 to OF9 with 34 Years Service and an Annual Pension value of £83,469 and Lump Sum value of £250,407. He is 55 years old when he incurs the tax charge – he has an assumed retirement age of 57.

Tax Year	10/11		11/12		12/13		13/14	
Pension Entitlement As at:	6 Apr 10	5 Apr 11	6 Apr 11	5 Apr 12	6 Apr 12	5 Apr 13	6 Apr 13	5 Apr 14
Annual pension ^{Note 1}	£62,308	£67,111	£67,111	£70,722	£70,722	£74,642	£74,642	£83,469
Value of AFPS pension ^{Note 2}	£996,928	£1,073,776	£1,073,776	£1,131,552	£1,131,552	£1,194,272	£1,194,272	£1,335,504
Lump sum	£186,924	£201,333	£201,333	£212,166	£212,166	£223,926	£223,926	£250,407
Value of all AFPS pension benefits. ^{Note 3}	£1,196,874	£1,275,109	£1,314,637	£1,343,718	£1,413,591	£1,418,198	£1,418,198	£1,585,911
Pension Input Amount	£78,235		£29,081		£4,607		£136,513	
Annual Allowance ^{Note 4}	£50,000 ³⁶		£50,000		£50,000		£50,000	
Unused Annual Allowance ^{Note 5}	£0		£20,919		£45,393		£0	
Total in excess of Annual Allowance in TY 2013/14							£86,513	
Total carry forward from previous three tax years available to be offset against excess for TY 2013/14							£66,312	
BOX A - Pension Input Amount to be declared to HMRC Self-Assessment Tax Return Form for TY 2013/14 ^{Notes 6}							£20,201	
Tax Charge Payable to HMRC assuming member is a 45% Tax Payer							£9,090	
Annual Scheme Pays reduction							£402	
One off Lump Sum reduction							£1,497	
Annual Pension Before Scheme Pays reduction							£83,469	
Lump Sum before Scheme Pays reduction							£250,407	
Annual Pension post Scheme Pay reduction							£83,067	
Lump Sum post Scheme Pays reduction							£248,910	
Monthly Gross Pension before Scheme Pays reduction							£6,956	
Monthly Gross pension post Scheme Pays reduction							£6,922	

³⁶ An excess over AA in TY 2010/11 is treated as zero in calculating carry forward of AA due to transitional arrangements put in place at the time.

Supporting Notes:

1. Special circumstances (Pension debits for divorced members of all schemes with pension sharing orders, AFPS75 specialists and Additional Voluntary Contributions) **have** been taken into account in arriving at the pension values for the start and end of the Annual Allowance input periods.
2. This is your annual pension multiplied by a factor of 16. This is in accordance with the rules governing the calculation of pension value issued by HM Treasury and HM Revenue and Customs.
3. This is the value of the pension added to the lump sum. The total value at the start of each year has been up-rated by the previous year's September's Consumer Price Index (CPI) rate.

Year	2008 for use in TY 2009/10	2009 for use in TY 2010/11	2010 for use in TY 2011/12	2011 for use in TY 2012/13	2012 for use in TY 2013/14	2013 for use in TY 2014/15
CPI Rate	5.2%	1.1%	3.1%	5.2%	2.2%	2.7%

4. The AA is currently £50,000.
5. Scheme members are permitted to carry forward unused Annual Allowance from the previous three TYs and use it to offset an excess in the current year. Carry forward is taken from the earliest year first.
6. You are liable to pay the tax charge on this amount. Tax will be charged at your marginal rate. If this figure is £0 you will not be liable for tax as you have sufficient carry forward to offset the tax charge, unless you have used some of the carry forward in an independent pension scheme.
7. From TY 2014/15, AA will be reduced to £40,000.

FULLY ILLUSTRATIVE WORKED EXAMPLES

Example 1: AFPS05 – Rear Admiral 2* (OF7) who has completed 32 years' service age 52 at the end of the tax year 13/14. He has an assumed retirement age of 56.

Example 2: AFPS75 – Air Marshal 3* (OF8) who has completed 31 years' service age 55 at the end of the tax year 13/14. He has an assumed retirement age of 57.

Example 3: AFPS05 – Major (OF3) promoted on 6 April 2013 to Lt Colonel (OF4) who has completed 34 years' service age 53 at the end of the tax year 13/14. He has an assumed retirement age of 55.

