



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

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

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Introduction

1. The Armed Forces Pension Schemes (AFPS) are registered pension schemes and provide tax privileged savings. Tax incentives are provided to encourage pension saving but there is a cost of providing this tax incentive so the Government places restrictions on the amount of pension saving that is tax privileged.
2. AFPS members are not required to contribute to their pension, therefore any loss of value from pension taxation should be considered in this context, whereas members of other public schemes also need to assess the value for money of their scheme contribution.
3. The amount an individual can save each year in a pension scheme before tax charges (known as the annual allowance) is £40,000, although a lower amount can apply in certain circumstances. The Lifetime Allowance (LTA) is the maximum amount of pension savings (pension and lump sum) that an individual can build up over their life from **all** registered pension schemes and is £1,073,100 for the 2020/21 tax year.
4. Personnel mostly affected by the AA and LTA charges are senior officers and medical and dental officers, however, others at more junior grades can be affected depending on their personal circumstances. Anyone affected by these issues will usually receive a pension saving statement annually detailing they have breached their allowance, although this may not mean they will have a tax charge to pay. The following pages provide guidance on how to deal with breaching these limits, including a comprehensive step-by-step guide and other useful information and examples.

PART ONE - ANNUAL ALLOWANCE

KEY MESSAGES

For Tax Years (TY) up to and including 2020-21, the standard Annual Allowance (AA) limit is £40,000. From 2016-17 onwards tapering of the AA was introduced for high earners. A summary of the AA process is set out below:

- AA limits the amount an individual's pension pot can grow each year before tax is payable. The growth is measured by calculating a Pension Input Amount (PIA) which is then tested against the AA limit.
- AA is assessed retrospectively following the end of each tax year.
- Those affected by tapering will have their AA for the relevant tax year reduced depending on their income and pension growth.
- Other Ranks and Junior Officers (below OF2) are unlikely to be affected. However, there are exceptions, and much will depend on individual circumstances.
- Those most likely to be liable to pay an AA tax charge will be OF3 and above who receive a significant pay increase as a result of promotion; Medical Officers / Dental Officers on accreditation; senior officers (OF7 and above).
- The purchase of added pension previously known as additional voluntary contributions, can also lead to an individual breaching the AA limit. For those seeking to purchase added years they are strongly encouraged to seek independent financial advice.
- A process called Scheme Pays is available to help individuals pay part or all of any AA tax charge arising, in exchange for a reduction of equivalent actuarial value to their pension benefits. If the tax charge is less than £3,000 it can be paid via an adjustment to your tax code. Members can pay their AA charge directly as part of their tax return, which they can do regardless of whether more or less than £3,000.
- 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 or are likely to be subject to a reduced AA due to tapering based on their AFPS benefits and Service income, will be sent a Pension Savings Statement letter by Veterans UK no later than the 6 Oct annually.
- Individuals who receive a Pension Savings Statement letter from Veterans UK must then determine whether they are liable to pay an AA tax charge by using the guidance and links contained within this document and the HMRC AA calculator.

- **Individuals who are liable to pay an AA tax charge must then complete a Self-Assessment Tax return (SATR) before the HMRC deadline.**

Introduction

1. There are two elements to the AA - standard and tapered. The standard tax-free allowance limit stands at £40,000. Only a relatively small number of Service Personnel will exceed this 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 impact on promotion from OF3 to OF4, particularly for those promoting late in their career with significant service in pre-2015 pension schemes; the most pronounced effect can be expected at the ranks of OF5 and above. Additionally, the most senior officers (OF7 i.e. 2* and above) and some specialists with higher pensionable earnings may also incur a tax liability as a result of annual pay increments.

2. Tapering of the AA introduced in 2016-17 affects an even smaller number of personnel and further limits the AA for individuals with a threshold income in excess of £110,000 and an adjusted income in excess of £150,000 up to and including TY 19-20. **From TY 20/21 onwards the threshold income increases to £200,000 and the adjusted income increases to £240,000.** Tapering gradually reduces an individual's AA limit by £1 for every £2 that adjusted income exceeds the adjusted income limit. The maximum reduction to the AA is £30,000 in TY 19-20 and £36,000 for TY 20-21 onwards. This means that anyone with an adjusted income in excess of £210,000 will have their AA capped at £10,000 in TY 19-20, and anyone with an adjusted income in excess of £312,000 will have their AA capped at £4,000 in TY 20-21.

3. Individuals who exceed their AA limit (standard or tapered) because of the growth in the value of their AFPS benefits will be alerted by Veterans UK, via pension saving statements sent by 6 Oct each year following the end of the tax year. Similar letters will also be sent to individuals who do not exceed AA but may be affected by tapering due to their Service income, where this can be identified.

4. It is an individual's own responsibility to assess whether they have sufficient unused AA from previous years which can be carried over from the relevant previous years for offsetting against any excess above the AA limit - and if not, whether and to what extent they are liable to pay an AA tax charge. Individuals will need to declare this to HMRC by submitting a Self-Assessment Tax Return, which must be completed no later than 31 Oct following the end of the tax year for manual submissions and 31 Jan for online submissions.

5. Veterans UK are the administrators for AFPS schemes and can only send notifications that relate to AFPS benefits and Service income. If individuals have any personal pension arrangements or other income which may impact the calculations necessary to determine a potential AA tax charge liability, they should seek specialist advice from a tax advisor. Individuals who believe that they may have exceeded the AA because of a combination of personal and AFPS pension savings are responsible for their own independent calculations for the cumulative value of all pension schemes and income. Service personnel may request one annual pension statement to assist them with this calculation free of charge¹ from Veterans UK, using [AFPS Form 12](#).

¹ Scheme members are entitled to receive one forecast free of charge per year.

What is the Annual Allowance?

6. 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

7. 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 all UK Registered Pension Schemes.

8. The PIA is calculated by multiplying the annual pension calculated at the start of the AA PIP (6 Apr) by 16 (which is the factor set by the Treasury) and adding the pension lump sum (3 x annual pension). This capitalised start value is then up-rated for inflation, using the Consumer Price Index (CPI) rate as at Sep of the year before the relevant tax year began (i.e. for TY 19-20 this would be the CPI rate at Sep 18, which was 2.4%). To calculate the pension pot at the end of the PIP, repeat the calculation using the pension value calculated at the following 5 Apr multiplied by 16 and adding the lump sum, but without any up-rating for inflation. Where the difference between the capitalised end value and the capitalised (and up-rated) start value is greater than £40,000 (or the individual AA limit for individuals subject to tapering) then the AA limit has been exceeded and the individual may be liable to pay an AA tax charge - unless he or she has sufficient unused AA available from the relevant previous years available to carry over for offsetting against the excess above the AA limit for the tax year under assessment. Use of unused AA carryover in this way will often eliminate, and if not may reduce, an individual's liability to pay an AA tax charge.

9. The next step is for individuals to use the HMRC AA calculator to determine if there is an amount on which tax is due, after calculation of any available unused AA carryover and whether tapering applies, and if so, to what extent. This is done by inputting the information provided in the PSS letter, in conjunction with information about any other pension schemes and income, into the HMRC AA calculator. The guidance that can be found [here](#) will help you through the process and help you use the HMRC AA calculator to determine whether a tax charge is due.

Illustrative Example – Standard AA

10. **Example 1** – Non-MODO/SSRB Officer promoted from Squadron Leader (OF3) to Wing Commander (OF4) w.e.f. 29 Aug 17, is a member of AFPS15 with Accrued Rights in AFPS75.

The Wg Cdr's AFPS Pension Input Amount of £125,966.87 for TY 18-19 is calculated as shown below. The Wg Cdr exceeds the standard £40,000 AA limit by £85,966.87. The Wg Cdr is not subject to a reduced/tapered AA.

Total value of pension pot at 6 April 2018

£4,228.90 (AFPS15 pension) x 16 + 3% CPI = £69,692.27

plus £21,721.14 (AFPS75 pension) x 16 + £65,163.42 (AFPS75 lump sum) + 3% CPI	plus £425,082.71
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Total value of pension pot at 5 April 2019

£5,969.46 (AFPS15 pension) x 16	= £95,511.36
plus £27,643.71 (AFPS75 pension) x 16 + £82,931.13 (AFPS75 lump sum)	plus £525,230.49

Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2018-19

AFPS15 PIA	£95,511.36 - £69,692.27	= £25,819.09
plus		
Legacy scheme PIA	£525,230.49 - £425,082.71	= £100,147.78
AFPS Pension Input Amount	£25,819.09 + £100,147.78	= £125,966.87

The Wg Cdr is not subject to a reduced/tapered AA because their Threshold Income of £73,997.24 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) does not exceed £110,000.

Illustrative Example – Tapered AA

11. **Example 2** - Surg Lt Cdr RN (OF3), who is a MODO AFPS15 member with Accrued Rights in AFPS05. The Surg Lt Cdr's AFPS Pension Input Amount of £39,073.17 for TY 18-19 and the calculation is shown below. The individual does not exceed the standard £40,000 AA limit but is subject to a reduced/tapered AA limit due to their income.

Total value of pension pot at 6 April 2018

£6,875.57 (AFPS15 pension) x 16 + 3% CPI	= £113,309.39
plus £16,283.53 (AFPS05 pension) x 16 + £48,850.59 (AFPS05 lump sum) + 3% CPI	plus £318,668.68

Total value of pension pot at 5 April 2019

£9,521.72 (AFPS15 pension) x 16	= £152,347.52
plus £16,773.88 (AFPS05 pension) x 16 + £50,321.64 (AFPS05 lump sum)	plus £318,703.72

Pension Input Amount for all AFPS benefits for Tax Year 2018-19

[£152,347.52 + £318,703.72] – [£113,309.39 + £318,668.68]	= £39,073.17
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However, the Surg Lt Cdr's income indicates they will be subject to a reduced/tapered AA limit, which may increase their excess.

This is because their Threshold Income of £112,264.52 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds £110,000 and their Adjusted Income (Threshold Income plus Pension Income Amount) of £151,337.69 exceeds £150,000.

The Surg Lt Cdr may also have additional pension benefits in other schemes, which could also increase the amount by which they are tapered, and ultimately, their excess above the AA limit.