Example 4: AFPS75 – Vice Admiral 3* (OF8) promoted on 6 April 2013 to Admiral 4* (OF9) who has completed 34 years' service age 55 at the end of the tax year 13/14. He has an assumed retirement age of 57.

Example 1: AFPS05 – Rear Admiral 2* (OF7) who has completed 32 years' service age 52 at the end of the tax year 13/14. He has an assumed retirement age of 56.

- At 6 April 2010, his pension was £42,160 p.a. based on 28 years' accrued service and Final pensionable Earnings (FPE) of £105,400 p.a. (2* rank Scale Point 2).
- On 6 April 2011, his pension was £46,597 p.a. based on 29 years' accrued service and Final pensionable Earnings (FPE) of £112,476 p.a. (2* rank Scale Point 3).
- On 6 April 2012, his pension will be £49,148 p.a. based on 30 years' accrued service and Final pensionable Earnings (FPE) of £114,678 p.a. (2* rank Scale Point 4).
- On 6 April 2013, his pension will be £51,781 p.a. based on 31 years' accrued service and Final pensionable Earnings (FPE) of £116,924 p.a. (2* rank Scale Point 5).
- On 6 April 2014, his pension will be £55,082 p.a. based on 32 years' accrued service and Final pensionable Earnings (FPE) of £120,492 p.a. (2* rank Scale Point 6).
- The September 2012 CPI figure of 2.2% is applied to the opening pension amount to up-rate the pension over the period 6 April 2013 to 5 April 2014.

Pension Input Period: 6 April 2013 to 5 April 2014

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	Start Year - 6 April 2013	End Year - 5 April 2014
1. Calculate annual pension (years of service / 70 x FPE)	31/70 x £116,924 = £51,781 p.a.	32/70 x £120,492 = £55,082 p.a.
2. Calculate lump sum	£51,781 x 3 = £155,343	£55,082 x 3 = £165,246
3. Calculate value of pension	£51,781 x 16 = £828,496	£55,082 x 16 = £881,312
4. Calculate Pension Input Amount (for the start year up-rate by 2.2%)	(£828,496 + £155,343) x 1.022 = £1,005,483	£881,312 + £165,246 = £1,046,558
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£1,046,558 - £1,005,483 = £41,075	
6. Calculate the excess above the AA Level of £50,000	£0 (since £41,075 < £50,000)	
7. Unused Annual Allowance	£50,000 - £41,075 = £8,925	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	<p>The unused AA from each of the three prior pension input periods are:</p> <p>6 April 2012 to 5 April 2013 = £48,531</p> <p>6 April 2011 to 5 April 2012 = £28,977</p> <p>6 April 2010 to 5 April 2011 = £0</p> <p>The total of the unused AA, £77,508 (i.e. £48,531 + £28,977 + £0) is available to carry forward from prior years.</p> <p>The calculations of the carry forward amounts are shown in detail on the next page.</p>	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax assumed payable at 40% for illustration purposes.	<p>= 0.4 x £0 = £0</p> <p>In this example there is no tax charge.</p>	

Carry Forward Calculations for years 2012/13, 2011/12 and 2010/11

Carry Forward Yr 2012/13:		
Stages of Calculation	Start Year - 6 April 2012	End Year - 5 April 2013
1. Calculate annual pension (years of service / 70 x FPE)	$30/70 \times \pounds 114,678 = \pounds 49,148 \text{ p.a.}$	$31/70 \times \pounds 116,924 = \pounds 51,781 \text{ p.a.}$
2. Calculate lump sum	$\pounds 49,148 \times 3 = \pounds 147,444$	$\pounds 51,781 \times 3 = \pounds 155,343$
3. Calculate value of pension	$\pounds 49,148 \times 16 = \pounds 786,368$	$\pounds 51,781 \times 16 = \pounds 828,496$
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	$(\pounds 786,368 + \pounds 147,444) \times 1.052$ $= \pounds 982,370$	$\pounds 828,496 + \pounds 155,343$ $= \pounds 983,839$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 983,839 - \pounds 982,370 = \pounds 1,469$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 0$ (since $\pounds 1,469 < \pounds 50,000$)	
7. Unused Annual Allowance	$\pounds 50,000 - \pounds 1,469 = \pounds 48,531$	

Carry Forward Yr 2011/12:		
Stages of Calculation	Start Year - 6 April 2011	End Year - 5 April 2012
1. Calculate annual pension (years of service / 70 x FPE)	$29/70 \times \pounds 112,476 = \pounds 46,597 \text{ p.a.}$	$30/70 \times \pounds 114,678 = \pounds 49,148 \text{ p.a.}$
2. Calculate lump sum	$\pounds 46,597 \times 3 = \pounds 139,791$	$\pounds 49,148 \times 3 = \pounds 147,444$
3. Calculate value of pension	$\pounds 46,597 \times 16 = \pounds 745,552$	$\pounds 49,148 \times 16 = \pounds 786,368$
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	$(\pounds 745,552 + \pounds 139,791) \times 1.031$ $= \pounds 912,789$	$\pounds 786,368 + \pounds 147,444$ $= \pounds 933,812$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 933,812 - \pounds 912,789 = \pounds 21,023$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 0$ (since $\pounds 21,023 < \pounds 50,000$)	
7. Unused Annual Allowance	$\pounds 50,000 - \pounds 21,023 = \pounds 28,977$	

Carry Forward Yr 2010/11:		
Stages of Calculation	Start Year - 6 April 2010	End Year - 5 April 2011
1. Calculate annual pension (years of service / 70 x FPE)	$28/70 \times \pounds 105,400 = \pounds 42,160 \text{ p.a.}$	$29/70 \times \pounds 112,476 = \pounds 46,597 \text{ p.a.}$
2. Calculate lump sum	$\pounds 42,160 \times 3 = \pounds 126,480$	$\pounds 46,597 \times 3 = \pounds 139,791$
3. Calculate value of pension	$\pounds 42,160 \times 16 = \pounds 674,560$	$\pounds 46,597 \times 16 = \pounds 745,552$
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	$(\pounds 674,560 + \pounds 126,480) \times 1.011$ $= \pounds 809,851$	$\pounds 745,552 + \pounds 139,791$ $= \pounds 885,343$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 885,343 - \pounds 809,851 = \pounds 75,492$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 75,492 - \pounds 50,000 = \pounds 25,492$	
7. Unused Annual Allowance	$\pounds 0$ (since $\pounds 75,492 > \pounds 50,000$)	

Example 2: AFPS75 – Air Marshal 3* (OF8) who has completed 31 years' service age 55 at the end of the tax year 13/14. He has an assumed retirement age of 57.

- At 6 April 2010, his pension was £54,461 p.a. based on 27 years' accrued service which equates to 42% of basic pay of £129,669 p.a. (3* rank Scale Point 2).
- On 6 April 2011, his pension was £59,723 p.a. based on 28 years' accrued service which equates to 43.1% of basic pay of £138,569 p.a. (3* rank Scale Point 3).
- On 6 April 2012, his pension will be £63,799 p.a. based on 29 years' accrued service which equates to 44.3% of basic pay of £144,016 p.a. (3* rank Scale Point 4).
- On 6 April 2013, his pension will be £67,312 p.a. based on 30 years' accrued service which equates to 45.4% of basic pay of £148,265 p.a. (3* rank Scale Point 5).
- On 6 April 2014, his pension will be £71,882 p.a. based on 31 years' accrued service which equates to 46.6% of basic pay of £154,254 p.a. (3* rank Scale Point 6).
- The September 2012 CPI figure of 2.2% is applied to the opening pension amount to up-rate the pension over the period 6 April 2013 to 5 April 2014.

Pension Input Period: 6 April 2013 to 5 April 2014

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	Start Year - 6 April 2013	End Year - 5 April 2014
1. Calculate annual pension (accrual % from senior officer pension codes)	45.4% x £148,265 = £67,312 p.a.	46.6% x £154,254 = £71,882 p.a.
2. Calculate lump sum	£67,312 x 3 = £201,936	£71,882 x 3 = £215,646
3. Calculate value of pension	£67,312 x 16 = £1,076,992	£71,882 x 16 = £1,150,112
4. Calculate Pension Input Amount (for the start year up-rate by 2.2%)	(£1,076,992 + £201,936) x 1.022 = £1,307,064	£1,150,112 + £215,646 = £1,365,758
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£1,365,758 - £1,307,064 = £58,694	
6. Calculate the excess above the AA Level of £50,000	£58,694 - £50,000 = £8,694	
7. Unused Annual Allowance	£0 (since £58,694 > £50,000)	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	<p>The unused AA from each of the three prior pension input periods are:</p> <p>6 April 2012 to 5 April 2013 = £46,286</p> <p>6 April 2011 to 5 April 2012 = £7,733</p> <p>6 April 2010 to 5 April 2011 = £0</p> <p>The total of the unused AA, £54,019 (i.e. £46,286 + £7,733 + £0) is available to carry forward from prior years.</p> <p>The calculations of the carry forward amounts are shown in detail on the next page.</p>	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax assumed payable at 40% for illustration purposes.	<p>= 0.4 x £0 = £0</p> <p>In this example there is no tax charge.</p>	