(Note: More detailed examples and guidance are illustrated at Appendix 2 to this guide)

Carry Forward

12. Where your PIA exceeds the AA limit 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 £40,000 (or a lower tapered AA) against the excess. For example, carry forward of unused AA from the years, 2016-17, 2017-18 and 2018-19 may be used against an excess of AA in TY 2019/20. 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.

13. In Example 1 above, the AA limit has been exceeded by £85,966.87 (PIA of £125,966.87- £40,000 AA limit). However, any unused AA from the three preceding tax years can be offset against this amount. Pension saving statement (PSS) letters will include the relevant PIAs and income information for your AFPS benefits and Service income in each of the relevant previous years. You will need to add any additional non-AFPS pensions or income that you may have to these.

14. On receipt of your pension saving statement (PSS) letter you must then input the PIAs and income information (after adding any additional non-AFPS pensions or income) into the HMRC AA calculator. You must also take account of Additional Voluntary Contributions or Added Years that you may be purchasing outwith the AFPS. The HMRC calculator will determine whether a reduced AA limit applies due to tapering (and if so to what extent), the amount of unused AA available from previous years to carry forward and offset against any excess above the AA limit in the tax year under assessment, and the amount on which tax is due. The examples at Appendix 2 include screenshots from the HMRC calculator which illustrate the effects of carryover.

How do I calculate the tax payable?

15. On completion of the assessment process the HMRC calculator will confirm the amount on which tax is due, which you must then use to calculate the amount of tax payable. 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.

The HMRC AA calculator confirms that an individual has an amount on which tax is due of £26,860, after offsetting all available unused AA. They receive an Armed Forces salary of £98,000, with no other pensions or income from other sources. The amount of tax payable would be calculated 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 individual was in receipt of an Armed Forces salary of £125,000 with no other pensions or income from other sources. The amount of tax payable would be calculated 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% = £837

Total £10,837

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

16. Further guidance on how to calculate the tax payable is available in the AFPS Step by Step guide, which is available at the link below.

<https://www.gov.uk/government/publications/step-by-step-guide-for-the-afps-pension-savings-taxation-annual-allowance-notification-letter-for-tax-year-201920>

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

17. It is an individual’s responsibility to declare any tax payable to HMRC via a Self-Assessment Tax Return (SA101). In addition, it is an individual’s responsibility to decide how to pay any tax due to HMRC by 31 October for manual returns or 31 Jan for online returns, following the tax year in which the charge occurred. Further guidance on how to complete a Self-Assessment Tax Return is available in the AFPS Step by Step guide, which is available at the link below.

<https://www.gov.uk/government/publications/step-by-step-guide-for-the-afps-pension-savings-taxation-annual-allowance-notification-letter-for-tax-year-201920>

18. For those members who have a tax liability there are several options available:

a. **Scheme Pays.** See below for details.

- b. **Pay the charge personally.** Individuals who have a tax charge may arrange to pay this personally and directly to HMRC.
- c. **Tax Code Adjustment.** 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 must be submitted directly to HMRC during the normal self-assessment process. Individuals who would like further information can visit the HMRC website² or contact HMRC directly³; Veterans UK cannot provide advice or guidance about tax code adjustments.
- d. **Combination.** A combination of the above options can also be used to offset the charge.

Scheme Pays

19. In 2011 the government introduced a mechanism called Scheme Pays to help pension scheme members pay their AA tax charges. In previous years a minimum limit of £2,000 applied to scheme pays – this limit has now been removed from TY 18-19 onwards. Individuals can ask the scheme to pay the tax charge on their behalf, in exchange for a subsequent reduction of equivalent actuarial value to their pension benefits once they come into payment. Scheme Pays is a choice, and some members may prefer to pay the charge to HMRC directly themselves or via tax code adjustment.

20. Scheme Pays can only be used in respect of tax charges 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.

21. The reduction in pension benefits is calculated using actuarial factors, which takes account of 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 will be, because you will have a longer period in which to pay back the debt. Members of AFPS 05 and AFPS15 should note that Early Departure Payments (EDP) are unaffected by Scheme Pays. Therefore, for individuals in receipt of an EDP, the reduction in pension benefits does not take effect until their pension comes into payment.

22. After retirement, the scheme pays reduction in pension benefits applies for the remaining lifetime of the scheme member. Scheme pays does not have a consequential impact on the benefits payable to a spouse and any children upon the member's death.

23. Appendix 2 includes examples which show the effects of Scheme Pays calculations. The default Scheme Pays conversion tables (used to calculate the initial "age 65" value of the reduction) and the Adjustment factor tables (used to revalue the debit to the member's age at date of retirement) are available to members online at the [Armed Forces Pensions](#) pages on Gov.UK, within the factors section under tables 1201 and 1203 respectively.

24. A decision to use Scheme Pays to pay an AA tax charge is usually made whilst still in service, although Scheme Pays can also be used after leaving service. Once made, a Scheme Pays decision is irrevocable and the reduction is permanent.

² [HMRC Tax Code Guidance](#)

³ [HMRC Contact Details](#)

25. Individuals who wish to elect for Scheme Pays must inform HMRC of their intent by

Timeline	Activity
By 6 Oct (following the end of the relevant tax year to which the charge relates)	Veterans UK issue pension savings statements to AA exceeders and individuals who do not exceed AA but are likely to be tapered due to their Service income for the tax year just ended. The letter will include the relevant prior year Pension Input Amounts and relevant income information.
By 31 Oct (following the end of the relevant tax year to which the charge relates)	Deadline for individuals to submit paper Self-Assessment Tax Return (SATR) forms SA100/101 to HMRC. HMRC will send back confirmation of the tax owed.
By 31 Jan (following the end of the relevant tax year to which the charge relates)	Deadline for individuals to submit on-line SATR Forms to HMRC. Tax due will be automatically calculated.
By 31 Jan (following the end of the relevant tax year to which the charge relates)	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 end of the relevant tax year to which the charge relates)	Individual notifies Veterans UK they wish to elect for Scheme Pays via Annex D to PSS letter. Veterans UK notifies individual of impact upon pension benefits. Individual confirms to Veterans UK whether they wish to proceed.
By 31 Jul (following the end of the relevant tax year to which the charge relates)	<p>Deadline for individuals to submit irrevocable election to Veterans UK for “mandatory” Scheme Pays (where the scheme is jointly and severally liable with the member for timely payment of the charge).</p> <p>Scheme Pays decisions received after this deadline can only be accepted by the scheme on a “voluntary” basis. Any additional charges or penalties imposed by HMRC as a result of a late decision are an individual’s responsibility and cannot be paid by the scheme – HMRC Pensions Tax Manual PTM056430 refers</p>

31 Jan following the end of the tax year. For TY 19-20 this will be 31 Jan 21. The Scheme Pays timeline for the AFPS is as follows:

26. Veterans UK will write to all members of the AFPS who have exceeded their AA, or who do not exceed AA but are likely to be tapered due to their Service income, by 6 Oct following the end of the tax year. Veterans UK will use the primary address held on JPA to contact you, therefore please ensure that these details are kept accurate and up to date at all times. In advance of individual notification letters being sent by Veterans UK, a DIN on the notification process will be published.

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

28. Individuals may be liable to pay a number of tax charges throughout their career and there is no limit on the number of times a member can decide 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, a decision to use Scheme Pays in one year does not affect the options available in subsequent years. Each Scheme Pays decision is treated in isolation to a Scheme Pays previous decision.

29. The entire Scheme Pays election process can take several months to complete and AFPS members of the AFPS who are in the process of leaving the Service are urged to factor the Scheme Pays timescales shown above into their resettlement and retirement preparations. Further guidance on how to complete a Self-Assessment Tax Return when using Scheme Pays is available in the AFPS Step by Step guide, which is available at the link below:

<https://www.gov.uk/government/publications/step-by-step-guide-for-the-afps-pension-savings-taxation-annual-allowance-notification-letter-for-tax-year-201920>

HMRC Pension Calculator

30. The AFPS Pensions Calculator⁴ enables individuals to produce an estimate pension benefits at a predicted retirement date. It previously included the ability to calculate some Annual Allowance elements. However, the Annual Allowance elements were found to be unclear and potentially misleading and have been removed.

31. The HMRC Annual Allowance calculator is available at <https://www.tax.service.gov.uk/pension-annual-allowance-calculator> and this should be used instead, in conjunction with base pension values calculated at the start and end of the relevant tax year produced using the AFPS pensions calculator.

Scheme Pays Calculator

32. There is also a standalone AFPS Scheme Pays calculator, which allows members to enter details relating to their AA tax charge (when known) to estimate the effect of electing Scheme Pays²³. Actual tax charges will be confirmed by HMRC as part of the Self-Assessment tax return process. Whilst the calculator is performing as originally programmed and currently provides a forecast based on a retirement date of age 65, it does not reflect the State Pension Age which is the normal retirement age for AFPS15

⁴ [Pensions Calculator](#)

members and may lead to some confusion. Work is in hand to resolve this issue but is unlikely to be completed before the end of the year.

Pension Sharing on Divorce

33. Pension Sharing on Divorce (PSOD)⁵ is very complex, and consequential pension debits from a Pension Sharing Order (PSO) may increase the likelihood of an AA tax charge, depending on the timing of the divorce. Members of AFPS 75, AFPS 05 and AFPS15 who divorce with a PSO which was implemented before reaching Immediate Pension point (IPP) (16 years - AFPS 75, age 55 - AFPS 05 and age 60 – AFPS15) will have their PSO debit actuarially revalued when they reach the IP point for the relevant scheme to which they are a member. Members who divorced after IPP on 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 divorce 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

34. Adjustments may be made to opening/closing values of a pension for certain events. Veterans UK will make the necessary adjustment when calculating an individual's pension benefits and they will be included within the pension values used to calculate the PIA and shown in the information supplied with PSS letters. 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. See para 34 below.
- 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 codes⁶ 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.

Purchase of Added Pension (formerly known as Additional Voluntary Contributions) – Tax Implications

35. Added Pension replaced Additional Voluntary Contributions (AVCs) previously offered under the rules of Armed Forces Pension Scheme 1975 (AFPS 75) and Armed Forces Pension Scheme 2005 (AFPS 05). Added Pension provides the ability for members to enhance the value of the AFPS 15 pension that will be received in retirement.

⁵ Including dissolution of Civil Partnership.