Carry Forward Calculations for years 2012/13, 2011/12 and 2010/11

Carry Forward Yr 2012/13:		
Stages of Calculation	Start Year - 6 April 2012	End Year - 5 April 2013
1. Calculate annual pension (accrual % from senior officer pension codes)	44.3% x £144,016 = £63,799 p.a.	45.4% x £148,265 = £67,312 p.a.
2. Calculate lump sum	£63,799 x 3 = £191,397	£67,312 x 3 = £201,936
3. Calculate value of pension	£63,799 x 16 = £1,020,784	£67,312 x 16 = £1,076,992
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	(£1,020,784 + £191,397) x 1.052 = £1,275,214	£1,076,992 + £201,936 = £1,278,928
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£1,278,928 - £1,275,214 = £3,714	
6. Calculate the excess above the AA Level of £50,000	£0 (since £3,714 < £50,000)	
7. Unused Annual Allowance	£50,000 - £3,714 = £46,286	

Carry Forward Yr 2011/12:		
Stages of Calculation	Start Year - 6 April 2011	End Year - 5 April 2012
1. Calculate annual pension (accrual % from senior officer pension codes)	43.1% x £138,569 = £59,723 p.a.	44.3% x £144,016 = £63,799 p.a.
2. Calculate lump sum	£59,723 x 3 = £179,169	£63,799 x 3 = £191,397
3. Calculate value of pension	£59,723 x 16 = £955,568	£63,799 x 16 = £1,020,784
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£955,568 + £179,169) x 1.031 = £1,169,914	£1,020,784 + £191,397 = £1,212,181
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£1,212,181 - £1,169,914 = £42,267	
6. Calculate the excess above the AA Level of £50,000	£0 (since £42,267 < £50,000)	
7. Unused Annual Allowance	£50,000 - £42,267 = £7,733	

Carry Forward Yr 2010/11:		
Stages of Calculation	Start Year - 6 April 2010	End Year - 5 April 2011
1. Calculate annual pension (accrual % from senior officer pension codes)	42% x £129,669 = £54,461 p.a.	43.1% x £138,569 = £59,723 p.a.
2. Calculate lump sum	£54,461 x 3 = £163,383	£59,723 x 3 = £179,169
3. Calculate value of pension	£54,461 x 16 = £871,376	£59,723 x 16 = £955,568
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	(£871,376 + £163,383) x 1.011 = £1,046,141	£955,568 + £179,169 = £1,134,737
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£1,134,737 - £1,046,141 = £88,596	
6. Calculate the excess above the AA Level of £50,000	£88,596 - £50,000 = £38,596	
7. Unused Annual Allowance	£0 (since £88,596 > £50,000)	

Example 3: AFPS05 – Major (OF3) promoted on 6 April 2013 to Lt Colonel (OF4) who has completed 34 years' service age 53 at the end of the tax year 13/14. He has an assumed retirement age of 55.

- A Lt Colonel (OF4) who was promoted from Major (OF3) on 6 April 2013 and was 19 years old at joining scheme.
- At 6 April 2010, his pension was £22,547 p.a. based on 30 years' accrued service and Final pensionable Earnings (FPE) of £52,609 p.a. (OF3 rank Scale Point 6).
- On 6 April 2011, his pension was £24,287 p.a. based on 31 years' accrued service and Final pensionable Earnings (FPE) of £54,841 p.a. (OF3 rank Scale Point 7).
- On 6 April 2012, his pension will be £25,607 p.a. based on 32 years' accrued service and Final pensionable Earnings (FPE) of £56,016 p.a. (OF3 rank Scale Point 8).
- On 6 April 2013, his pension will be £26,965 p.a. based on 33 years' accrued service and Final pensionable Earnings (FPE) of £57,199 p.a. (OF3 rank Scale Point 9).
- On 6 April 2014, his pension will be £33,028 p.a. based on 34 years' accrued service and Final pensionable Earnings (FPE) of £67,999 p.a. (OF4 rank Scale Point 1).
- The September 2012 CPI figure of 2.2% is applied to the opening pension amount to up-rate the pension over the period 6 April 2013 to 5 April 2014.