⁶ [Tri-service pension codes: April 2014](#)

36. Service personnel who have Transitional Protection and who remain active members of legacy pension schemes (and who are not members of AFPS 15) will continue to be entitled to make AVCs in accordance with the rules of that scheme.

37. Added Pension contributions taken from salary are deducted before income tax is calculated, however those who purchase Added Pension by a lump sum, and pay by cheque, must reclaim the income tax they have paid via their tax return. **Personnel who purchase Added Pension should be aware that it does count towards both the Annual Allowance and the Life Time Allowance. It is an individual's responsibility to manage their own tax affairs; personnel are advised to seek independent financial advice.**

38. Similarly, Service Personnel who have taken out Added Pension/Additional Voluntary Contributions will be aware of the implications of cancelling them from the declaration they signed at the outset. Any contributions made and what can be reclaimed will vary depending on the pension scheme the individual is a member of and they should ensure they understand these rules before determining whether they wish to cancel, along with seeking independent financial advice.

Important Information for Self-Assessment Returns

39. Members who are liable to pay an AA tax charge must complete a Self-Assessment return are requested to include the following information on their return:

- Employer Ref: 948/02/WZ82056
- Unique Taxpayer Reference (UTR)⁷
- Pension Scheme Tax Reference Numbers –

AFPS 15	00817591RA
AFPS 75	00330146RV
AFPS 05	00597994RX
RFPS 05	00716644RW

Note - the scheme name abbreviation shown above is for your information only and must not be included - you must only enter the relevant 10 character reference.

⁷ The individual's UTR will be printed next to the headings 'Tax Reference', 'UTR' or 'Official Use' on their HMRC correspondence.

PART TWO - LIFETIME ALLOWANCE

KEY MESSAGES

- With effect from 6 Apr 20, the LTA was increased from £1.055m to £1.0731m.
- The LTA is the overall value of the member's pension pot and is tested at the point of discharge or retirement.
- 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 £46,656 per annum (predominantly, but not exclusively, 1* officers (OF6) and above).

Introduction

1. The Lifetime Allowance (LTA) is the maximum amount of pension savings⁸ (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 charge⁹ 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 and initially set at £1.5m. Transitional protection was made available in the form of Primary and Enhanced Protection. LTA was increased over the next few years and reached £1.8M in TY10/11. On 6 Apr 12 the LTA limit was reduced from £1.8m to £1.5m and for TY 20/21 it stands at £1.0731m.
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 guidance¹⁰.

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.

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

⁸ Within AFPS 05 & 15 EDP is not a pension benefit and therefore not subject to LTA regulations.

⁹ 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.

¹⁰ [HMRC Full Guidance](#)

6. 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?

7. 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 ¼ of the LTA (¼ of £1.0731m is £268,275). If it is the excess is liable for tax¹¹.
- 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 retirement¹² 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 20 with an annual pension of £40,000.

Lump Sum	= £40,000 x 3	= £120,000
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This is less than ¼ of £1.0731m LTA (£268,275), 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 2020/21		= £1,073,100

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

8. 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)).

Lifetime Allowance: £1.0731m

Those likely to be affected by a Lifetime Allowance charge will have an annual pension in excess of £46,656.

¹¹ If the lump sum is greater than £268,275, the excess will be taxed at 55%.

¹² Estimating Annual Pension: for AFPS 75 - Identify expected annual pension using the AFPS75 Pension Codes; for AFPS 05 - Multiply annual salary by number of years reckonable service/70.

AFPS 75	AFPS 75	AFPS 05	AFPS 05	AFPS 15	AFPS 15
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:	Likely to affect those on salary (£pa) in excess of:	Ranks likely to be affected:
£110,463 ¹³	OF 7 ¹⁴ & above and OF4 MODOs ¹⁵	£95,000	OF6 ¹⁶ 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. No one still serving (save those with transitional protection) will be purely a AFPS75/05 member anymore and, therefore these are indicative but all individuals' circumstances will vary depending on length of service and seniority.

What happens if I breach the LTA?

9. 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 £1.0731m (£) 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 retires in Jul 20 with an annual pension of £70,000.

Lump Sum	= £70,000 x 3	= £210,000 ¹⁸
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 2020/21		= £1,073,100
Excess over LTA		= £536,900
Taxed at 25%		= £134,225
Reduction in pension per annum	= £134,225/20.12 ¹⁷	= £6,671
New Annual Pension per annum (for life)	= £70,000 - £6,671	= £63,329

¹³ OF7, Salary Point 1.

¹⁴ Dependant on Salary Point and number of years reckonable service.

¹⁵ Dependant on accredited/non-accredited status and number of years served.

¹⁶ Dependant on Increment Level and number of years served.

¹⁷ Age related factor for a 58-year-old female taken from column 1 Table 1205: Pensioner Lifetime Allowance Factor table.

¹⁸ Not greater than $\frac{1}{4}$ of £1.0731m LTA (£268,275) therefore there is no tax charge in the lump sum.

Example – tax liable on Lump Sum and pension pot

A 61-year-old retires in Jul 20 with an annual pension of £130,000.

Lump Sum Taxation @ 55%

Lump Sum	= £130,000 x 3	= £390,000 ¹⁹
Excess	= £390,000 - £312,500	= £77,500
Excess taxed at 55%		= £42,625
New Lump Sum	= £390,000 - £42,625	= £347,375

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 £268,275 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 £804,825 (i.e. 3/4 of £1.0731m).

Annual Pension x Factor	= £130,000 x 20 (note no lump sum)	= £2,600,000
Excess over £804,825	= £2,600,000 - £804,825	= £1,795,175
Excess taxed at 25%	= £448,794/18.60 ²⁰	= £448,794
Reduction in pension per annum	= £130,000 - £24.129	= £24,129
New Annual Pension per annum (for life)		= £105,871

LTA Protection

10. **Individual Protection 16 (IP16).** This allowed an individual to fix their LTA at the value of their pension pot on 5 Apr 16 (up to a maximum of £1.25m). Individuals may accrue pension savings in excess of this individual LTA with any excess being subject to the LTA tax charge. Individuals will remain active members of the AFPS and, if they wish, can join other pension schemes. **IP16 was available only to those who had a pension value of £1m or more on 5 Apr 16. If the pension was valued less than £1m on 5 Apr 16 you cannot take out this form of protection.**

11. **Fixed Protection 16 (FP16).** This enables individuals to 'fix' their LTA at a maximum of £1.25m. Further pension savings may not be accrued beyond 5 Apr 16, even if the pension's value is less than £1.25m. If an individual elects for this protection, they must cease to be an active member of the AFPS (meaning the pension's value is frozen) and will not receive Death in Service or Ill Health benefits. A person holding Fixed Protection 16 cannot join another pension scheme.

12. How to Apply for IP/FP 16:

¹⁹ Greater than ¼ of 1.0731m LTA (£268,275) therefore there is a tax charge on the lump sum.

²⁰ Age related factor for a 61-year-old male taken from column 1 Table 1205: Pensioner Lifetime Allowance Factor table.

- a. **Assess the value of pension benefits as of 5 Apr 16.** Write to Veterans UK to obtain an accurate LTA valuation as of 5 Apr 16.
- b. **If pension benefits are over £1m.** Inform Veterans UK of your intention to apply for IP/FP16. They will then provide the information that is required to apply for protection.
- c. **Apply online via HMRC Tool.** The HMRC online self-service tool is available online [here](#). Once an individual has successfully applied for protection, the system will provide a reference number which must be retained. The reference number is to be passed to DBS prior to discharge to ensure they take in account LTA protection prior to calculating pension benefits. **Unlike previous schemes there is no application deadline for IP/FP 16.**

Disclaimer: This guide is not 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.**

AFPS LTA Factor Tables for calculating the reduction in members pensions - TY 2020/21

The Factor Tables can be found on the Gov.uk [Armed Forces Pensions page](#) under the heading 'Armed Forces Pension Schemes consolidated factors tables'.

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. Serial 1205 - Retirement not on grounds of ill health males & females.
 - b. Seral 1206 - 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.

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Point of contact details:

Veterans UK Pensions Tax Team, Mail Point 484, Kentigern House, 65 Brown St, Glasgow, G2 8EX or by email at DBS-JPAC@DBSPV.MOD.UK.

AF Pension-Policy (MULTIUSER)

PART THREE – TAX EDUCATION

Introduction

1. Whilst Veterans UK and their contractor have provided significant help to personnel in respect of pension taxation, it was agreed that more formal support should be provided. Although the HMRC website provides a great deal of information it is difficult to work through, especially for those new to the process who have to work out whether they have a tax charge and if so, how they go about paying it; the step-by-step guide published last year has been a great help in de-mystifying much of this process. Establishing a more formal approach to tax education is also expected to ease the burden on the single Services and Veterans UK who individuals have regularly turned to for support.
2. The limited internal support to this issue had also become a regular feature reported to both the Senior Salaries Review Body and the Armed Forces Pay Review Body who responded by stating there was a lack of knowledge on pension tax and led to some making ill-informed decisions about their careers. This has also impacted on more junior personnel who traditionally have never been previously affected by this issue and are now breaching the AA limit of £40,000.
3. Considerable efforts last year, saw the introduction of a step-by-step guide to assist personnel in determining whether they had a tax charge to pay following receipt of the pension savings statement. This has been well received by those who have received a pension savings statement for the first time and who had no understanding of this complex process.

Seminars and 1-1 Sessions

4. Following a review of the civil service model where seminars were introduced for all civil servants who received a pension savings statement, this was considered to be the favoured option for members of the Armed Forces. A contract has been let that will ensure all Armed Forces personnel affected by pension taxation will have access to a seminar. For those that determine they will attract a tax charge they will be offered a 1-1 session with one of the contractor's tax experts to discuss the various options. From this the individual will need to decide what options is best for them. These 1-1 sessions will not include financial advice.

Those Eligible to attend seminars and 1-1s

5. Seminars will be open to all Armed Forces personnel who receive a pension savings statement and either breach the standard £40,000 annual allowance limit or the tapering element of the allowance, that currently stands at £110,000 for the threshold income and £150,000 for adjusted income but will be increased in tax year 2020/21 to £200,000 and £240,000 respectively.

When will they take place?

6. The details of how to apply and when the seminars and 1-1 sessions will take place will be published in due course.

GUIDANCE ON CALCULATING PENSION ENTITLEMENTS

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

1. Guidance on calculating pension entitlements.
2. Fully illustrative worked examples.

Disclaimer: This guide is not to 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.**

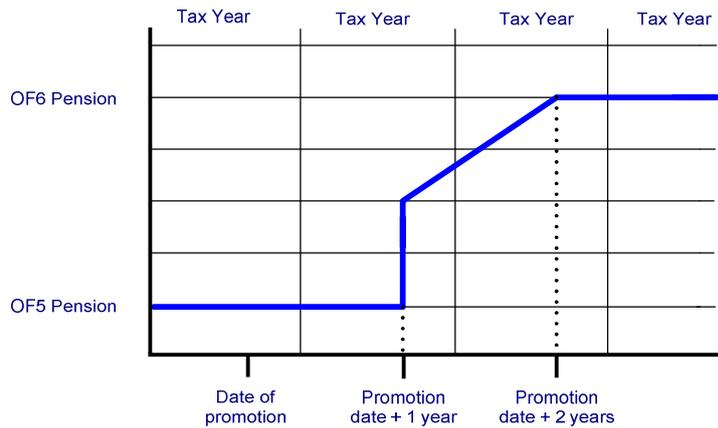
2. Pension entitlements in the main Armed Forces Pension Scheme (AFPS15) and the legacy pension schemes (AFPS 75 and AFPS 05) are calculated differently. For example, within AFPS75 there are different calculations depending on your rank and whether you have reached the Immediate Pension Point (IP) point or not. The IP point is 16 years Reckonable Service (RS)²¹ for Officers and 22 years RS for Other Ranks.

AFPS 75

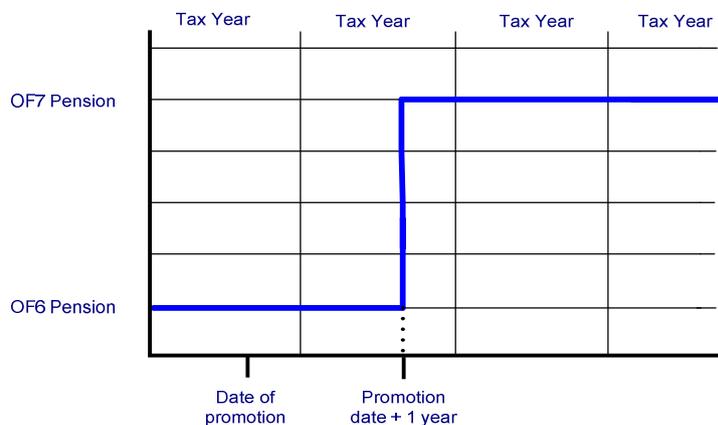
3. **OF6 and below.** The pension entitlement for AFPS 75 members of OF6 rank and below are based on representative rates of pay, which are issued annually with effect from 31 Mar, and which can be found at the following links: [2017](#), [2018](#), [2019](#) and [2020](#). A member of AFPS 75 at the 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.²² The profile is illustrated below:

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

²² 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 benefits²³ 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 amount (using 2014²⁴ 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

²³ OF7 and above pensions are based on Final Pensionable Earnings calculated using percentage rates.

²⁴ [AFPS 75 Pension Codes](#)

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 92²⁵ 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 $1/70^{\text{th}}$ 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

AFPS 15

9. AFPS 15 replaced all existing Armed Forces pension schemes on 1 April 2015 and continues to be non-contributory. The pension is calculated using a system called Career Average Revalued Earnings (CARE) and the member's entitlement starts accumulating from the first day of paid service and is eligible to receive pension benefits provided they have completed at least 2 years qualifying service. This means that every year, the MOD adds an amount equal to $1/47^{\text{th}}$ of the member's annual pensionable earnings for that year, to their individual 'pension pot'. The 'pension pot' starts to accumulate from the first day of paid service and is carried forward into each year where it grows slightly to ensure that it tracks inflation and maintains its value. The rights to pension benefits accrued in legacy Armed Forces pension schemes are protected: they will be linked to final pensionable salary/rank at the date of leaving the Services, not at the time of transfer to AFPS 15. Members of the Reserve Forces, including Part Time Volunteer Reserves, are also covered by AFPS 15.

²⁵ Date when specialist pay spines were introduced.

Annual Allowance (AA) and Scheme Pays Examples

These examples are all taken from real cases which occurred in tax year 18-19, with all personally identifying information removed.

Each example is split into several parts, as necessary;

Part	Description																					
1	Pension calculations at start and end of AA PIP																					
2	AA calculation – Pension Input Amount (PIA)																					
3	Relevant Prior Year PIAs & Information table – prior year PIAs are calculated exactly as shown in part 2 substituting CPI rates and AA limits for each of the relevant years as follows; <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Tax Year</th> <th style="text-align: center;">14-15</th> <th style="text-align: center;">15-16</th> <th style="text-align: center;">16-17</th> <th style="text-align: center;">17-18</th> <th style="text-align: center;">18-19</th> <th style="text-align: center;">19-20</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">CPI Rate</td> <td style="text-align: center;">2.7%</td> <td style="text-align: center;">2.5%</td> <td style="text-align: center;">0%</td> <td style="text-align: center;">1%</td> <td style="text-align: center;">3%</td> <td style="text-align: center;">2.4%</td> </tr> <tr> <td style="text-align: center;">AA limit</td> <td style="text-align: center;">£40,000</td> </tr> </tbody> </table>	Tax Year	14-15	15-16	16-17	17-18	18-19	19-20	CPI Rate	2.7%	2.5%	0%	1%	3%	2.4%	AA limit	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000
Tax Year	14-15	15-16	16-17	17-18	18-19	19-20																
CPI Rate	2.7%	2.5%	0%	1%	3%	2.4%																
AA limit	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000																
4	HMRC AA calculator outputs																					
5	Scheme Pays – initial debit conversion calculation																					
6	Scheme Pays calculations – revaluation/adjustment of debit to age at date of retirement																					

Summary of Detailed Worked Examples

Example 1 - MODO with Transitional Protection in Accrued Rights in AFPS75, has held rank of Colonel (OF5) since 31 December 2014. The Col's AFPS PIA of £9,683.71 does not exceed the standard £40,000 AA limit and they are not subject to a reduced/tapered AA limit.

Example 2 – Surg Lt Cdr RN (OF3), who is a MODO AFPS15 member with Accrued Rights in AFPS05. The Surg Lt Cdr's AFPS PIA of £39,073.17 does not exceed the standard £40,000 AA limit but they are subject to a reduced/tapered AA limit due to their income. The Surg Lt Cdr has sufficient unused AA carryover available from previous years for offsetting against their excess and consequently is not liable to pay an AA tax charge.

Example 3 – Non-MODO/SSRB Officer in AFPS15 with Accrued Rights in AFPS75, promoted from Squadron Leader (OF3) to Wing Commander (OF4) w.e.f. 29 Aug 17. The Wg Cdr’s AFPS PIA of £125,966.87 exceeds the standard £40,000 AA limit but they are not subject to a reduced/tapered AA. The Wg Cdr does not have sufficient unused AA carryover available from previous years to offset against their excess above the AA limit and consequently is liable to pay an AA tax charge. The Wg Cdr decides to pay this via Scheme Pays before retirement, resulting in a reduction to their AFPS15 and AFPS75 pensions and their AFPS75 lump sum

Example 4 – Senior Officer with Transitional Protection in AFPS75, promoted to rank of Lt Gen (OF8) w.e.f. 28 Apr 17. The Lt Gen’s AFPA PIA of £85,966.73 exceeds the standard £40,000 AA limit and they are subject to a reduced/tapered AA due to their income. The Lt Gen does not have sufficient unused AA carryover available from previous years to offset against their excess above the AA limit and consequently is liable to pay an AA tax charge. The Lt Gen decides to pay this via Scheme Pays after retirement, resulting in a reduction to their AFPS75 pension only.

DETAILED WORKED EXAMPLES

Example 1

Part 1 – Pension calculations

AFPS75 benefits for officers up to and including OF6 are calculated by reference to rank-based Pension Code Rates and length of reckonable service.

At the start of tax year 18-19 on 6 Apr 18, the Col had completed 24 years and 217 days service. They had held the substantive rank of Col for pension purposes for more than 2 years as at 6 Apr 18. Their pension value at the start of tax year 18-19 was therefore calculated as follows;

AFPS75 Pension Code rate for 25 completed years’ service at rank OF5	=	£36,079
AFPS75 Pension Code rate for 24 completed years’ service at rank OF5	=	£34,908
Difference between 25 and 24 year rate	=	£1,171
Pension for part completed year	$£1,171 / 365 \times 217$	= £696.18
MODO supplement	$9,348 \text{ days} \times £1.331$	= £11,684.85
Pension at start of tax year	$£34,908 + £696.18 + £11,684.85$	= £47,289.03
Lump sum at start of tax year	$£47,289.03 \times 3$	= £141,867.09

At the end of tax year 18-19 on 5 Apr 19, the Col had completed 25 years and 217 days service. They had held the substantive rank of Col for pension purposes for more than 2 years as at 5 Apr 19. Their pension value at the start of tax year 18-19 was therefore calculated as follows;

AFPS75 Pension Code rate for 26 completed years' service at rank OF5			£37,250
AFPS75 Pension Code rate for 25 completed years' service at rank OF5	=		£36,079
Difference between 26 and 25 year OF5 rate	=		£1,171
Pension for part completed year		$£ 1171 / 365 \times 217$	= £696.18
MODO supplement		$9,348 \text{ days} \times £1.331$	= £12,442.19
Pension at end of tax year		$£36,079 + £696.18 + £12,442.19$	= £49,217.37
Lump sum at end of tax year		$£49,217.37 \times 3$	= £147,652.11

Part 2 – Pension Input Amount calculation (PIA) for tax year 18-19

These figures show the calculation of the Col's PIA of £9,683.71 for tax year 18-19. This meant they do not exceed the standard £40,000 AA limit.

The total value of your pension pot at 6 April 2018

£47,289.03 (AFPS75 pension) x 16 + £141,867.09 (AFPS75 lump sum) + 3% CPI =
£925,446.32

The total value of your pension pot at 5 April 2019

£49,217.37 (AFPS75 pension) x 16 + £147,652.11 (AFPS75 lump sum) = £935,130.03

Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2018-19

£935,130.03 - £925,446.32 = £9,683.71

The Col is not subject to a reduced/tapered AA limit even although their Threshold Income of £129,348.47 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds £110,000.