Pension Input Period: 6 April 2013 to 5 April 2014

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	Start Year - 6 April 2013	End Year - 5 April 2014
1. Calculate annual pension (years of service / 70 x FPE)	$33/70 \times £57,199 = £26,965 \text{ p.a.}$	$34/70 \times £67,999 = £33,028 \text{ p.a.}$
2. Calculate lump sum	$£26,965 \times 3 = £80,895$	$£33,028 \times 3 = £99,084$
3. Calculate value of pension	$£26,965 \times 16 = £431,440$	$£33,028 \times 16 = £528,448$
4. Calculate Pension Input Amount (for the start year up-rate by 2.2%)	$(£431,440 + £80,895) \times 1.022$ $= £523,606$	$£528,448 + £99,084$ $= £627,532$
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	$£627,532 - £523,606 = £103,926$	
6. Calculate the excess above the AA Level of £50,000	$£103,926 - £50,000 = £53,926$	
7. Unused Annual Allowance	£0 (since $£103,926 > £50,000$)	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	<p>The unused AA from each of the three prior pension input periods are:</p> <p>6 April 2012 to 5 April 2013 = £49,498</p> <p>6 April 2011 to 5 April 2012 = £39,225</p> <p>6 April 2010 to 5 April 2011 = £21,652</p> <p>The total of the unused AA, £110,375 (i.e. $£49,498 + £39,225 + £21,652$) is available to carry forward from prior years. The carry forward of £110,375 will be used to reduce the excess above the AA in 2013/14 from £53,926 to £0 and will leave £56,449 ($£110,375 - £53,926$) unused AA available to carry forward to the next tax year.</p> <p>The calculations of the carry forward amounts are shown in detail on the next page.</p>	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax assumed payable at 40% for illustration purposes.	<p>$= 0.4 \times £0 = £0$</p> <p>In this example there is no tax charge. This is because the member has £110,375 unused AA available to carry forward from prior years which can be used to reduce the excess above the AA in 2013/14 from £53,926 to £0.</p>	

Carry Forward Calculations for years 2012/13, 2011/12 and 2010/11

Carry Forward Yr 2012/13:		
Stages of Calculation	Start Year - 6 April 2012	End Year - 5 April 2013
1. Calculate annual pension (years of service / 70 x FPE)	$32/70 \times \pounds 56,016 = \pounds 25,607 \text{ p.a.}$	$33/70 \times \pounds 57,199 = \pounds 26,965 \text{ p.a.}$
2. Calculate lump sum	$\pounds 25,607 \times 3 = \pounds 76,821$	$\pounds 26,965 \times 3 = \pounds 80,895$
3. Calculate value of pension	$\pounds 25,607 \times 16 = \pounds 409,712$	$\pounds 26,965 \times 16 = \pounds 431,440$
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	$(\pounds 409,712 + \pounds 76,821) \times 1.052$ $= \pounds 511,833$	$\pounds 431,440 + \pounds 80,895$ $= \pounds 512,335$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 512,335 - \pounds 511,833 = \pounds 502$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 0$ (since $\pounds 502 < \pounds 50,000$)	
7. Unused Annual Allowance	$\pounds 50,000 - \pounds 502 = \pounds 49,498$	

Carry Forward Yr 2011/12:		
Stages of Calculation	Start Year - 6 April 2011	End Year - 5 April 2012
1. Calculate annual pension (years of service / 70 x FPE)	$31/70 \times \pounds 54,841 = \pounds 24,287 \text{ p.a.}$	$32/70 \times \pounds 56,016 = \pounds 25,607 \text{ p.a.}$
2. Calculate lump sum	$\pounds 24,287 \times 3 = \pounds 72,861$	$\pounds 25,607 \times 3 = \pounds 76,821$
3. Calculate value of pension	$\pounds 24,287 \times 16 = \pounds 388,592$	$\pounds 25,607 \times 16 = \pounds 409,712$
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	$(\pounds 388,592 + \pounds 72,861) \times 1.031$ $= \pounds 475,758$	$\pounds 409,712 + \pounds 76,821$ $= \pounds 486,533$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 486,533 - \pounds 475,758 = \pounds 10,775$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 0$ (since $\pounds 10,775 < \pounds 50,000$)	
7. Unused Annual Allowance	$\pounds 50,000 - \pounds 10,775 = \pounds 39,225$	