This is because their Adjusted Income of £139,032.18 (which is their Threshold Income of £129,348.47 plus their AFPS PIA of £9,683.71) does not exceed £150,000.

The Col will not receive an AA notification letter for tax year 18-19, and no further action is required of them.

Example 2 – Surg Lt Cdr RN (OF3), who is a MODO AFPS15 member with Accrued Rights in AFPS05. The Surg Lt Cdr’s AFPS PIA of £39,073.17 does not exceed the standard £40,000 AA limit but they are subject to a reduced/tapered AA limit due to their income. The Surg Lt Cdr has sufficient unused AA carryover available from previous years for offsetting against their excess and consequently is not liable to pay an AA tax charge.

Part 1 – Pension calculations

AFPS15 - pension is calculated on a Career Average Revalued Earnings (CARE) basis. This means that 1/47th of the member’s pensionable pay is added to the “CARE Pot” each year, and each year whilst serving the CARE Pot is revalued in line with Average Weekly Earnings (AWE).

The Surg Lt Cdr’s AFPS15 CARE Pot, including AWE revaluation for 17-18, had a value of £6,875.57 at the start of tax year 18-19. This is the AFPS15 pension start value on 6 Apr 18.

During tax year 18-19, the Surg Lt Cdr added £2,386.80 to their AFPS15 CARE Pot, bringing its value to £9,262.37. The AWE increase for 18-19 of 2.8% was then applied, which meant that the pension value at the end of the tax year on 5 Apr 19 was £9,521.71.

AFPS05 benefits are calculated by reference to Final Relevant Earnings (FRE) and accrue at 1/70th of FRE for each year of reckonable service. For Accrued Rights members, further service does not accrue after 31 March 2015.

At the start of tax year 18-19 on 5 Apr 18, the Surg Lt Cdr had completed 10 years and 185 days service as at 31 Mar 15 and their FRE was £108,486.62 at that time. The pension value at the start of tax year 18-19 was therefore calculated as follows;

Pension (FRE x service / 70)	$\frac{£108,486.62 \times 10.5068}{70}$	=	£16,283.53
Lump sum (pension x 3)	$£16,283.53 \times 3$	=	£48,850.59

At the end of tax year 18-19 on 5 Apr 19, the Surg Lt Cdr had completed 10 years and 185 days service as at 31 Mar 15 and their FRE was £111,753.00 at that time. The pension value at the start of tax year 18-19 was therefore calculated as follows;

FRE x service / 70	$\frac{£111,753.52 \times 10.5068}{70}$	=	£16,773.88
Lump sum (pension x 3)	$£16,773.88 \times 3$	=	£50,321.64

Part 2 – Pension Input Amount calculation (PIA) for tax year 18-19 (as shown on Annex A to PSS letter)

These figures show the calculation of the Surg Lt Cdr's PIA of £39,073.17 for tax year 18-19. This meant they do not exceed the standard £40,000 AA limit.

The total value of your pension pot at 6 April 2018

£6,875.57 (AFPS15 pension) x 16 + 3% CPI plus £16,283.53 (AFPS05 pension) x 16 + £48,850.59 (AFPS05 lump sum) + 3% CPI	= £113,309.39 plus £318,668.68
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The total value of your pension pot at 5 April 2019

£9,521.72 (AFPS15 pension) x 16 plus £16,773.88 (AFPS05 pension) x 16 + £50,321.64 (AFPS05 lump sum)	= £152,347.52 plus £318,703.72
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Pension Input Amount for all AFPS benefits for Tax Year 2018-19

$$[£152,347.52 + £318,703.72] - [£113,309.39 + £318,668.68] = £39,073.17$$

However, the Surg Lt Cdr's income indicates they will be subject to a reduced/tapered AA limit, which may increase their excess.

This is because their Threshold Income of £112,264.52 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds £110,000 and their Adjusted Income (threshold income plus Pension Income Amount) of £151,337.69 exceeds £150,000.

The Surg Lt Cdr may also have additional pension benefits in other schemes, which could also increase the amount by which they taper, and ultimately, their excess above the AA limit.

Part 3 - Prior Year PIAs & Info table (as shown on Annex B to PSS letter)

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service pay	Adjusted Income – AFPS & Service pay
2012-13	£50,000	£16,426.77	Not applicable	Not applicable
2013-14	£50,000	£20,454.50	Not applicable	Not applicable
2014-15	£40,000	£26,344.29	Not applicable	Not applicable

Between 6 Apr 15 and 8 July 15	£80,000	£25,359.09	Not applicable	Not applicable
Between 9 Jul 15 and 5 Apr 16	Maximum of £40,000 unused between 6 Apr 15 and 8 July 15	£69,673.43	Not applicable	Not applicable
2016-17	£40,000	£71,586.37	£107,186.10	£178,772.47
2017-18	£40,000	£49,797.81	£107,890.58	£157,688.39
2018-19	£40,000	£39,073.17	£112,264.52	£151,337.69

Part 4 - HMRC AA calculator outputs (based on inputs from Part 2)

How we worked out your results

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2019 to 5 April 2020	£259	£0	£0	£0	£259
6 April 2018 to 5 April 2019	£39,332	£0	£39,073	£0	£259
6 April 2017 to 5 April 2018	£51,616	£0	£49,797	£0	£0
6 April 2016 to 5 April 2017	£83,202	£0	£71,586	£0	£11,616
9 July 2015 to 5 April 2016	£116,776	£0	£69,673	£0	£43,202
6 April 2015 to 8 July 2015	£156,776	£0	£25,359	£0	£116,776
6 April 2014 to 5 April 2015	£103,120	£0	£26,344	£0	£76,776
6 April 2013 to 5 April 2014	£83,574	£0	£20,454	£0	£63,120
6 April 2012 to 5 April 2013	£50,000	£0	£16,426	£0	£33,574

These figures;

- show that the Surg Lt Cdr is subject to a reduced AA limit due to tapering, as a result of their income.
- take into account offsetting via carryover of unused AA from previous years.
- show that the Surg Lt Cdr is not liable to pay a tax charge in tax years 17-18 or 18-19 because they had sufficient unused AA carryover available from previous years for offsetting against their excess in these years
- show that the Surg Lt Cdr still has £259 unused AA from tax year 18-19 left to carry over, in the event that this is needed for offsetting in tax year 19-20.

However, the Surg Lt Cdr may have additional income, pension schemes or non-taxable deductions in any of these tax years, of which the AFPS is unaware. Each of these could make a difference to the outcome and the Surg Lt Cdr needs to add these if they exist and then run the calculation again using the combined amounts.

Example 3 – Non-MODO/SSRB Officer promoted from Squadron Leader (OF3) to Wing Commander (OF4) w.e.f. 29 Aug 17, is a member of AFPS15 with Accrued Rights in AFPS75.

The Wg Cdr’s Pension Input Amount of £125,966.87 exceeds the standard £40,000 AA limit. The Wg Cdr is not subject to a reduced/tapered AA. However, they do not have sufficient unused AA carryover available from previous years to offset against their excess above the AA limit in tax year 18-19, and consequently is liable to pay an AA tax charge.

They subsequently decide to use Scheme Pays, and notify their decision shortly before their pension is put into payment when they leaves the Service on 29 Dec 19.

Part 1 – Pension calculations

AFPS15 - pension is calculated on a Career Average Revalued Earnings (CARE) basis. This means that 1/47th of the member’s pensionable pay is added to the “CARE Pot” each year, and each year whilst serving the CARE Pot is revalued in line with Average Weekly Earnings (AWE).

The Wg Cdr’s AFPS15 CARE Pot, including AWE revaluation for 17-18, had a value of £4,228.90 at the start of the 18-19 tax year. This is the AFPS15 pension start value on 6 Apr 18.

During tax year 18-19, the Wg Cdr added £1,577.97 to their AFPS15 CARE Pot, bringing its value to £5,806.87. The AWE increase for 18-19 of 2.8% was then applied, which meant that the pension value at the end of the 18-19 tax year on 5 Apr 19 was £5,969.46.

AFPS75 benefits for officers up to and including OF6 are calculated by reference to rank-based Pension Code Rates and length of reckonable service. For Accrued Rights members, further service does not accrue after 31 March 2015, but the rank for pension purposes is the assessed as at the last day of service.

The Wg Cdr specialised as a Nurse, and is therefore entitled to Tri-Service Nursing Supplement for each day of qualifying Service as a Nurse.

At the start of tax year 18-19 on 6 Apr 18, the Wg Cdr had completed 22 years and 191 days Accrued Rights service calculated up to 31 Mar 15, and total service of 25 years 196 days. They held the substantive rank of Sqn Ldr (OF3) for pension purposes on 5 Apr 18.

The pension value at the start of tax year 18-19, including Tri-Service Nursing Supplement, was therefore calculated as follows;

Calculation A – Compulsory rates, based on 22 years 191 days service up to 31 Mar 15

AFPS75 Pension Code rate for 23 completed years’ service at rank OF3	=	£21,457
AFPS75 Pension Code rate for 22 completed years’ service at rank OF3	=	£20,692
Difference between 23 and 22 year rate	=	£21,457 - £20,692 = £765

Pension for part completed year	$\frac{£765}{365} \times 191$	=	£400.31
Pension Value A	£20,692 + £400.31	=	£21,092.31

Calculation B – Representative Rates, based on 25 years 196 days total pensionable service

AFPS75 Pension Code rate for 26 completed years service at rank OF3		=	£59,327
AFPS75 Pension Code rate for 25 completed years service at rank OF3		=	£59,045
Difference between 26 and 25 year rate	£59,327 - £59,045	=	£282
Pension for part completed year	$\frac{£282}{365} \times 196$	=	£151.43
Pension Value B	£59,045 + £151.43	=	£59,196.43

Calculation C - Representative Rates, based on 22 years 191 days service up to 31 Mar 15

AFPS75 Pension Code rate for 23 completed years' service at rank OF3		=	£58,479
AFPS75 Pension Code rate for 22 completed years' service at rank OF3		=	£58,196
Difference between 23 and 22 year rate	£58,479 - £58,196	=	£283
Pension for part completed year	$\frac{£283}{365} \times 191$	=	£148.09
Pension Value C	£58,196 + £148.09	=	£58,344.09

Calculation D – Base pension value before supplement

The base pension is Pension Value D and is calculated using the pension values from calculations A, B and C in the formula $B / C \times A = D$.

Base pension = Pension Value B / Pension Value C x Pension Value A	$\frac{£59,196.43}{£58,344.09} \times £21,092.31$	=	£21,400.44
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Calculation E - Tri-Service Nurse supplement

Tri-Service Nurse supplement	2,069 days x £0.155	=	£320.70
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Calculation F - Pension and Lump sum at start of tax year

Pension at start of tax year	£21,400.44 + £320.70	=	£21,721.14
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Lump sum at start of tax year	$£21,721.14 \times 3$	=	£65,163.42
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At the end of tax year 18-19 on 5 Apr 19, the Wg Cdr had completed 22 years and 191 days Accrued Rights service calculated up to 31 Mar 15 and total service of 26 years 196 days.

They had spent 1 year and 220 days in the rank of Wg Cdr, which is less than the 2 years required to qualify for this rank substantively for pension purposes. The pension was assessed at Sqn Ldr (OF3) rates with an uplift to Wg Cdr (OF4) for the period spent in the higher rank.

The pension value at the end of tax year 18-19, including Tri-Service Nursing Supplement, was therefore calculated as follows;

Calculation A – Compulsory rates, based on 22 years 191 days service up to 31 Mar 15

AFPS75 Pension Code rate for 23 completed years service at rank OF4	=	£28,665
AFPS75 Pension Code rate for 22 completed years service at rank OF4	=	£27,586
Difference between 23 and 22 year rate	$£28,665 - £27,586$	= £1,079
Pension for part completed year	$£1,079 / 365 \times 191$	= £564.63
Pension Value A	$£27,586 + £564.63$	= £28,150.63

Calculation B – Representative Rates, based on 25 years 196 days total pensionable service

AFPS75 Pension Code rate for 27 completed years' service at rank OF4	=	£79,881
AFPS75 Pension Code rate for 26 completed years' service at rank OF4	=	£79,354
Difference between 27 and 26 year rate	$£79,881 - £79,354$	= £527
Pension for part completed year	$£527 / 365 \times 196$	= £282.99
Pension Value B	$£79,354 + £282.99$	= £79,636.99

Calculation C - Representative Rates, based on 22 years 191 days service up to 31 Mar 15

AFPS75 Pension Code rate for 23 completed years' service at rank OF4	=	£77,772
AFPS75 Pension Code rate for 22 completed years' service at rank OF4	=	£77,244
Difference between 23 and 22 year rate	$£77,772 - £77,244$	= £528
Pension for part completed year	$£528 / 365 \times 191$	= £276.30

Pension Value C	$£77,244 + £276.30$	=	£77,520.30
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Calculation D – Base pension value before supplement

The base pension is Pension Value D and is calculated using the pension values from calculations A, B and C in the formula $B / C \times A = D$.

Base pension = Pension Value B / Pension Value C x Pension Value A	$£79,636.99 / £77,520.30 \times £28,150.63$	=	£28,919.28
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Calculation E - Tri-Service Nurse supplement

Tri-Service Nurse supplement	$2,069 \text{ days} \times £0.093$	=	£192.42
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Calculation F - Rank uplift calculations

OF4 pension before supplement		=	£28,919.28
OF3 pension before supplement		=	£21,400.44
Difference between OF4 and OF3 pension		=	£7,158.84
One Year's Rank Uplift = Difference / 2	$£7,158.84 / 2$	=	£3,759.42
Rank uplift for part completed year	$£3,759.42 / 365 \times 220$	=	£2,265.95
Rank uplift due	$£3,759.42 + £2,265.95$	=	£6,025.37

Calculation G - Tri-Service Nurse supplement uplift

OF4 supplement		=	£192.42
OF3 supplement		=	£320.70
Difference between OF4 and OF3 supplement		=	-£128.28
One Year's supplement Uplift = Difference / 2	$-£128.28 / 2$	=	-£64.14
Supplement uplift for part completed year	$-£64.14 / 365 \times 220$	=	-£38.66
Supplement uplift due	$£320.70 - (£64.14 + £38.66)$	=	£217.90

Calculation H - Pension and Lump sum at end of tax year

Pension at end of tax year	$£21,400.44 + £6,025.37 + £217.90$	=	£27,643.71
Lump sum at end of tax year	$£27,643.71 \times 3$	=	£82,931.13

Part 2 – Pension Input Amount calculation (PIA) for tax year 18-19 (as shown on Annex A to PSS letter)

These figures show the calculation of the Wing Commander's PIA of £125,966.87 for tax year 18-19. This meant they exceed the standard £40,000 AA limit by £85,966.87.

The total value of your pension pot at 6 April 2018

£4,228.90 (AFPS15 pension) x 16 + 3% CPI plus £21,721.14 (AFPS75 pension) x 16 + £65,163.42 (AFPS75 lump sum) + 3% CPI = £69,692.27 plus £425,082.71

The total value of your pension pot at 5 April 2019

£5,969.46 (AFPS15 pension) x 16 plus £27,643.71 (AFPS75 pension) x 16 + £82,931.13 (AFPS75 lump sum) = = £95,511.36 plus £525,230.49

Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2018-19

AFPS15 PIA	£95,511.36 - £69,692.27	= £25,819.09
plus		
Legacy scheme PIA	£525,230.49 - £425,082.71	= £100,147.78
AFPS Pension Input Amount	£25,819.09 + £100,147.78	= £125,966.87

The Wg Cdr is not subject to a reduced/tapered AA because their Threshold Income of £73,997.24 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) does not exceed £110,000.

Part 3 - Prior Year PIAs & Info table (as shown on Annex B to PSS letter)

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service pay	Adjusted Income – AFPS & Service pay
2014-15	£40,000	£11,266.49	Not applicable	Not applicable
Between 6 Apr 15 and 8 July 15	£80,000	£5,560.05	Not applicable	Not applicable
Between 9 Jul 15 and 5 Apr 16	Maximum of £40,000 unused between 6 Apr 15 and 8 July 15	£15,276.11	Not applicable	Not applicable

2016-17	£40,000	£28,003.20	£61,765.93	£89,769.13
2017-18	£40,000	£30,503.93	£67,459.26	£97,963.19
2018-19	£40,000	£125,966.87	£73,997.24	£199,964.11

Part 4 - HMRC AA calculator outputs (based on inputs from Part 2)

How we worked out your results

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2019 to 5 April 2020	£0	£0	£0	£0	£0
6 April 2018 to 5 April 2019	£86,218	£0	£125,966	£39,748	£0
6 April 2017 to 5 April 2018	£105,455	£0	£30,503	£0	£46,218
6 April 2016 to 5 April 2017	£93,458	£0	£28,003	£0	£65,455
9 July 2015 to 5 April 2016	£68,734	£0	£15,276	£0	£53,458
6 April 2015 to 8 July 2015	£108,734	£0	£5,560	£0	£68,734
6 April 2014 to 5 April 2015	£40,000	£0	£11,266	£0	£28,734

These figures;

- show that the Wg Cdr is not subject to a reduced AA limit due to tapering.
- take into account offsetting via carryover of unused AA from previous years.
- show that the Wg Cdr has used up all available carryover from previous years.

This meant the Wg Cdr had no unused AA carryover available to fully offset against their excess above the AA limit in tax year 18-19.

Consequently, the HMRC AA calculator shows that the amount on which the Wg Cdr was liable to pay tax on was £39,748 for tax year 18-19.

The amount of tax payable would be calculated at their marginal tax rate, which their Service income indicated would be 40%.

This indicates that the amount payable as an AA tax charge would be £15,899.20 - assuming they had no other additional income, non-AFPS pension schemes or non-taxable deductions (each of which could change this amount).

Part 5 - Scheme Pays – initial debit conversion calculation (assuming payment at age 65)

The Wg Cdr was due to leave the Service on 29 Dec 19 and shortly before this registered their interest in using Scheme Pays. The amount they requested was £16,053.

The AFPS can accept and pay the amount requested, because it does not exceed 45% of their AFPS PIA.

This amount of £16,053 is then apportioned between AFPS15 and AFPS75 in the proportion that each of the schemes contributed to the Wg Cdr's PIA. This calculation is as follows;

AFPS15	Amount payable * AFPS15 PIA / AFPS PIA	£16,053 x £25,819.09 / £125,966.87	=	£3,290.34
AFPS75	Amount payable * AFPS75 PIA / AFPS PIA	£16,053 x £100,147.78 / £125,966.87	=	£12,762.66

The AFPS15 amount is then rounded up to £3,291 as this is the nearest whole pound and the AFPS75 pension is then rounded down £12,762 as this is the nearest whole pound. This is because HMRC require that all amounts due must be reported and paid to them in whole pounds only. No further rounding is done in subsequent Scheme Pays calculations.

The Wg Cdr was age 47 on the relevant date of 5 Apr 19, the end of the tax year to which the debit applies. Since the Wg Cdr had not retired, and had not yet received their lump sum payment, the AFPS75 element of their Scheme Pays debit applies to both the pension and lump sum.

The factor taken from the “pension and lump sum” table of “default conversion” actuarial factors is 13.10. This factor assumes (for simplicity across schemes) that the pension and its associated Scheme Pays reduction starts from age 65.

The initial debit apportioned to the AFPS75 element of the Wg Cdr's pension and lump sum - assuming payment from age 65 - is therefore calculated as follows;

AFPS75 age 65 Pension debit	£12,762 / 13.10	=	£974.20 per year
AFPS75 age 65 Lump sum debit	3 x £974.20	=	£2,922.60

The AFPS15 element of the pension does not have an automatically payable lump sum, so “pension only” default conversion factors are used.

The factor taken this time from the “pension only” table of “default conversion” actuarial factors is 11.12. Again, this factor assumes (for simplicity across schemes) that the pension and its associated Scheme Pays reduction starts from age 65.