Carry Forward Yr 2010/11:		
Stages of Calculation	Start Year - 6 April 2010	End Year - 5 April 2011
1. Calculate annual pension (years of service / 70 x FPE)	$30/70 \times \pounds 52,609 = \pounds 22,547 \text{ p.a.}$	$31/70 \times \pounds 54,841 = \pounds 24,287 \text{ p.a.}$
2. Calculate lump sum	$\pounds 22,547 \times 3 = \pounds 67,641$	$\pounds 24,287 \times 3 = \pounds 72,861$
3. Calculate value of pension	$\pounds 22,547 \times 16 = \pounds 360,752$	$\pounds 24,287 \times 16 = \pounds 388,592$
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	$(\pounds 360,752 + \pounds 67,641) \times 1.011$ $= \pounds 433,105$	$\pounds 388,592 + \pounds 72,861$ $= \pounds 461,453$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 461,453 - \pounds 433,105 = \pounds 28,348$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 0$ (since $\pounds 28,348 < \pounds 50,000$)	
7. Unused Annual Allowance	$\pounds 50,000 - \pounds 28,348 = \pounds 21,652$	

Example 4: AFPS75 – Vice Admiral 3* (OF8) promoted on 6 April 2013 to Admiral 4* (OF9) who has completed 34 years' service age 55 at the end of the tax year 13/14. He has an assumed retirement age of 57.

- An Admiral 4* (OF9) who was promoted from Vice Admiral 3* (OF8) on 6 April 2013 and was 21 years old at joining scheme.
- At 6 April 2010, his pension was £62,308 p.a. based on 30 years' accrued service which equates to 45.4% of basic pay of £137,243 p.a. (3* rank Scale Point 3).
- On 6 April 2011, his pension was £67,111 p.a. based on 31 years' accrued service which equates to 46.6% of basic pay of £144,016 p.a. (3* rank Scale Point 4).
- On 6 April 2012, his pension will be £70,722 p.a. based on 32 years' accrued service which equates to 47.7% of basic pay of £148,265 p.a. (3* rank Scale Point 5).
- On 6 April 2013, his pension will be £74,642 p.a. based on 33 years' accrued service which equates to 48.9% of basic pay of £152,642 p.a. (3* rank Scale Point 6).
- On 6 April 2014, his pension will be £83,469 p.a. based on 34 years' accrued service which equates to 50% of basic pay of £166,937 p.a. (4* rank Scale Point 1).
- The September 2012 CPI figure of 2.2% is applied to the opening pension amount to up-rate the pension over the period 6 April 2013 to 5 April 2014.

Pension Input Period: 6 April 2013 to 5 April 2014

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	Start Year - 6 April 2013	End Year - 5 April 2014
1. Calculate annual pension (accrual % from senior officer pension codes)	48.9% x £152,642 = £74,642 p.a.	50% x £166,937 = £83,469 p.a.
2. Calculate lump sum	£74,642 x 3 = £223,926	£83,469 x 3 = £250,407
3. Calculate value of pension	£74,642 x 16 = £1,194,272	£83,469 x 16 = £1,335,504
4. Calculate Pension Input Amount (for the start year up-rate by 2.2%)	(£1,194,272 + £223,926) x 1.022 = £1,449,398	£1,335,504 + £250,407 = £1,585,911
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£1,585,911 - £1,449,398 = £136,513	
6. Calculate the excess above the AA Level of £50,000	£136,513 - £50,000 = £86,513	
7. Unused Annual Allowance	£0 (since £136,513 > £50,000)	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	<p>The unused AA from each of the three prior pension input periods are:</p> <p>6 April 2012 to 5 April 2013 = £45,393</p> <p>6 April 2011 to 5 April 2012 = £20,919</p> <p>6 April 2010 to 5 April 2011 = £0</p> <p>The total of the unused AA, £66,312 (i.e. £45,393 + £20,919 + £0) is available to carry forward from prior years. The carry forward of £66,312 will be used to reduce the excess above the AA in 2013/14 from £86,513 to £20,201 and will leave £0 (since £86,513 > £66,312) unused AA available to carry forward to the next tax year.</p> <p>The calculations of the carry forward amounts are shown in detail on the next page.</p>	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 45% for illustration purposes only.	<p>= 0.45 x £20,201 = £9,090</p> <p>In this example the tax charge is greater than £2,000. Therefore the individual would be eligible for "Scheme Pays". The individual could either, opt for "Scheme Pays" and have their pension benefits reduced (as shown below), or pay the tax charge themselves.</p>	