The initial debit apportioned to the AFPS15 element of the Wg Cdr 's pension - assuming payment from age 65 - is therefore calculated as follows;

AFPS15 Age 65 Pension debit	£3,291 / 11.12	=	£ 295.95 per year
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Part 6 - Scheme Pays – revaluation/adjustment of debit to age at date of retirement

When the Wg Cdr's pensions become payable, their initial "age 65" Scheme Pays debit amounts are revalued using actuarial adjustment factors, which vary depending on gender and retirement type. CPI is also applied between the effective date of the initial "age 65" debit (the end of the tax year to which the debit relates) and its revaluation date (which is the day after date of retirement).

The adjusted debit values – i.e. the reductions to be permanently applied to the annual pensions and AFPS75 lump sum – are then applied with effect from the date of retirement, with effect from the date on which each of the relevant elements of the pension benefits become payable.

In the Wg Cdr's case the revaluation of the AFPS75 pension happens almost immediately due to their retirement on 29 Dec 19. The revaluation is carried out using the appropriate actuarial factors, which in the Wg Cdr's case are factors of 0.466 and 0.678 for the pension and lump sum respectively. These are the factors (as at date of retirement) taken from the "good health retirement adjustment" table of actuarial factors.

CPI is then applied between the effective date of the initial "age 65" debit (5 Apr 19) and its revaluation date, which is the day after the Wg Cdr's date of retirement (29 Dec 19).

The result is the adjusted AFPS75 debit – i.e. the reduction to be permanently applied to the Wg Cdr's annual pension and lump sum with effect from her date of retirement on 29 Dec 19 – and is therefore calculated as follows;

Adjusted AFPS75 pension debit

$£974.20 \times 0.466 \times 1.000$ (i.e. 0% CPI between 5 Apr 19 and 29 Dec 19) = £453.98 per year.

Adjusted AFPS75 Lump sum debit

$£2,922.60 \times 0.678 \times 1.000$ (i.e. 0% CPI between 5 Apr 19 and 29 Dec 19) = £1,981.52

The AFPS15 pension is deferred and does not become payable until the Wg Cdr claims it, either when reaching age State Pension Age (SPA - in this case age 67 years and 0 months) or earlier (from age 55 onwards) if the Wg Cdr claims early payment on an actuarially reduced basis.

In either event, the AFPS15 debit will be actuarially revalued in exactly the same way as shown above for AFPS75 when it becomes payable, using the same table of adjustment factors.

If paid at the Wg Cdr's SPA of 67 years old, the AFPS 15 debit would be expected to increase from its original "age 65" value, whereas if claimed earlier on actuarially reduced terms, the AFPS15 debit would be expected to reduce from its original "age 65" value.

Example 4 – Senior Officer with Transitional Protection in AFPS75, promoted to rank of Lt Gen (OF8) w.e.f. 28 Apr 17. The Lt Gen's AFPS PIA of £85,966.73 exceeds the standard £40,000 AA limit and they are subject to a reduced/tapered AA.

The Lt Gen does not have sufficient carryover available from previous years to offset against their excess above the AA in tax year 18-19 and consequently is liable to pay an AA tax charge.

The Lt Gen decides to use Scheme Pays after leaving the Service when their pension is in payment and their lump sum has already been paid to them.

Part 1 – Pension calculations

In AFPS75 Senior Officer pension is calculated as a percentage of Final Relevant Earnings (FRE). The percentage is a maximum of 50% and depends on the amount of completed Service.

At the start of tax year 18-19 on 6 Apr 18, the Lt Gen had completed 32 years and 212 days service and their FRE was at that time £131,827.45. The pension value at the start of tax year 18-19 is therefore calculated as follows;

33 years' completed service rate	$48.9\% \times \pounds 131,827.45$	=	£64,463.62
32 years' completed service rate	$47.7\% \times \pounds 131,827.45$	=	£62,881.69
Difference between 33 and 32 years rate	$\pounds 64,463.62 - \pounds 62,881.69$	=	£1,581.93
Pension for partly completed year	$\pounds 1,581.93 / 365 \times 212$	=	£918.82
Pension at start of tax year	$\pounds 62,881.69 + \pounds 918.82$	=	£63,800.51
Lump sum at start of tax year	$\pounds 63,800.51 \times 3$	=	£191,401.53

At the end of tax year 18-19 on 5 Apr 19, the Lt Gen had completed 33 years and 212 days and their FRE was at that time £141,785.72. The pension value at the start of tax year 18-19 is therefore calculated as follows;

34 years' completed service rate	$50\% \times \pounds 141,785.72$	=	£70,892.86
33 years' completed service rate	$48.9\% \times \pounds 141,785.72$	=	£69,333.22
Difference between 34 and 33 years rate	$\pounds 70,892.86 - \pounds 69,333.22$	=	£1,559.64
Pension for additional days	$\pounds 1,559.64 / 365 \times 212$	=	£905.87
Pension at start of tax year	$\pounds 69,333.22 + \pounds 905.87$	=	£70,239.09
Lump sum at start of tax year	$\pounds 70,239.09 \times 3$	=	£210,717.27

Part 2 – Pension Input Amount calculation (PIA) for tax year 18-19 (as shown on Annex A to PSS letter)

These figures show the calculation of the Lt Gen’s PIA of £85,966.73 for tax year 18-19. This meant they exceeded the standard £40,000 AA limit by £45,966.73.

However, their income indicates they will be also subject to a reduced/tapered AA limit, which will increase their excess.

This is because their Threshold Income of £141,387.46 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds £110,000 and their Adjusted Income (threshold income plus Pension Income Amount) of £227,354.19 exceeds £150,000.

The Lt Gen may also have other income and/or additional pension benefits in other schemes, which could also further increase their excess.

The total value of your pension pot at 6 April 2018

£63,800.51 (AFPS75 pension) x 16 + £191,401.53 (AFPS75 lump sum) + 3% CPI = £1,248,575.98

The total value of your pension pot at 5 April 2019

£70,239.09 (AFPS75 pension) x 16 + £210,717.27 (AFPS75 lump sum) = £1,334,542.71

Pension Input Amount for all AFPS benefits for Tax Year 2018-19

£1,334,542.71 - £1,248,575.98 = £85,966.73

Part 3 - Prior Year PIAs & Info table (as shown on Annex B to PSS letter)

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service pay	Adjusted Income – AFPS & Service pay
2011-12	£50,000	£ 0.00	Not applicable	Not applicable
2012-13	£50,000	£ 0.00	Not applicable	Not applicable
2013-14	£50,000	£13,292.43	Not applicable	Not applicable
2014-15	£40,000	£104,646.06	Not applicable	Not applicable
Between 6 Apr 15 and 8 July 15	£80,000	£8,007.90	Not applicable	Not applicable
Between 9 Jul 15 and 5 Apr 16	Maximum of £40,000 unused between 6	£22,001.49	Not applicable	Not applicable

	Apr 15 and 8 July 15			
2016-17	£40,000	£54,863.07	£115,944.08	£170,807.15
2017-18	£40,000	£150,106.90	£130,132.98	£280,239.88
2018-19	£40,000	£85,966.73	£141,387.46	£227,354.19

Part 4 - HMRC AA calculator outputs (based on inputs from Part 2)

How we worked out your results

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2019 to 5 April 2020	£0	£0	£0	£0	£0
6 April 2018 to 5 April 2019	£10,000	£0	£85,966	£75,966	£0
6 April 2017 to 5 April 2018	£27,999	£0	£150,106	£122,107	£0
6 April 2016 to 5 April 2017	£84,304	£0	£54,863	£0	£17,999
9 July 2015 to 5 April 2016	£112,062	£0	£22,001	£0	£54,707
6 April 2015 to 8 July 2015	£152,062	£0	£8,007	£0	£112,062
6 April 2014 to 5 April 2015	£176,708	£0	£104,646	£0	£72,062
6 April 2013 to 5 April 2014	£150,000	£0	£13,292	£0	£136,708
6 April 2012 to 5 April 2013	£100,000	£0	£0	£0	£100,000
6 April 2011 to 5 April 2012	£50,000	£0	£0	£0	£50,000

These figures show the following;

- the Lt Gen is subject to a reduced AA limit due to tapering as a result of their income.
- the effect of offsetting via carryover of unused AA available from previous years.
- the Lt Gen was liable to pay a tax charge in tax year 17-18, and at that point they had used up all available carryover from previous years. This meant the Lt Gen had no unused AA carryover available for offsetting against their excess in tax year 18-19.

Consequently, the HMRC AA calculator shows that the Lt Gen was liable to pay tax on the amount of £75,966 for tax year 18-19. The tax payable would be calculated at their marginal tax rate.

In this case, based solely on the Lt Gen's AFPS pension and Service income only, we would expect the tax payable would be £30,386.40, calculated at a marginal tax rate of 40%. This is because the Lt Gen's income of £141,387.46 – based solely on their Service pay - is below the £150,000 threshold at which 45% tax is payable.

However, the Lt Gen may have additional income, pension schemes or non-taxable deductions, each of which could change this amount.

Part 5 - Scheme Pays – initial debit conversion calculation (assuming payment at age 65)

The Lt Gen retired on 5 Jul 19 and subsequently registered their interest in using Scheme Pays in Dec 19. The amount requested was £26,168.00. This is lower than the amount expected based on paying 40% of the amount on which tax is due (as calculated using the HMRC AA calc tax in the previous step).

However, the Lt Gen may have decided to only use Scheme Pays to pay only part of the sum due and pay the balance themselves, or they may have other non-taxable deductions which reduce the amount payable.

The AFPS can accept and pay the amount requested, because it does not exceed 45% of their AFPS PIA.

The Lt Gen was age 54 on the relevant date of 5 Apr 19, the end of the tax year to which the debit applies. Since the Lt Gen retired on 5 Jul 19, they have been in receipt of their pension and has already received their lump sum payment, which means their Scheme Pays debit can only be recovered from their pension.

The factor is taken from the “pension only” table of “default conversion” actuarial factors is 12.99. This factor assumes (for simplicity across schemes) that the pension and its associated Scheme Pays reduction starts from age 65.

The initial debit - assuming payment from age 65 - is therefore calculated as follows;

$$£26,168.00 / 12.99 = £2,014.47 \text{ per year.}$$

Part 6 - Scheme Pays – revaluation/adjustment of debit to age at date of retirement

In view of the Lt Gen’s retirement with an immediately payable pension on 5 Jul 19, their initial “age 65” Scheme Pays debit amount is then immediately revalued.