Carry Forward Calculations for years 2012/13, 2011/12 and 2010/11

Carry Forward Yr 2012/13:		
Stages of Calculation	Start Year - 6 April 2012	End Year - 5 April 2013
1. Calculate annual pension (accrual % from senior officer pension codes)	$47.7\% \times \pounds 148,265 = \pounds 70,722 \text{ p.a.}$	$48.9\% \times \pounds 152,642 = \pounds 74,642 \text{ p.a.}$
2. Calculate lump sum	$\pounds 70,722 \times 3 = \pounds 212,166$	$\pounds 74,642 \times 3 = \pounds 223,926$
3. Calculate value of pension	$\pounds 70,722 \times 16 = \pounds 1,131,552$	$\pounds 74,642 \times 16 = \pounds 1,194,272$
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	$(\pounds 1,131,552 + \pounds 212,166) \times 1.052$ $= \pounds 1,413,591$	$\pounds 1,194,272 + \pounds 223,926$ $= \pounds 1,418,198$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 1,418,198 - \pounds 1,413,591 = \pounds 4,607$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 0$ (since $\pounds 4,607 < \pounds 50,000$)	
7. Unused Annual Allowance	$\pounds 50,000 - \pounds 4,607 = \pounds 45,393$	

Carry Forward Yr 2011/12:		
Stages of Calculation	Start Year - 6 April 2011	End Year - 5 April 2012
1. Calculate annual pension (accrual % from senior officer pension codes)	$46.6\% \times \pounds 144,016 = \pounds 67,111 \text{ p.a.}$	$47.7\% \times \pounds 148,265 = \pounds 70,722 \text{ p.a.}$
2. Calculate lump sum	$\pounds 67,111 \times 3 = \pounds 201,333$	$\pounds 70,722 \times 3 = \pounds 212,166$
3. Calculate value of pension	$\pounds 67,111 \times 16 = \pounds 1,073,776$	$\pounds 70,722 \times 16 = \pounds 1,131,552$
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	$(\pounds 1,073,776 + \pounds 201,333) \times 1.031$ $= \pounds 1,314,637$	$\pounds 1,131,552 + \pounds 212,166$ $= \pounds 1,343,718$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 1,343,718 - \pounds 1,314,637 = \pounds 29,081$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 0$ (since $\pounds 29,081 < \pounds 50,000$)	
7. Unused Annual Allowance	$\pounds 50,000 - \pounds 29,081 = \pounds 20,919$	

Carry Forward Yr 2010/11:		
Stages of Calculation	Start Year - 6 April 2010	End Year - 5 April 2011
1. Calculate annual pension (accrual % from senior officer pension codes)	$45.4\% \times \pounds 137,243 = \pounds 62,308 \text{ p.a.}$	$46.6\% \times \pounds 144,016 = \pounds 67,111 \text{ p.a.}$
2. Calculate lump sum	$\pounds 62,308 \times 3 = \pounds 186,924$	$\pounds 67,111 \times 3 = \pounds 201,333$
3. Calculate value of pension	$\pounds 62,308 \times 16 = \pounds 996,928$	$\pounds 67,111 \times 16 = \pounds 1,073,776$
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	$(\pounds 996,928 + \pounds 186,924) \times 1.011$ $= \pounds 1,196,874$	$\pounds 1,073,776 + \pounds 201,333$ $= \pounds 1,275,109$
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	$\pounds 1,275,109 - \pounds 1,196,874 = \pounds 78,235$	
6. Calculate the excess above the AA Level of £50,000	$\pounds 78,235 - \pounds 50,000 = \pounds 28,235$	
7. Unused Annual Allowance	$\pounds 0$ (since $\pounds 78,235 > \pounds 50,000$)	