The revaluation is carried out using the appropriate actuarial factor which in the Lt Gen’s case is the factor of 0.599 as this is the factor (as at their date of retirement) taken from the “good health retirement adjustment” table of actuarial factors.

CPI is then applied between the effective date of the initial “age 65” debit (5 Apr 19) and its revaluation date, which is the day after the Lt Gen’s date of retirement (6 Jul 19).

The adjusted debit – i.e. the reduction to be permanently applied to the Lt Gen’s annual pension with retrospective effect from their retirement on 5 Jul 19 - was therefore calculated as follows;

$$£2,014.47 \times 0.599 \times 1.000 \text{ (i.e. 0\% CPI between 5 Apr 19 and 5 Jul 19)} = £1,206.67 \text{ per year.}$$

ANNUAL ALLOWANCE (AA) – FREQUENTLY ASKED QUESTIONS (FAQs)

Q1 - Why is there a requirement to issue a Pensions Savings Statement?

A1 - This is required under HMRC legislation (Regulation 14A of Statutory Instrument 2006/567)

Q2 - I've read that only Officers at a rank of OF4 or above are affected by AA, I'm not at that rank scale, so why am I affected?

A2 - Whilst Officers at OF4 and above are likely to be affected by AA at some stage in their career any Officer (and some Other Ranks) can be affected due to exceptional events in their careers that lead to sudden spikes in growth of their pension pot during a tax year. Some (but not all) of the triggers/events in a SP's career that could cause you to exceed the AA limit are as follows:

- Promotions – especially OF3 (including Late Entry Officers) to OF4 in AFPS75
- Medical and Dental Officers qualifying for Professional Supplements
- Officers who reach substantive OF7 during a tax year one year after promotion from OF6
- OCFR after 5 years' service as an Officer
- Officers who reach their 16 years reckonable service point in AFPS75
- Other Ranks who reach their 22 year point in AFPS75
- SPs that earn over £110,000.00 per annum.

These trigger events can occur together in combination, in which case the timing of these effects can have a cumulative impact on the pension value at the end of a tax year, with the effect that the Pension Input Amount is higher than would otherwise have been expected, in turn leading to an increased risk of an AA tax charge.

AFPS75 is primarily based on rank and length of service, and the scheme rules require SPs to spend certain periods of time in rank before qualifying for that rank for pension purposes. Generally, an SP must hold substantive rank for 2 years in order to qualify for that rank for pension purposes, although an uplift is applied after one year's service in the higher rank - but officers with three years acting rank can also qualify, and there are also other exceptions.

The AFPS75 rank for pension purposes rules mean that promotion has a delayed effect for AFPS75 SPs, because the effect of the promotion does not manifest itself until the relevant qualification period has elapsed after the promotion occurred.

The other AFPS schemes are all salary based, which means the effect of a salary increase on promotion is immediate - which means that any promotion will affect pension growth immediately within the tax year being assessed.

Q3 - If I get an AA letter does this mean I have a tax charge and do I have to complete a self-assessment tax return?

A3 - Veterans UK will write to you if you have exceeded the Annual Allowance limit of £40K in any tax year in respect of your AFPS pension. This does not automatically mean you have a tax charge, because you are allowed to carry over unused AA from the previous 3 tax years, and you may also be subject to a reduced AA limit due to other income or pension scheme memberships, all of which also affect your AA position. You must use the information provided in Veterans UK AA letter in conjunction with relevant information about other pension schemes and income and check on the HMRC website (AA Calculator) to see if you have an AA tax charge. If you do have an AA tax charge you must then declare that to HMRC using the self-assessment tax return.

Q4 - What additional information do I need when completing Self-Assessment Tax Return?

A4 - When completing your Self-Assessment Tax Return once you have calculated the taxable amount payable you must enter it into Boxes 10 to 12 of Form SA101 (page Ai 4 of Additional Information pages).

You must also enter the relevant Pension Scheme Tax Reference Number for your AFPS scheme. These are as follows:

AFPS 15	00817591RA
AFPS 75	00330146RV
AFPS 05	00597994RX
RFPS 05	00716644RW

The scheme name abbreviation shown above is for your information only, and must not be included - you must only enter the relevant 10 character reference.

Q5 - Where do I find more information about the Self-Assessment Tax Return process?

A5- You should refer to HMRC guidance at <https://www.gov.uk/self-assessment-tax-returns>

Q6 - Whereabouts on my HMRC self-assessment tax return should I include the AA tax charge figures?

A6. If the HMRC calculator confirms you have a tax charge you should put the details in boxes 10-12 on page Ai4 of the "Additional Information" pages on the self-assessment forms. Do not put your Annual Allowance figures in the main self-assessment tax return - if you do this HMRC will expect you to pay the tax immediately yourself rather than using Scheme Pays, and may also ask for "payment on account", i.e. advance payment in anticipation of further tax charges in subsequent tax years!

Q7 - What do I do if I made a mistake on my tax return, or need to change it after submission?

A7 - If you have already completed a paper based tax return and need to submit a correction, please refer to <http://www.gov.uk/self-assessment-tax-returns/corrections>.

Q8 - What happens if I have already completed a self-assessment tax return before I get an AA letter from Veterans UK?

A8 - HMRC will accept a revised return from you, which should include your AA figures as per A3 above. You will have until 31 October in the first year after the tax year has ended for a paper-based tax return, or 31 January in the second year after a tax year has ended for an online tax return, to submit a correction, i.e.

31 October 2021 to correct a paper-based tax return tax return for the 2019-20 tax year
31 January 2022 to correct an online tax return for the 2019-20 tax year

Q9 - When do Veterans UK send out the AA letters?

A9 - Usually Veterans UK will try to send letters in early October following the tax year that was assessed e.g. October 2020 for tax year 19-20. This allows SPs who want to complete a paper based tax return to submit it by the HMRC deadline of 31 October 2020. On-line returns can be submitted up to 31 Jan.

Q10 - What do I do if I have other pensions or earnings that Veterans UK are unaware of?

A10 - Veterans UK will only take into account your Armed Forces Pension Schemes when providing your pension growth for the tax year. If you have other pensions/earnings you must follow the guidance on the HMRC website or seek independent financial advice to get a complete picture of your tax position. Veterans UK cannot advise you on how to complete your tax return.

The information that we are able to provide is unavoidably limited to the information which is available to us as administrators of your AFPS benefits.

If you do have savings in other pension schemes, you will need to ask the relevant scheme administrator(s) to provide you with a Pension Savings Statement showing similar information for the relevant periods in their scheme(s). You must then add the relevant information for all schemes together and enter the total amounts for each period into the HMRC Pensions AA calculator. The same applies to any other income you may have from sources other than your Service pay.

Q11 - Will Veterans UK allow me to use Scheme Pays to cover tax charges in respect of pensions/earnings outside of my MOD employment?

A11 - HMRC have confirmed that Scheme Pays can only be used to pay up to a maximum of 45% (the highest marginal tax rate) of your AFPS Pension Input Amount for the relevant tax year.

Q12 - Where will Veterans UK send my AA letter?

A12 - Veterans UK will send any AA correspondence to your primary address on JPA, so you must ensure that you keep this up to date.

Q13 - If I choose to use Scheme Pays will you be able to tell me the amounts that you will deduct from my pensions to repay this?

A13 - Yes. Before you make your final decision on using Scheme Pays you will be sent the details of the costs. Once you make the final decision to use scheme pays we will pay your tax charge to HMRC. Your final decision is an "irrevocable election", which means this decision cannot be reversed under any circumstances.

The Government Actuary has advised that until your retirement date is finalised we must firstly calculate your reduction using factors which assume, for reasons of simplicity, that your pension will start at age 65. Then, when you do eventually retire, we must then revalue the reduction assuming payment at age 65 using factors appropriate to your age at your retirement date, and apply index-linking to ensure that the reduction remains proportionate to the growth in your pension. You can estimate the value of the reduction based on your age at

your predicted retirement date by using the AFPS Scheme Pays calculator, which is available online at <http://mod-abc.co.uk/>

Q14 - I have tried to speak to HMRC but they cannot help me with my Annual Allowance query. Will Veterans UK speak to HMRC on my behalf?

A14 - HMRC will not discuss your tax affairs with Veterans UK. If the HMRC Call Centre agent cannot answer your query you should ask to speak to a Manager at HMRC or to be passed to someone in HMRC who deals with Pensions Tax.

Q15 - Why can't Veterans UK give me advice regarding my tax position?

A15 - Tax is an individual responsibility, and we cannot assist you with tax liability calculations or assist with completion of Self-Assessment Tax Returns. Any questions about AA (or tax in general) must be directed to HMRC. The Finance Act 2004 prohibits pension scheme administrators from giving financial advice, so you will need to seek independent advice about your tax position and the options available to you.

Q16 - Where do I find further information about tax from HMRC?

A16 - In the first instance, please refer to the relevant pages on the HMRC website listed below. These pages all contain links to other relevant pages which provide more detailed information.

Annual Allowance Overview - <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm051100>

Provision of Pension Savings Statements - <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm167100> (see standard Pension Statements section)

Calculation of Pension Input Amounts for Defined Benefit Schemes - <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm053300>

Tapered Annual Allowance for High Earners - <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm051100>

Income definitions - <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100>

Self-Assessment Tax Returns - <https://www.gov.uk/self-assessment-tax-returns>

Further help with pensions tax - <https://www.gov.uk/self-assessment-tax-returns/get-help>

Q17 - The Chancellor's budget statement on 11 March 20 announced changes to the AA Tapering limits, when and how will this affect me?

A17 - The changes have seen both the threshold and adjusted incomes raised by £90,000 to £200,000 and £240,000 respectively, and seen the maximum allowance reduced from £10,000 to £4,000, although this will only affect those earning more than £300,000. Whilst these limits are expected to see the vast majority of personnel no longer being impacted by the tapering of the Annual Allowance, because these measures did not become effective until 6 April 20, they will not be felt until the Pension Saving Statements are issued for tax year 2020-21 in October 2021.

Q18 -Where do I find further information about the AFPS?

A18 - The AFPS scheme booklets will help you understand the benefits payable under the AFPS schemes. You can access these at <https://www.gov.uk/government/publications/armed-forces-and-reserve-forces-pension-schemes-guidance-booklets>